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Gender lens investing: What it is and why it's important

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Gender lens investing (GLI) is the intentional incorporation of gender-based factors into investment analysis with the intention of driving both financial performance and social benefit.

Research suggests that investors who include GLI in their overall strategy often find that:

- The addition can help them identify investment opportunities, generate alpha, lower risk and build stronger and more diversified investment portfolios.
- By investing in companies that are making gender progress, or by avoiding or divesting from those that are not, they can give companies a financial incentive to change.
- More equality and diversity can help improve national and global economies, and in turn benefit billions of people, women as well as men.

Gender lens investing is important because it can help foster gender parity in the workplace, in part by giving companies a financial and ethical incentive to hire with equality in mind. That's not to say parity will come easy. For starters, corporate bias against women, a leading cause of gender inequality, remains deep-seated and tenacious,

WOMEN IN THE CORPORATE WORKPLACE: DATA ON DISPARITY

The deck appears stacked against women in many areas of the workplace. Reports have found that:

- The biggest challenge to achieving gender parity, known as the "Broken Rung," is the first up to manager where for every **100 men** promoted to manager, only **86 women** are promoted.[1]
- Studies have shown that the "**motherhood penalty**" — the systematic disadvantage that women encounter in the workforce when they become mothers — makes up for **80% of the gender pay gap.**[2]
- Only **1 in 5** C-suite leaders is a woman and only **1 in 25** is a woman of color.[1]
- **1 in 3 women have considered leaving the workforce** or downshifting their career — a significant increase from 1 in 4 women in the first few months of the pandemic.[1]
- **60% of women working in hybrid environments feel excluded from meetings** and 50% say they do not have enough exposure to company leaders.[3]
- Women, especially women of color, are **more likely to have been laid off** or furloughed during the pandemic.[1]

There are many factors to take into consideration when building an investment portfolio, and it's important to remember ESG factors and data are only one component to potentially consider and should always be used alongside fundamental analysis.

There is no guarantee that investments applying Environmental, Social and Governance (ESG) strategies will be successful.

even in the face of a growing body of evidence suggesting that adding more women at various levels, including the executive suite, can potentially benefit companies in a number of areas. Indeed, think how many more of the best and brightest people companies could attract and keep by offering equal opportunity and equal pay. Equality is especially important to the Millennial cohort. Born between the early 1980s and early 2000s, Millennials are now the largest generational bloc in the workforce, and many say they prefer working at companies that hold values of diversity and gender equity. In other words, equality may be a key driver to attract top talent.[4]

What would a world free of gender-based discrimination look like? Companies would no longer operate with the kind of bias, explicit or implicit, that can create patterns in hiring and promotion that favor men, the workplace would support the talents and contributions of men and women in equal measure, giving them the same access to jobs, similar membership on corporate boards and equal pay for equal work. Such a world would likely benefit all of us, not just women. For the 36 countries in the Organisation for Economic Co-operation and Development (OECD), for example, the income loss associated with gender discrimination is estimated at up to US$12 trillion, or 16% of the world's income.[5] A gender bias-free world may be some way off, however. Closing the gender gap is painfully slow. In fact, based on the current trajectory, women are 267.6 years away from gender parity in the area of economic participation and opportunity — which includes equal pay.[6]

Three core drivers of current and future parity progress — education, employment and entrepreneurship — provide insights as to how GLI potentially benefits investors and also how it may accelerate change.

A range of gender lenses

A variety of gender lenses exist, and they may overlap. Examples include:

Access to capital	Reviewing the patterns of capital flows in a sector or region by gender to find potentially attractive investments as well as opportunities to shift social benefit.
Workplace equality	Focusing internally on gender diversity, inclusive policies and corporate culture. Various reports historically found differences in corporate performance at companies with more gender diversity.
Women in leadership	Honing in on diversity at the board and senior management levels of a firm, as diversity in leadership may lead to better firm performance.
Products and services	Consideration of how a company develops and promotes its product for female customers. Smart companies are uncovering significant unmet market needs as well as broadly applicable innovations.
Women as investors	Considering who is making the investments, women are under-represented as fund managers and owners.
Women in the supply chain	Reviewing supply chains for both risk, such as human trafficking or unfair labor practices, and opportunities, including inclusive sourcing and innovations in training or technology.

Source: Center for the Advancement of Social Entrepreneurship at Duke University and Catalyst at Large, March 2019.

EDUCATION

Gender parity in education is not only a moral imperative, but an economic one as well. A 2018 study by the World Bank found the global losses from low educational attainment for women are estimated at between $15 trillion and $30 trillion.[7]

PROGRESS

Girls' enrollment in primary education has seen significant growth around the world. Even in some developing nations, where enrollment rates are far lower, progress has been made. Of the 80 countries in the Global Partnership for Education, studies have found that girls' access to education has increased: The gap between boys' and girls' average completion rates has narrowed since 2015, from 6% to 3% for primary school and from 10% to 7% for lower secondary school.[8] Women became much more likely to pursue higher levels of education: From 1970 to 2020, the proportion of women ages 25 to 64 in the labor force who held a college degree more than quadrupled, whereas the proportion of men with a college degree more than doubled over that time.[9]

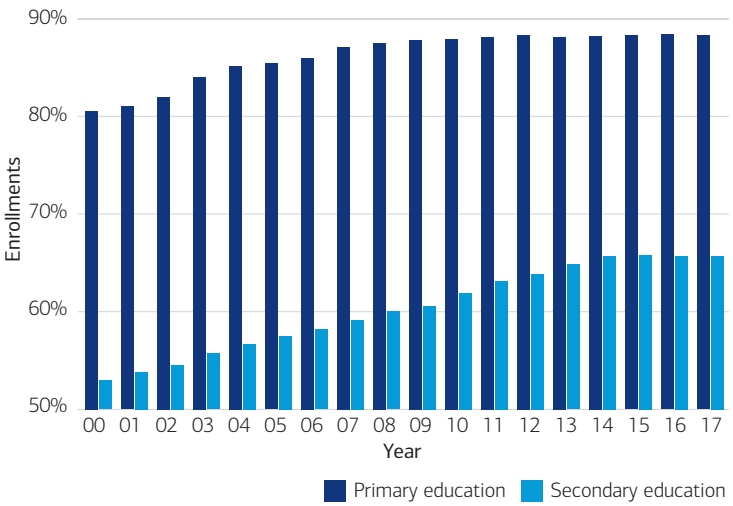
PERSISTENT GAPS AND OPPORTUNITIES

Even with some progress, stark inequity remains on a global basis. Less than 65% of girls complete primary school, and only 41% complete lower secondary school.[10] The pandemic could further impact gender gaps in learning due to deprioritization of education.

A loss of six months of education disproportionately impacts school-aged girls in "low and lower-middle income countries." In fact, 50% of their total years of education could be lost.[11]

While they are the majority of degree earners in U.S. colleges, women still lag men in the vitally important areas of science, technology, engineering and mathematics, or STEM. Based on data from the Integrated Postsecondary Education Data System (IPEDS), women represented 45% of students majoring in STEM fields in 2020, up from 40% in 2010 and 34% in 1994.[12] The share of women who earned STEM degrees varies by country, from a low of 11% in parts of Asia to a high of 58% in parts of Africa, demonstrating that the U.S. with 36% is not necessarily the ceiling.[13]

Global female enrollment in primary & secondary education



Source: "Education Statistics - All Indicators". 2019. The World Bank - Data Bank.

EMPLOYMENT

Gender parity in business is important for a variety of reasons, including:

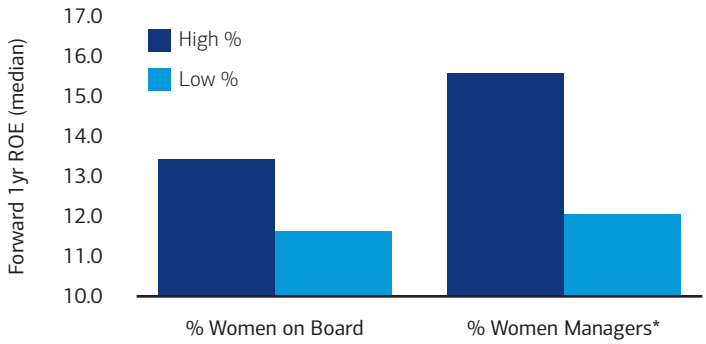
GDP boost: Research company McKinsey estimates that global gender parity could boost global gross domestic product (GDP) by $13 trillion in 2030.[14]

Attracting employees: According to research firm Deloitte, Millennials and Gen Z want to work for companies that ensure diversity and inclusion across the organization.[4] Firms that are considered "gender equality leaders" are more likely to retain employees, especially female employees, compared to those that are lagging. Nine percent of female employees who worked at gender equality leading firms reported that they were looking to leave within the next two years, compared to 39% of those at lagging firms.[3]

Improved business data: Research suggests that while performance results have varied over time, companies with higher board diversity and management diversity saw consistently higher future return on equities (ROEs) than counterparts with lower board diversity and management diversity.[15]

Gender diversity correlates with higher future return on equity (ROE)

Median forward 1yr ROE based on % women on board and % women managers (2005-2020)



* Data from 2010 on for % Women Managers.

Note: High (Low) % of Women on Board defined as above (below) the universe median; High (Low) % of Women Managers defined as above (below) 30%

Source: Refinitiv, FactSet, BofA US Equity & Quant Strategy.

For the chart above, the universe of companies is taken from the S&P 500. The % of women on board data is for years 2005-2020 and % of women managers data is for years 2010-2020.

Source: McKinsey and Company. 2020. "COVID-19 and gender equality: Countering the regressive effects."

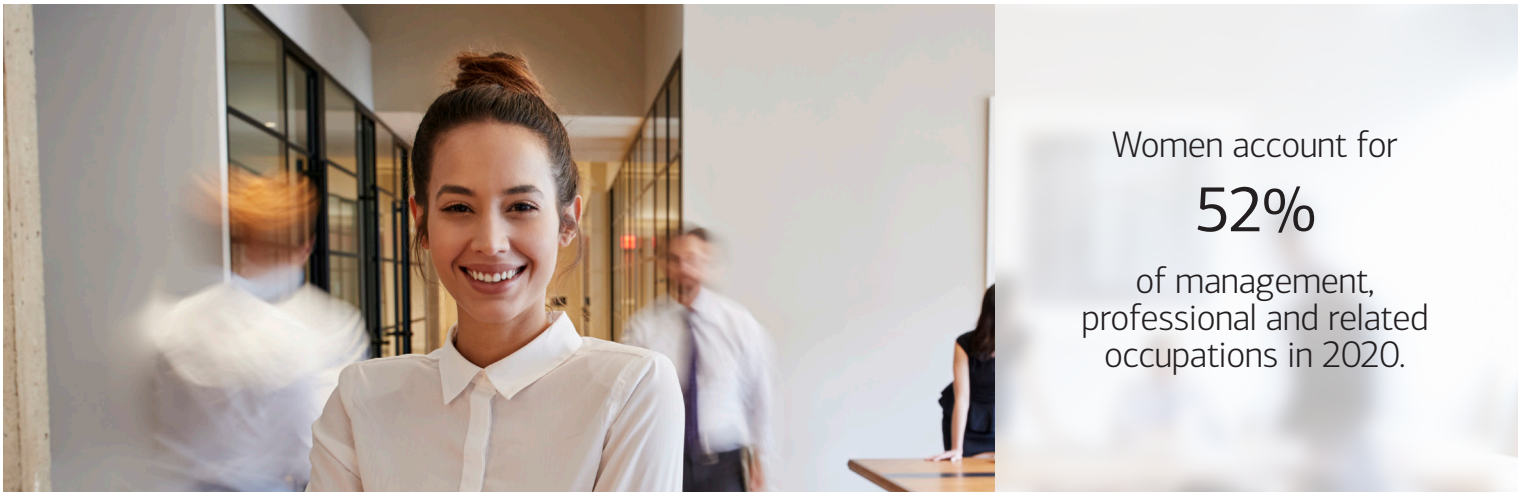
PROGRESS

Women make up 47% of the total U.S. workforce and 52% of management, professional and related occupations.[9] As of 2020, women hold 20.4% board seats of companies in the Russell 3000 Index, an increase from 17.7% in 2018.[16] However, increasing attention to companies' social impact has sparked Nasdaq to create new diversity standards, requiring listed companies to disclose whether they have a minimum of two "diverse" board members (including women, underrepresented minorities, and LGBTQ+ identities).[17] Only 10% of U.S. companies (147) have reached gender balance at the board level, and only 5% of companies (79) have a female Chairperson (board of directors).[17]

PERSISTENT GAPS AND OPPORTUNITIES

Progress has been made, but much remains to be done to even come close to full gender equality. For example:

- Women make up just 19.7% of software developers, 29.1% of chief executives and 67.4% of physicians and surgeons, typically higher paying jobs. At the same time, they make up 86.7% of registered nurses and 79.2% of elementary and middle school teachers.[18]
- Worldwide, 2.4 billion women of working age (15–64 years) from 178 economies across all regions still do not have the same legal rights as men.[19]
- Going into 2022, women earned 82 cents for every dollar earned by men. This disparity is reinforced because many still believe that gender pay gap is a myth.[20]
- Before the pandemic, income loss already disproportionately affected women. But the pandemic cost women around the world at least $800 billion in lost income in 2020, which is equivalent to more than the combined GDP of 98 countries.[21]
- At the current rate of progress and the setback of the pandemic, the gender pay gap will likely not close for another 135.6 years.[6] However, a PayScale 2019 survey shows that transparent pay policies can narrow the gender pay gap.[22]
- Research from late 2020 found that during the pandemic, women added an extra 5.2 hours on average per week for childcare. This means that, in most countries, women are spending 30+ hours per week solely on childcare — almost equivalent to the average time spent at a full-time job per week.[23]
- Women make up 55% of the world's unbanked population as of 2021, meaning they have no access to banking or insurance products. This means that their money is not protected, they have no access to savings or checking accounts, or financial products like insurance, credit facilities and loans.[24]
- As of January 2021, 200 million more men than women had access to the internet, and women are 21% less likely to own the mobile phone that helps them transfer money, run a business and connect with their community more effectively.[24]
- Out of the 17% of companies which have disclosed their gender pay gap, less than half have a strategy to close it: Only 8% of companies globally have a strategy to close the gender pay gap.[19]



Source: U.S. Bureau of Labor Statistics, "Women in the Labor Force: A Databook", March 2022.

ENTREPRENEURSHIP

Entrepreneurship is, by almost any measure, the backbone of the U.S. economy. The U.S. is, in fact, home to 32.5 million small businesses employing 46.8% of the private workforce.[25]

PROGRESS

As of 2019, women-owned businesses represent an estimated 42% of all U.S. businesses, employ 9.4 million workers and generate $1.9 trillion in revenue.[26] Research found that startups founded or co-founded by women generated 10% more revenue than male-founded startups over a five-year period, despite receiving significantly less than half as much in investments.[27]

THE PITCH

In 2021, startups led by women received 2.8% of venture capital and equity financing.[28] Only 11% of seed funding capital in emerging markets goes to companies with a woman on their founding team, and the figures are even lower for later-stage funding.[29] In emerging markets, 89% of seed funding capital goes to all-male founding teams, and the figures are even higher for later-stage funding.[29] Disparity emerges early in networking and the request for funding ("the pitch"). When interviewing men, venture capitalists focused on hopes, achievements, advancement and ideals. When interviewing women, they were more concerned with safety, responsibility, security and vigilance.[30]

About 12% of decision makers at venture capital firms are women, and most firms still don't have a single female partner.[31] All Raise, a nonprofit founded by 34 senior female investors, set a goal of increasing the percentage of venture funding going to companies with a female founder to 25% in the next five years and doubling the percentage of female partners in 10 years.[32]

PERSISTENT GAPS AND OPPORTUNITIES

Women globally have lower rates of entrepreneurship than men, and the consequences can affect not only women's incomes but also the performance of their companies and the types of products and services they create. Gender gaps cause an average income loss of 15% in OECD countries and 40% of that shortfall is due to entrepreneurship gaps, where women are once again underrepresented.[33] Challenges may disproportionately affect women — for instance, women-owned Small and Medium Enterprises (SMEs) are about 6 percentage points more likely to close their business due to the pandemic than male-owned businesses.[34]

Less than 3%

of U.S. venture capital dollars go to female founders.

Source: PitchBook and National Venture Capital Association. 2022. "Venture Monitor: 1Q 2022". PitchBook Data, Inc.

REAL-WORLD ACTIONS

"If women — who account for half the world's population — do not achieve their full economic potential, the global economy will suffer."[35]

This quote, from McKinsey Global Institute, says much about the repercussions of short-changing women. So what can be done? Here are some examples of how companies and governments have empowered women:

- Over 300 companies have joined a gender equality accelerator, Target Gender Equality, setting ambitious targets for women's representation and leadership and supports achieving them through peer-to-peer learning and country specific dialogues.[36]
- One of the largest companies in the automobile industry is the only S&P 500 company with no pay gap. They currently have a female CEO and an equal number of men and women on their board.[37]
- The 2017 UK "Equal Pay Transparency Bill" requires all companies with 250 or more employees to publish gender pay gap data.[38]
- In November 2018, California passed a law requiring its public companies to have at least one woman on their board of directors by the end of 2019, and at least three by the end of 2021. Since then, women filled 45% of new board seats among California-based Russell 3000 companies and a recent progress report from the California Partners Project puts the proportion of California boards with all male members at less than 3%, down from 30% in 2018.[39]

GLI PICKS UP STEAM

Gender lens investing has become a more commonly used strategy in the past few years. Reports from 2021 found that at the end of 2020, the public and private market GLI fund's estimated size was $11 billion and $5-7 billion respectively.[40] These funds often reference their gender lens or even specifically brand themselves as 'gender lens strategies' and may use different but overlapping approaches, including:

- Gender mandate strategies are those with an overarching hypothesis around gender equality — in areas such as capital access, leadership, policies, workforce composition or products — as a driver of long-term performance.
- Gender advocacy strategies use a shareholder engagement strategy, such as voting against all-male board slates or pushing for positions on equal pay.
- Gender systems strategies seek to address social challenges that disproportionately affect women, such as low-income housing (given that women are disproportionately poor, single heads of household, when compared to men), health care or transportation.

In addition, an important trend is traditional and broader sustainable funds that are newly incorporating gender as one of the many factors in their employment practices, sourcing and portfolio construction. While these funds may not specifically brand themselves as gender lens investments, the incorporation of gender as a material factor represents progress. Similarly, gender lens funds increasingly are inclusive of other lenses, specifically racial justice and climate. The incorporation of gender with other ESG factors to create additional insight represents a frontier for investors.

BOTTOM LINE

Gender parity, once little more than a dream for countless women and girls around the world, is now researched rigorously and spoken about openly, as it should be. But progress to parity cannot be taken for granted — as the global pandemic has demonstrated. It exacerbated the inequalities women face in education, employment and entrepreneurship. But it also has shown a spotlight on the essential economic and social roles women play. As we have seen, gender lens investing may be one way to help speed up the journey to equality, as it gives investors the potential not only to diversify their portfolios while seeking competitive, risk-adjusted returns, but also may offer corporations financial incentives (that is, broadly speaking, by investing in or divesting from them) to improve their position on the issue. From an investor perspective, women and Millennials favor sustainable and impact investing, which includes gender lens investing, far more than other investors.[41] We believe investors should take time to learn about the potential benefits, as well as the potential risks, of gender lens investing, as the journey to gender parity stands to improve the lives of women and men, girls and boys, in the U.S. and around the world.

It is important to recognize that strategies such as gender lens investing do not eliminate the risks involved with investing. All investments, including gender lens investing, carry some degree of risk and can lose some or all of their value. Investment value might rise or fall because of market conditions, for instance, corporate decisions or political or economic events (to name a few).

If you are considering investing with a gender lens, be sure to talk with your advisor about your plans and understand how gender lens investing may align with your overall investment goals, investment timeline and appetite for risk. Though the gender lens investing field is continually evolving, we believe that the economic drivers fueling its growth remain sound. Your questions and interest may become part of the movement.

Talk with your advisor to learn more about gender lens investing and how it may be a pathway to help speed up the journey to equality.

Glossary of Terms

Alpha is a measure of the active return on an investment, the performance of that investment compared with a suitable market index.

C-suite gets its name from the titles of top senior staffers, which tend to start with the letter C, for "chief," as in Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) and Chief Information Officer (CIO).

Return on equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity.

Index Definitions

NASDAQ Index is a global electronic marketplace for buying and selling securities on a computerized, speedy and transparent system.

Russell 3000 Index is composed of 3,000 large U.S. companies, as determined by market capitalization.

Please see back page for important disclosure information.

Endnotes

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The CIO has developed Impactonomics®, a sustainability-related analytic lens that includes societal and environmental factors while also examining a range of relationships between economic growth and investing for impact and profit, as well as the measurable social and environmental change sustainable investing can enable.