An Introduction to Gender Lens Investing

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The term "impact investing" can bring to mind a variety of investment strategies. Some may use the term to define an investment strategy that, in addition to generating enhanced risk-adjusted returns, results in a positive impact on the environment. Others may associate the term with investment strategies that facilitate positive developments regarding various social issues. While these definitions are certainly the most mainstream of the bunch, we believe there is another investment strategy that is arguably just as impactful (if not more impactful depending on an investor's overall goals) and has been growing in popularity and reputation in recent years.

An abundance of research shows that "**gender lens investing**," which at its most basic level entails integrating gender-based factors into investment decisions with the goal of promoting gender equality, can lead to significant economic gains and improve financial returns for investors. In this report, we will discuss current issues in gender (in) equality, how gender pay equity can create value and how investors may incorporate gender-based factors into their overall investment process.

Closing the Gender Gap

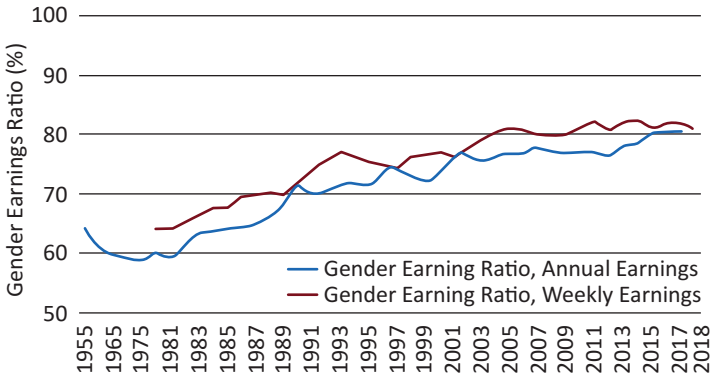
The first step in developing any process, investment or otherwise, is to clearly define its goals. Two basic questions can help a person or an organization navigate this early stage of development: "What are you trying to accomplish?" and "Why are you trying to accomplish it?" We can analyze gender lens investing in its most fundamental form in this way.

"What does gender lens investing seek to accomplish?"

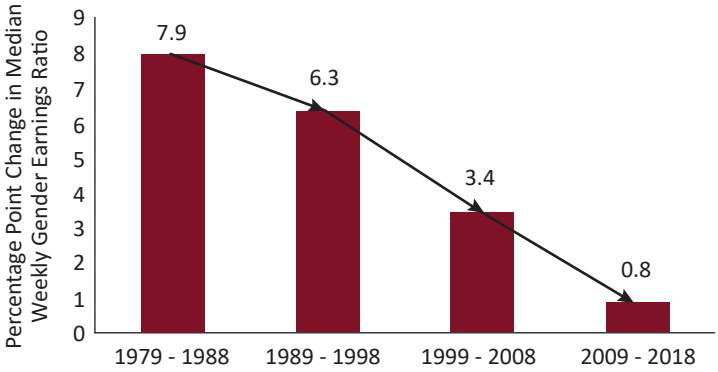
At risk of oversimplifying things, the primary goal of gender lens investing is to promote, encourage and improve gender equality, an all-encompassing term that includes everything from pay equity, greater representation in leadership positions and equal opportunities regardless of sex or gender. Gender equality is very important as a human-rights imperative as well as a means for economic development. While one may think gender equality would be greater in countries with more resources, this is not always the case. For example, in a 2018 study by the World Economic Forum, the United States, with the world's largest economy, ranked 51st out of 149 countries based on its global gender gap score, trailing most of developed Europe, the United Kingdom and Canada.[1]

The key reasons for our country's underperformance, or "greater distance to parity" between women and men, relative to many of our developed peers stems from wage inequality and low political empowerment of women. Despite having similar stats in terms of literacy rates and educational degrees attained after high school, women are only 68% as likely as men to work at management level and just 20% as likely to work in federal government positions.[1] Not only does this lead to earnings disparities across genders, but it also leads to underrepresentation of women in a government with the power to help close that gap—countries like Canada, the United Kingdom and many in Western Europe have laws mandating equal pay for similar work as well as, perhaps not so coincidentally, greater gender parity scores.

In 2018, American women (full-time, year-round workers only) earned 80.7% as much as their male counterparts.[2] This disparity gets even more severe when accounting for race and ethnicity. While this is a significant problem in its own right and deserves much more attention in both the corporate and political world, we will focus mostly on gender-based pay equity trends for the purposes of this paper. Although earnings equality has improved significantly in the last 40 years, progress has halted in the last decade, with the gender pay gap narrowing by less than 1% since 2009, as shown by the graphs below.[3] Based on current trends, the overall gender gap, which includes economic participation/opportunity, educational attainment, health and political empowerment, would take 165 years to close in North America. According to the World Economic Forum's Global Gender Gap Report, the economic and political dimensions of this gap will be the most challenging to close.[1] Gender lens investing can help to expedite this process.



Source: Institute For Women's Policy Research[3]



Source: Institute For Women's Policy Research[3]

The number of years to parity is also a function of current legislative policy, and the status quo in the United States is perhaps already exhibiting signs of a more rapid pace of change. In September 2018, Governor Jerry Brown of California signed into law a bill requiring by the end of 2019 every publicly traded corporation headquartered in the state to have at least one woman on their board of directors, with a minimum of three women serving on boards with six or more directors. Additionally, many other states, including Illinois, New Jersey and Washington, have recently passed laws banning pay discrimination based on sex, gender and/or race. Several states have also enacted laws banning employers from asking applicants questions regarding their salary history. While there is still much more work to be done in terms of policy, the continued introduction and passage of more comprehensive pay equity legislation is a positive trend that looks poised to continue.

"Why do (should) investors want to accomplish this?"

The basic goal of any investment strategy is to generate a sufficient return for a given level of risk. Numerous studies on the impact of gender equality all point to the same conclusion—gender parity, which can be spurred by gender lens investing, can lead to real financial benefits for the economy and investors alike. Before diving into the investment case at the company-level, it's important to look at the macro picture as well. According to a McKinsey & Company study, worldwide GDP could be boosted by $12 trillion in 2025 if all countries matched the current regional-best in gender parity. In a less likely full-potential scenario of 100% gender parity, the study concludes that economic gains rise an additional $28 trillion in annual GDP, which is the equivalent of the United States and China economies combined.[4] The McKinsey study emphasizes that progress in four areas are key to accelerating progress: education; financial and digital inclusion; legal protection; and unpaid care work.

The investment case at the micro level is also compelling. According to an MSCI study on board diversity from 2016, U.S. companies with at least three women board members significantly outperformed companies with no female directors in both returns on equity and earnings per share.[5] Similarly, the International Monetary Fund reported that replacing one man with a woman at the senior management or board level is associated with an approximately 10 basis point increase in a company's return on assets.[6] Gender diversity may also be associated with superior equity returns, according to a Morgan Stanley report. On average, companies in the top third (in terms of women employees as a percentage of total employees) outperformed the bottom third by 3.8% annualized between 2010 and 2015.[7] While it is difficult to establish direct causality, these studies generally hypothesize that more gender diversity can lead to greater diversity of thought, improved decision-making and innovation, better recruiting, higher levels of employee satisfaction and productivity, and increased appeal to a more diverse customer base—all of which can improve a company's financial returns.

How to Incorporate Gender-Based Factors into the Investment Process

Aristotle Credit Partners incorporates gender-based factors into our traditional ESG analysis. While we believe the factors and policies laid out below provide a good baseline for incorporation, we are continually working on improving the depth and quality of the information obtained as well as how that information is used in our overall investment process. Our gender-focused investment considerations (listed in the tables below) have been heavily influenced by the seven Women's Empowerment Principles (WEPs), as developed by the United Nations.

Gender-Based Factors Incorporated into Aristotle Credit's ESG Analysis	Workplace Policies Considered in Aristotle Credit's Investment Process
• Women employees as % of total workforce • Women representation among management/executives • Number and % of board members who are women • Compensation statistics for women employees relative to men	• Paternal leave • Flexible work rules • On-site child care • Identification of additional policies that foster more "women-friendly" and "mentoring" environments

We also look to identify companies that are leaders in advancing the agenda for gender equality; however, as is the case with many other facets of ESG analysis, the amount and quality of data one can obtain poses challenges. Various third-party datasets which provide relevant and comparable metrics for workplace gender diversity are still in their nascent stages. That being said, many companies do report appropriate data, and our focus is on following the rigorous process we have developed to analyze this data and optimize our investment decisions accordingly.

As we move forward, we believe that greater adoption of gender lens investing and more direct company engagement surrounding these issues will lead to more robust data and improved corporate disclosure, which will allow for more meaningful incorporation of gender-based criteria into our fully-integrated ESG process. Although progress has been made, there is still much more work to be done to solve the structural problems that enable pay discrimination in our society and prevent us from achieving our full social and economic potential. For individual investors and our clients, we believe it is important to discuss gender lens investing with your investment managers and financial advisors. Such conversations can help spur adoption of this investment strategy and continue to move us in the right direction towards closing the gender gap.

PRI Principles for Responsible Investment

[1]World Economic Forum, "The Global Gender Gap Report 2018." http://www3.weforum.org/docs/WEF_GGGR_2018.pdf
[2]Business Insider, "6 Charts that Show the Glaring Gap Between Men and Women's Salaries." https://www.businessinsider.com/gender-wage-pay-gap-charts-2017-3.
[3]Institute For Women's Policy Research, "The Gender Wage Gap: 2018 Earnings Differences by Race and Ethnicity." https://iwpr.org/publications/gender-wage-gap-2018/.
[4]McKinsey & Company, "How Advancing Women's Equality Can Add $12 Trillion to Global Growth." https://www.mckinsey.com/featured-insights/employment-and-growth/how-advancing-womens-equality-can-add-12-trillion-to-global-growth.
[5]MSCI, "The Tipping Point: Women on Boards and Financial Performance." https://www.msci.com/www/blog-posts/the-tipping-point-women-on/0538249725.
[6]International Monetary Fund, "Closing the Gender Gap." https://www.imf.org/external/pubs/ft/fandd/2019/03/closing-the-gender-gap-dabla.htm.
[7]Morgan Stanley, "An Investor's Guide to Gender Diversity." https://www.morganstanley.com/ideas/gender-diversity-investor-guide.

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