

Equality and Economic Security — A Clear Focus for Social Investing

By applying a gender lens, investors can align their portfolios with the goal of supporting gender equality while seeking a market rate of return.

by Jason Baron

The Equality and Economic Security Strategy, a proprietary strategy developed by U.S. Trust, incorporates an active, quantitative methodology for reviewing U.S. equities and taxable corporate bonds across a wide array of criteria that marry principle and financial performance.

Background

Gender lens investing is the strategy of putting investment capital to work with the goal of improving the lives of women and girls. Social investment products with this gender focus can be found in multiple asset classes and at varying levels of risk and return. Historically, they have included community development notes, microfinance, private equity, venture capital, pooled funds and managed accounts. Such investments sometimes have a direct, grassroots impact — for example, financing a catering business owned by women that serves nutritious meals to children in public schools, or providing poor women in India access to low-interest loans to foster the development of cottage industries. Another related strategy for creating social change has been to invest in companies that have progressive corporate employment policies that seek to promote gender equality in the workplace.

Whatever the investment vehicle or approach, the mission is the same. Endowments, foundations and individual investors recognize that focusing their investments in this way can create benefits and opportunities not only for individual women and girls but also can help provide economic security for their families and communities. Organizations, too, have embraced the idea that investing in gender equality is a powerful strategy for promoting social change. A study by the Foundation Center and the Women’s Funding Network found that foundation grants benefiting women and girls are growing at a faster pace than foundation giving as a whole. Women investors in particular often want their investments to support women’s issues and to have a positive impact on their gender.

Opportunities to Invest in Gender Equality

Yet as much as institutions and individuals may be drawn to the idea of gender lens investing, making such investments, particularly on a significant scale, can be problematic. Consider,

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“Investing in women empowers them to shatter the norms and barriers that perpetuate gender inequities within all societal systems, from markets to governments, from the domestic sphere to public spaces.”

—*Criterion Ventures.*

for example, global microfinance and U.S. community development investments. Both have been typical avenues for investors looking to leverage their capital to support gender equality. Starting in the 1990s, microfinance investment vehicles emerged to give would-be entrepreneurs in developing countries small amounts of seed capital that they normally couldn't get from traditional banks. Still, while it's often thought that microfinance funds are particularly helpful to women trying to lift themselves out of poverty, today only about 60% of microfinance borrowers are women. According to Criterion Ventures, a social capital markets think tank, “Investors must be cautious in making the assumption that investing in microfinance is always — and will remain — an investment in women.” In a similar way, investments in community development — for example, through venture capital funds supporting businesses that create jobs, housing and other services for low-income people — also may benefit women, but hardly exclusively.

Community banks and credit unions designated as Community Development Financial Institutions (CDFIs), through a program that the U.S. Treasury Department administers, may provide a more direct approach to social investments with a gender focus. CDFIs raise capital and put it to work revitalizing distressed communities, and investors can put money into savings accounts or certificates of deposit that pay interest at a below-market rate; the capital from these investments is then used to make business loans or provide mortgages to women. Another investing option focusing specifically on helping women is a large-cap mutual fund started in 1993 that invests in U.S. and international companies that demonstrate gender equality in their employment practices.

Expanding the Impact of Gender Lens Investing

Most of those gender-based investing strategies are niche approaches limited by geography, the type of investment or the amount of money that can be put to work. Investing in CDFIs, for example, allows investors to help women at the local level, but only in select communities. And a venture capital fund might support women-owned businesses but ignore other global issues affecting women or be too small to attract institutional investors.

To help overcome such limitations, U.S. Trust, in working with the Women's Foundation of California, has developed a series of quantitative investment criteria for this investment strategy that allows investors to apply a gender lens to the larger, more

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traditional asset classes of U.S. equity and taxable corporate fixed income. The Equality and Economic Security Strategy incorporates an active, proprietary methodology for reviewing U.S. equities and taxable corporate bonds across a wide spectrum of criteria that include both a gender focus and financial fundamentals. This investment strategy gives women-focused endowments and foundations the opportunity to align the U.S. equity and fixed-income allocations of their portfolios with their stated missions. It also enables socially conscious individual investors to keep their personal investments consistent with their philanthropic giving on gender equality issues. And institutional investors committed to positive social change for women will no longer have to sacrifice market-rate returns in their portfolio allocations to U.S. stocks and bonds.

The Equality and Economic Security Strategy utilizes a two-part due diligence framework to screen U.S. companies. First, it looks for thoughtful, progressive corporate policies relating to women as employees and as consumers, and for a commitment to use business practices to change the global landscape of rights and equality for women and girls. The second part considers a company's recognition of women as an economic force.

Gauging Corporate Policies Toward Women

The Equality and Economic Security Strategy methodology looks at a company's track record in hiring, retaining and promoting women. We consider the number of women in senior management and on the corporate board; whether there is wage parity between women and men; career-advancement opportunities for women; policies on family leave; and whether the wages of a company's lowest-paid employees provide basic economic security for them and their families.

Our criteria also examine a company's human rights policies governing its supply chain and subcontractor relationships. We seek to ensure that overseas factories producing the company's products don't employ underage girls, and that the company doesn't use subcontractors in countries in which women aren't allowed to go to school or drive cars. We consider whether a company's policies specifically address the protection of women domestically and abroad and conform to international labor standards for women and girls.

In addition, we score companies based on whether their goods and services benefit woman and girls, and we look at how a company portrays women and girls in its marketing.

“Empowering women is not only a goal in itself. It is a condition for building better lives for everyone on the planet.”

—UN Secretary-General Ban Ki-moon, announcing the creation of the United Nations Entity for Gender Equality and the Empowerment of Women.

Gender-Focused Policies Help Companies Compete

Gender lens investing and strong corporate financial performance can be mutually reinforcing. In fact, companies with progressive policies toward gender equality tend to be well-managed, and human capital practices entrenched in equality will often help them recruit and retain top-level talent. Such companies may also benefit from their engagement with women as an economic force in terms of the wealth they control and their influence on purchasing decisions. Companies that differentiate themselves by supporting gender equality may attract a broader investor base and also be able to increase their market share, enhancing their competitiveness.

The Equality and Economic Security Strategy marries gender lens investing with the traditional fiduciary asset management principles on which U.S. Trust was founded. Our fundamental analysis helps ensure that every stock and bond in The Equality and Economic Security Strategy’s portfolio can stand on its own as a sound investment with the potential to generate financial returns meeting or exceeding market averages. But there will also be significant social returns, and by indentifying and investing in best practices toward gender equality, The Equality and Economic Security Strategy will help to establish the bar by which companies measure their human capital strategies.

The Equality and Economic Security Strategy can be paired with other socially responsible investing lenses so that a portfolio reflects all of an investor’s values. In keeping with U.S. Trust’s investment management principles, our portfolio managers can incorporate The Equality and Economic Security Strategy holdings into your overall investment plan.

To learn more about investment opportunities and U.S. Trust’s Equality and Economic Security Strategy, please contact Jason Baron at either 617.434.1073 or jason.baron@ustrust.com.

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