Integrating a gender lens in sustainable investing

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Where is gender lens investing today?

Sustainable investing has experienced an impressive growth in recent years, reaching USD 30.7 trillion[1] assets under management (AuM) in developed countries alone in 2018. Institutional investors with USD 103.4 trillion[2] AuM are signatories of the Principles of Responsible Investing (PRI), committing to incorporate ESG issues into their investment processes, among other sustainability objectives. At the same time, only a fraction of this amount, USD 7.7 billion[3], has gone into gender lens investing, a growing segment of sustainable investing that focuses on advancing gender equality.

Despite gender equality receiving a lot of attention as a result of corporate diversity disclosures, gender lens investing is still at an early stage compared to other more developed sustainable investing themes, such as climate change, or even natural capital. While gender lens investing is expected to continue its rapid growth in the coming years, financing towards gender objectives could be scaled up significantly if gender indicators were integrated in all sustainable finance instruments and investment funds by default, irrespective of their thematic focus. Currently many ESG compliant funds use a basic negative screen that automatically excludes controversial sectors and companies, such as tobacco, coal, weapon manufacturing, from their investment universe. A similar approach could be taken for gender: companies that do not have a minimum level of "gender performance" should be excluded automatically. In case of sustainable finance instruments, gender considerations could be integrated in the eligibility criteria for the use of proceeds or by setting gender key performance indicators (KPIs).

Why mainstream gender considerations?

Mainstreaming gender considerations in sustainable finance instruments and investment funds is important for several reasons. First, achieving gender equality is essential for a prosperous and sustainable world as it affects all aspects of sustainable development. The most pressing environmental and social challenges of our time impact women disproportionately. For example, women are particularly vulnerable to climate change as it can worsen structural gender-based inequalities and further increase

[1] http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf
[2] https://www.unpri.org/pri
[3] https://www.spf.org/global-data/user53/20201001GLI.pdf

existing gender disparities. Also, gender inequality is a key driver of poverty and one of the most common forms of discrimination. Therefore, addressing this issue should be a priority, especially for investors with a sustainability mandate. This would also bring significant economic benefits. Up to USD 28 trillion, or 26 percent, could be added to the global GDP in 2025 by closing the representation gap between men and women in the economy[4].

Another reason to mainstream gender considerations in sustainable investing is that companies with a gender diverse workforce are likely to outperform their peers. Gender equality helps businesses anticipate and meet customer and staff needs, and attract talent from an increasingly values-driven workforce. The correlation between gender and financial performance is especially strong in case of executive teams and boards. Based on a recent research covering more than 1000 companies from 15 countries, companies with gender diverse boards are 28% more likely to outperform their peers, while gender diversity in executive teams increases the chance of outperformance by 25%[5]. There is also a signification difference in financial performance between leaders and laggards. Companies with executive teams with more than 30% female members are 48% more likely to outperform companies with only 10% or less women in their executive teams[6]. Similarly, venture and private equity funds with gender balanced teams have 20%[7] higher returns than their peers.

A high gender score can also signal to investors that the company is taking a progressive stance towards gender inequality and manages well its reputation risk. Both aspects benefit the company's long-term growth and profitability and therefore its valuation. Indeed, several studies demonstrate that companies with good gender performance have higher market valuations compared to their peers[8].

All of this suggests that gender smart sustainable finance instruments and investment funds could generate higher investment returns than what would be the case if gender considerations were not taken into account.

How to measure gender performance?

Gender indicators can vary depending on the type of entity being assessed. However, the "2X Challenge – Financing for Women"[9] provides a harmonised set of indicators that could be used broadly with only minor adjustments to reflect the specificities of the underlying entity. The indicators are organized across five categories.

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[4] https://www.mckinsey.com/~/media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/How%20advancing%20womens%20equality%20can%20add%2012%20trillion%20to%20global%20growth/MGI%20Power%20of%20parity_Full%20report_September%202015.pdf
[5] https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.ashx
[6] https://www.mckinsey.com/~/media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.ashx
[7] https://www.ifc.org/wps/wcm/connect/e3cea47f-aa13-4ab3-b743-0d0e44c6710f/Exec+Summary_Moving+Toward+Gender+Balance+Final.pdf?MOD=AJPERES&CVID=mBmcOnZ
[8] https://www.hbs.edu/faculty/Publication%20Files/An%20Institutional%20Approach%20to%20Gender%20Diversity%20and%20Firm%20Performance_4c0479f3-9d13-4af8-82da-7f1713af940d.pdf
[9] https://assets.cdcgroup.com/wp-content/uploads/2020/03/16111901/How-to-measure-the-gender-impact-of-investments.pdf

1. Entrepreneurship

- Percent of female ownership
- Percent of company founder(s) who are female

2. Leadership

- Percent of senior management who are female
- Percent of Board who are female
- Percent of investment committee who are female

3. Employment

- Percent of full-time employees who are female
- Initiative in place to specifically advance women in the workforce (Y/N)

4. Consumption

- Product or service specifically or disproportionately benefits women (Y/N)
- Percent of customers who are female

5. Indirect Investments (investments through financial intermediaries)

- Share of financial intermediary's portfolio that meets at least one of the criteria above
- Share of fund's portfolio that meets at least one of the criteria above

2X Challenge – Financing for Women

It is a major initiative of development finance institutions from the G7 countries to mobilize resources to advance gender equality and women's economic empowerment.

Source: 2X Challenge – Financing for Women

These metrics can be used to determine the minimum level of gender performance of companies included in the investment universe of sustainable investment funds. They can also be used to define eligibility criteria for the use of proceeds for various sustainable finance instruments. Listed companies might already be disclosing gender data along these lines, as part of their sustainability reporting, although gender data is often aggregated together with other diversity indicators, such as race. For private equity or debt investments, gender data should be collected as part of the initial due diligence process and then monitored on an ongoing basis following a predetermined reporting schedule.

What are the gender-smart financing instruments today?

As the benefits of gender diversity have become more widely recognised, investor demand for gender smart investment opportunities has increased considerably. This has led to the emergence of a variety of gender-focused financial products across asset classes. These products include gender lens funds, gender smart exchange traded notes (ETNs) and exchange traded funds (ETFs), certificate of deposits, gender bonds and, private equity and debt funds with a focus on gender equality. In 2019, there were at least 192 active investment vehicles globally, which is a 47 percent increase compared to 2018[10].

[10] https://www.spf.org/global-data/user53/20201001GLI.pdf

While the majority of these gender lens investment vehicles (80) are targeting the North American market, the investment destination of 33 investment vehicles is East and Southeast Asia with a total USD 1.3 billion assets under management[11]. In Malaysia, there has been no financial instruments issuances nor any investment vehicles to date that target gender issues. At the same time, the number of sustainable finance instruments in the ASEAN region has been growing rapidly in recent years, reaching a total issuance of USD 2.1 billion[12] worth of green, social and sustainability bonds. The overwhelming interest of local investors in these instruments highlights the opportunity for scaling up gender lens investing across ASEAN.

Bank OCBC NISP's gender bond

- Issuer: Bank OCBC NISP - fourth oldest bank in Indonesia
- Size: IDR 2.75 trillion (about USD 200 million) – for both the gender and green bond tranche.
- Date of issue: March 2020
- Description: The proceeds from the gender bond were used to increase lending to women entrepreneurs and women-owned small and medium enterprises (SMEs). It was a private arrangement between Bank OCBC NISP and IFC.

Source: OCBC NISP

Globally, there are only a few examples of non-gender focused sustainable finance instruments that also integrate gender indicators. Perhaps unsurprisingly, most of them are in impact investing, which is a small, but vibrant, sustainable investment strategy with USD 444 billion AuM[13]. For example, WaterEquity[14], an asset manager, focuses on ending the global water and sanitation crisis, while applying a gender lens when selecting investments. Another example is Alanted[15], a venture capital fund, which invests in innovative companies that enable a sustainable future for apparel production and retail. At the same time, it seeks to have gender diversity when selecting the founders it backs.

Outside of impact investing, one notable example is the sustainability-linked subscription credit facility of the Swedish private equity firm, EQT. The interest margin of the facility is linked to the average performance of EQT's portfolio in renewable energy use (minimum 85 percent) and female board representation (minimum 40 percent)[16], committing to both a gender and an environmental KPI.

[11] https://www.spf.org/global-data/user53/20201001GLI.pdf
[12] EY estimate
[13] http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf
[14] https://waterequity.org/performance/
[15] https://www.alantecapital.com/
[16] https://www.environmental-finance.com/content/news/green-and-sustainability-linked-loan-round-up-eqt-arroyo-energy-sistema-...-and-more.html

To date, more mainstream sustainable finance instruments, such as green bonds, ESG ETFs, do not include any gender considerations unless they have an explicit gender focus, like in the case of gender bonds. At the same time, there are some early ideas emerging, which may gain traction in the coming years. One notable example is the "Green+ Gilt" that was proposed to Her Majesty's Government in the UK with the support of 32 investors representing organizations with more than GBP 10 trillion AuM[17]. Green+ Gilts are sovereign bonds used to finance climate action, while addressing specific social objectives. These objectives could include creating high-quality employment and addressing income or potentially gender, inequality. Integration of gender considerations especially makes sense for climate finance instruments, like the Green+ Gilts, as climate change impacts women disproportionately.

Green+ Gilt

The main objective of Green+ Gilts is to provide financing to deliver the UK government's commitment to a resilient, net-zero economy. Green project categories include clean infrastructure, energy efficiency, green buildings, climate adaptation and natural capital.

Each eligible project would have at least one well defined and measurable social co-benefit, with a relevant social metric for each project category. These could include outcomes such as affordable housing and infrastructure, employment generation, access to essential services, skills development, and education as well as other aspects of socioeconomic advancement.

Source: The London School of Economics and Political Science

What are the opportunities and challenges?

The exponential growth of sustainable investing offers a huge opportunity to advance gender equality. Assets under management with an ESG mandate are expected to reach USD 160 trillion[18] by 2035, which would mean the adoption of sustainable investing across the whole asset management industry. This demonstrates the size of the opportunity to scale up financing for gender diversity if gender indicators were to be integrated in all sustainable finance instruments and investment funds.

There are of course challenges to how this could be implemented across the different asset classes. For example, how would the introduction of an additional layer of sustainability indicators would impact the transaction costs and the general willingness of issuers to use sustainable finance instruments? Is the necessary gender data available across sectors for both public and private issuers? Would companies using sustainable-linked instruments find dual sustainable KPI structures too ambitious or even penalizing as failing any of the KPIs would increase their cost of financing? Also, what should be the minimum level of gender performance required? Would it be enough for a company to perform well for one gender indicator, but perform poorly for others? These are just some examples that need to be examined more closely if gender is to become an integral component of all sustainability instruments and investment mandates. Considering the societal and, of course, financial benefits of gender equality, it would be a worthwhile endeavour. At the end of the day, how can an ESG fund be considered sustainable if it ignores whether its investments are addressing the needs of the other 50% of our society?

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[17] https://www.greenfinanceinstitute.co.uk/green-plus-gilt/

[18] https://www.dbresearch.de/PROD/?rwsite=RPS_EN-PROD&rwnode=RPS_EN-PROD$RPSHOME#