

# Strategies for Adopting Gender-Lens Investing & Insights on Yielding Return and Impact

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## Summary

This article examines Gender-Lens Investing as a growing investment framework that can influence social impact and achieve gender equality through financial mechanisms. It highlights some of the strategies fund managers and investors can adopt within private and public market to enable gender impact. It further underlines the challenges that the stakeholders face on their sustainable journey. This article explores strategies for fund managers and investors that integrate gender-lens investing/ESG strategy within their portfolios. Further, it raises questions about potential limitations of socialwashing and poor stakeholder engagement and examines the possibilities of more holistic ESG research and data as well as third-party fund due diligence in mitigating some of these risks.

## Introduction

Gender-Lens Investing (GLI) is gaining popularity due to increasing evidence that demonstrates the financial benefits of taking a gender-lens approach and how such benefits can create positive impact on the lives of women and girls. However, the dialogue on GLI has been characterised by underlying tensions about whether financial mechanisms can achieve tangible forms of social change.<sup>1</sup> Much of this stipulation has grown out of circumstances of excessive greenwashing at both the fund manager and investment portfolio level, as well as with investing strategies focusing on narrower themes like women's board level representation rather than more diverse outcomes like education, social security, health and so on.

These discussions have resulted in fund managers and investors being sceptical about gender-lens investing and steering away from impact investing as a whole in some instances. Though, given that it requires substantial action from our international society to be able to take at least 108 years to close the gender gap with recent statistics since 2020 also demonstrating that industries dominated by women are likely to see decline due to Covid-19, gender investing continues to pose as an imperative across all sectors.<sup>2</sup>

Fund managers and investors can adopt a GLI framework and implement it within their private market opportunities and across key value chain such as deal origination, screening, structuring and negotiation, post and pre deal engagement, due diligence, and impact measurement.<sup>3</sup> While these strategies are integral, social washing and poor stakeholder engagement can hinder the achievement

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<sup>1</sup> Seguino, S. (2019). Macroeconomic policy tools to finance gender equality. *Development Policy Review*, 37(4), 504–525. <https://doi.org/10.1111/dpr.12396>.

<sup>2</sup> Seguino, S. (2019). Macroeconomic policy tools to finance gender equality. *Development Policy Review*, 37(4), 504–525. <https://doi.org/10.1111/dpr.12396>.

<sup>3</sup> Seguino, S. (2019). Macroeconomic policy tools to finance gender equality. *Development Policy Review*, 37(4), 504–525. <https://doi.org/10.1111/dpr.12396>.

of gender impact. Paying attention to and committing to interdisciplinary ESG research and data as well as carrying out fund due diligence that holistically assesses ESG/GLI intent, alignment and integration are key areas that can mitigate these risks.

## **What is Gender-Lens Investing?**

Gender-Lens Investing is the deliberate incorporation of gender factors into investment analysis and decisions to improve social and business outcomes. This includes the actions and processes that investors develop to intentionally invest in businesses that are led by women, as well as women-led solutions of organisations that target gender equality.<sup>4</sup> Such as increasing capital for women that solve challenges affecting their identities like gender biases in investment decision-making, pay gap and poor reproductive health to name a few.<sup>5</sup> It also aims at providing products and services that seeks to close the gender gap and that are designed to meet specific needs of women and girls as outlined by the entities fund managers invest in. Additionally, GLI provides specific support and opportunities for women and women-led businesses in their value chain.

## **Can investors and fund managers yield both return and impact towards SDG 5 (Gender Equality)?**

A common belief persists in the industry that investors need to sacrifice financial returns or take additional risk to make gender impact. To many, gender-lens investing seems righteous and motivating, though yet poorly backed because of limited corroboration in the area. However, current trends in research, data and investment innovation suggest that there is a meaningful influence on performance when three or more women are on a corporate board. According to Morgan Stanley's 2016 'Putting Gender Diversity to Work: Better fundamentals, Less Volatility' Report, return on equity was up by 10% and earnings per share rose by 37% because of increase in the number of women in leadership.

Though it is established that gender-lens investing can yield impact, a challenge that the overall sector faces is that a vast majority of GLI products are in venture capital or private equity which disadvantages companies that do not possess 'explosive' growth plans and struggle to find funds. Another issue that arises is the need to refine existing products within each asset class, as well as ensure that the products are accessible across different asset classes, with a variety of return expectations. These issues demonstrate the need for research methodologies better catered at continuously studying the

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<sup>4</sup> Investing in Women. (2020). How to Invest with a Gender Lens.

<sup>5</sup> Cortes, Emily. (2019). Gender-Lens Investing Strategies. *Stanford Social Innovation Review*.

correlations between financial analysis and gender analysis, allowing gender data to then be translated into formal investment vehicles<sup>6</sup>.

DFID, Nike Foundation, and USAID that funded the 'SPRING Accelerator' to grow the pipeline of investable ventures with a positive 'girl effect' lens, built a strong qualitative and quantitative evidence-base of what business models, products and services work best to alleviate poverty for girls and can be viable investments. This evidence-base is also relevant for fund managers looking to build gender-themed funds, highlighting the importance of interdisciplinary research and analysis.

It reveals then that for investors and fund managers to yield both return and impact, their investment products, services and portfolios respectively need to see a holistic, intersectional research strategy that understands the complementary nexus between capital allocation and gender impact. Without these practices, shareholder engagement, another factor determining impact investing, is likely to be poor and contribute to inadequate gender impact.

## **How do fund managers and investors approach Gender-Lens Investing?**

Fund managers and investors can approach gender-lens investing by first developing a framework and action plan to identify how they seek to integrate Gender-Lens Investing. This includes developing a framework around 1) Developing a gender-focused ESG strategy for their investment fund. 2) Applying a gender-lens across the investment process or 3)<sup>7</sup> Investing capital in women-led and gender-forward businesses,

One of the key areas that both fund managers and investors should establish is a gender-lens approach - to question what gender impact means to them, collate resources on gender investing, seek advice for developing an ESG strategy as well as effectively carrying out due diligence.

According to the 2020 Gender-Lens Investing Report, fund managers and investors could work towards building an Action Plan that implements their gender-lens framework.<sup>8</sup> This would include a layout of their investment thesis, targets, lead team and third-party staff to ensure that their approach is both institutionalised and held accountable.<sup>9</sup>

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<sup>6</sup> Smucker, M. (2020). Gender Lens Equity Funds. CFA Institute. <https://blogs.cfainstitute.org/investor/2020/07/22/gender-lens-equity-funds-the-first-major-test/>

<sup>7</sup> Investing in Women. (2020). How to Invest with a Gender Lens.

<sup>8</sup> Investing in Women. (2020). How to Invest with a Gender Lens.

<sup>9</sup> Smucker, M. (2020). Gender Lens Equity Funds. CFA Institute. <https://blogs.cfainstitute.org/investor/2020/07/22/gender-lens-equity-funds-the-first-major-test/>

## What are some effective strategies for fund managers and investors to adopt Gender-Lens Investing?

Understanding which strategies enable long-term gender impact and financial return is important before choosing to integrate them. Strategies outlined by the GLIR Report illustrates that while there has been significant research in forming these strategies by the Global Impact Investing Network, there is still room for improvement and evolution.<sup>10</sup>

Strategies within a private equity or venture capital type investments include:

### 1. Deal Origination and Screening

- To diversify the investment pipeline, investors need to identify the constraints that women face in accessing investment and incentivise staff to actively source Women Led Businesses (WLBs). Investors can set targets across the pipeline to diversify the pool of applicants and ensure that sourcing efforts look beyond traditional channels. This can be done by starting sex-disaggregating data at each stage of the investment process and tracking attrition of WLBs as a basis for defining targets.
- Creating specific funding calls that particularly includes those that solve problems disproportionately impacting women and girls and seeking new deal sourcing channels are some steps that can be undertaken.

### 2. Structuring/Negotiation

- Investors can set gender-related milestones with their investees that outlines specific outcomes like increase in women's participation in the leadership, workforce or value chain of the company.
- To widen their reach, investors need to develop financial products that better suit the needs of early stage WLBs. For example, use of revenue-based finance and debt products instead of traditional debt or equity vehicles (according to the risk-tolerance).

### 3. Pre-Post Deal Engagement

- Providing WLB with mentorship and networking opportunities and developing business development services based on an understanding of WLB needs are a few ways of deal engagement that can be undertaken.
- Gender lens technical assistance to portfolio firms can be offered by taking a bottom-up approach to identify social problems first and then applying a gender lens to the solutions; and by including gender lens investing metrics as part of training curricula for impact investors and for social enterprises.

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<sup>10</sup> Investing in Women. (2020). How to Invest with a Gender Lens.

#### **4. Developing a Strategy for Gender-Lens Capital Allocation**

- To reduce gender gaps in funding for WLB and gender-forward organisations, investors can create or allocate funds for gender lens investing. Without additional allocation of capital and funds for gender lens investing, investors will find it difficult to achieve increased impact.

#### **5. Due Diligence**

- 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. Managers should be aware that the industry lacks sufficient social data and that seeking advice on assessing ESG impact may be required.
- Adding specific sections or mentions regarding gender to the investment template which helps to standardise the inclusion of a gender lens in the evaluation process.
- Diversification of investment selection committee and conducting due diligence of investment fund and product are a few important actions under this step.

#### **6. Impact Measurement**

- Build a case of gender-lens investing through business and social data.
- Use holistic metrics to measure impact by monitoring the performance of gender related KPIs and indicators and making it a constant activity throughout the investment cycle.

While these strategies are an important guide for managers on how and what they should integrate within their investment decisions, the success of it is also dependent on their ability to set evidence-based gender targets, outcomes, and impact as well as their assessment of the honesty of this through fund due diligence.

### **Concluding Remarks: Does ‘Gender-Lens Investing’ really create gender equality?**

As established earlier, there is a rapidly increasing demand for sustainable financial vehicles that is greatly facilitated by fund managers and investors who are keen on creating a positive impact whilst also yielding attractive long-term returns.

However, it is important to note that as the invisible hand of the economy functions there still prevails demand and supply of financial instruments that do not offer any sustainable impact and might even be socially detrimental by actively engaging in acts such as labour exploitation to minimise costs. Such vehicles offer greater short-term returns (placing its long-term strategy in jeopardy) which appeals more to short-term investors or traders that feed on short term market inefficiencies.

Having addressed that, turning a blind eye to the long-term and unobservable impact being made by certain managers and investors would be counter intuitive as well. The evolutions of and feedback

provided to gender-lens investing particularly poses important contributions for fund managers and investors aiming to effectively adopt gender-lens investing. For example. The growing discourse on the importance of privileging interdisciplinary analysis and gender-lens methodologies is a key evolution to the gender-lens investing space that managers can pay attention to. The feedback around the need for fund due diligence to detect social washing through a 360-degree assessment framework that assesses ESG/Gender intent, alignment, and integration has solidified the framework.

These improvements are thus crucial for fund managers and investors to make evidence-based decisions and leave a positive footprint in the economy.

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Foresight's fiduciary solutions include Diligence Services and Ratings (Investment, ESG, Risk and Operational Diligence), Advanced Portfolio Analytics and Strategic Research.

Foresight's fund strategy solutions include Advanced Analytics for asset managers, Fund strategy positioning and benchmarking services, fund industry intelligence and research as well as Strategic process review, integration, and validation services.

Foresight Analytics is a signatory of UNPRI.

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