NEWTON
Investment Management

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THROUGH THE LOOKING GLASS

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Our thoughts on investing with a gender lens from the Gender-Smart Investing Summit.

November 2018 marked the first ever Gender-Smart Investing Summit, which gathered together global asset managers, institutional investors, venture capitalists, non-governmental organisations (NGOs) and charities to explore the many aspects of 'gender-lens' investing.

As you might expect given the multiple investor types in attendance, I came across a plethora of definitions of 'gender-lens' investing over the two days, with each investor seeking tools and ideas which could help them achieve their goals.

For those investors with a strictly impact-focused mission, investing with a gender lens was all about mobilising capital to help address one of the most critical social issues of our time – achieving gender equality.

Similarly, wealth managers were seeking impactful opportunities for their clients, the majority of whom rank women's empowerment as a greater concern than climate change, according to Sara Ferrari, the head of UBS's Global Family Office division.

There were also charities which sought to align their investment portfolio with their mission to promote equality, while venture capital investors told success stories of female-led start-ups.

At Newton, as environmental, social and governance (ESG)-integrated investors, our approach to gender-lens investing is led by the belief that more diverse companies make for better investments. Diversity is just one of many ESG factors which we analyse as part of our investment process. However, like many of our peers, we often find that the tools to do this are limited, and that company disclosure is poor.

This conference provided me with a chance to speak to other investors and data providers to explore new ways of performing gender-related analysis. I was also able to talk to asset owners themselves, to better understand what they expect from their managers.

This is what I learnt:

DATA: WHAT DO WE HAVE AND WHAT DO WE NEED?

It's widely believed that data on gender in public companies is starting to reach a critical mass, and there is enough publicly disclosed data to analyse the performance of a portfolio on gender metrics.

While this is broadly true, problems remain in terms of disclosure norms for certain regions, emerging markets in particular, and it can require intensive engagement work to establish the most basic facts.

Furthermore, the types of data are still very rudimentary, and often limited to percentages of women in the workforce, or simply at board level. We discussed a number of missing data points which we believe could help investors get a better picture of diversity at a company. One example was a company's policies on gender violence in the workplace, with sexual harassment a serious business risk that has been proven to damage reputations and wipe millions off stock prices. Another was a firm's approach to part-time work, not just for women, but the whole workforce, given research which has shown positive links between flexibility at work and productivity.

MEASURING – QUALITATIVE AS WELL AS QUANTITATIVE

Currently, the vast majority of our analysis is based around disclosure of simple numbers and company policies. This is certainly helpful, but gives us no insight into company culture in practice. In reality, this is what most affects employee satisfaction, productivity and decision making, not a company's policies. Understanding this is part of our desire to encourage companies not simply to 'hire in' diversity, but to create a healthy, effective environment in which it naturally flourishes.

One service provider described how, through targeted, well thought-out questions as part of an employee engagement survey, they could provide a unique perspective on company culture which would shine a light on how diversity truly played out. Such surveys are fairly cheap, simple to implement and scale well.

ASSET MANAGERS NEED TO TURN THE GENDER LENS ON THEMSELVES

A number of wealth managers I spoke to described how, driven by client demand, they don't just look at the diversity of the companies they invest in, but the diversity of their investment managers too.

This point was reiterated by our CEO Hanneke Smits, who joined the call for asset-management firms to hold themselves accountable, just as they do their investee companies. We have started to take active steps in this area ourselves, including establishing a formal diversity and inclusion committee and conducting an internal ESG review of our own business, which has revealed areas where we can do more.

WHAT COULD WE LEARN FROM OTHER ESG ISSUES LIKE CLIMATE CHANGE?

One delegate suggested that we could learn a lot from the climate-change investing movement. Dr Joy Anderson of Good Capital explained that the climate-change investing message really started to resonate with large institutional investors when it focused on correlations with investment risk.

The gender-diversity debate, however, usually focuses on the upside potential associated with diversity. Dr Anderson suggested that research into relationships between downside risk and non-diverse businesses could prove powerful, especially for those who are on the more sceptical end of the spectrum.

PUBLIC VS. PRIVATE MARKETS

According to the US Sustainable Finance forum, there is currently $843bn invested today across all asset classes where gender diversity considerations play some role in the investment analysis process. With much of the conference focusing on impact investing in the private markets, the amount of capital here still remains far smaller – around $2.2bn.[1]

To me, this highlighted the great potential for investors in the public markets, armed with innovative product types and more nuanced analytical tools, to drive improved gender diversity, not only to create positive social change, but also to make better investments for our clients.

Multicolour Rod Fai night Market aerial view located in Ratchada area of Bangkok, Thailand. Source: Shutterstock.com/pradeep_kmpk14's.

[1] Source: https://www.gendersmartinvesting.com/media-page/

Want to find out more?

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