

WHEN GENDER IS CENTRAL

Implications for Gender Lens Investing in Practice

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August 2022

About The Environmental, Social and Governance (ESG) Initiative

The mission of the ESG Initiative is, consistent with the vision of Joseph Wharton, to harness the power of business to “solve the social problems incident to our civilization.”

We will do this by conducting research that investigates the intersection of ESG factors and business and by further advancing our best-in-class education of current and future practitioners, enabling them to serve a world undergoing tremendous change.

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See the ESG Initiative’s reports on gender lens investing – and more – at esg.wharton.upenn.edu



EXECUTIVE SUMMARY

Gender lens investors vary in how – and how greatly – they emphasize gender in their marketing and investment criteria. Some emphasize women and girls in their marketing materials more than others. For some, gender equality is their sole impact goal. Others consider gender alongside other impact goals, which may carry equal or even greater priority. In this research brief, we explore how gender lens investing funds differ as a function of how central gender is to their investment marketing and strategy.

Drawing on survey data collected for *Project Sage 4.0*, we surface a number of important findings on gender lens investing. Funds that are high in “gender centrality” – our measure of how important, or central, gender is to a gender lens investing fund’s investment criteria and marketing language – come in all sizes and invest in a variety of asset classes, regions, and stages of company growth.

Gender lens funds that are higher in gender centrality also differ from funds that are lower in gender lens centrality in that they:

- Have a larger percentage of women in leadership roles.

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- Place more emphasis on gender in their actual investment decisions, as reflected, for example, in the number of investments that meet one or more of their stated gender lens criteria.
- Go to greater lengths to measure and manage gender-related investment performance.
- Have a smaller percentage of people of color in leadership and investment committee roles.
- Focus less on ending global poverty.

These findings are useful for understanding how gender lens investing works, how gender lens funds differ, and where there are potential trade-offs.

OVERVIEW OF GENDER LENS INVESTING

A growing number of investors are deploying capital not only with the goal of generating financial returns but also to improve the lives of women and girls. Known as “investing with a gender lens,” this strategy incorporates gender-based factors into investment decision-making and stewardship. By investing in companies founded and led by women and/or in companies that create goods, services, or employment opportunities benefiting girls and women, investors can put their capital to work in the hopes of achieving gender equality while capturing market

opportunities, recognizing undervalued entrepreneurial talent, and fueling innovation.

Since 2017, the Wharton School and Catalyst at Large have been tracking the development and defining features of private equity, venture capital, and private debt gender lens investment funds in the *Project Sage* series. Each of the reports in this series presents a variety of key data on these funds, from basic descriptors such as size and asset class to more qualitative indicators such as how fund managers define gender lens investing. These reports have brought much-needed clarity and attention

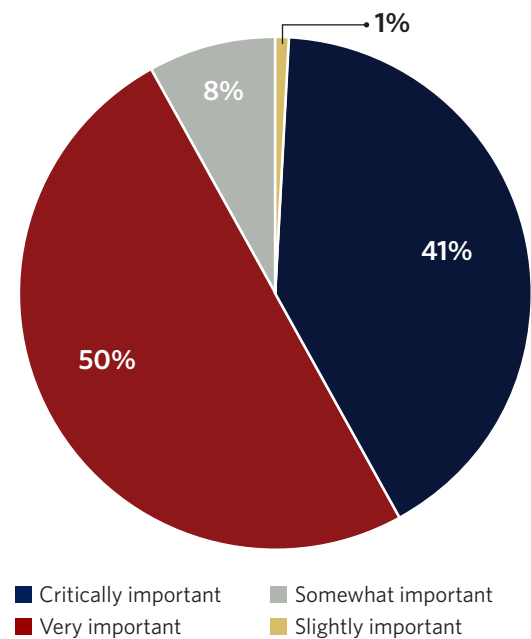
to this critical arena of investing.

As the field of gender lens investing has grown in size and visibility, variation among gender lens funds has become increasingly apparent. One particularly interesting point of variation is the importance funds place on gender-related investment factors. While an express commitment to investing with a gender lens has been a consistent condition for inclusion in all of the *Project Sage* reports, there is self-reported variance in the extent to which these funds prioritize gender vis-à-vis other impact criteria (e.g., poverty alleviation, environmental sustainability, racial equity). This variance is displayed in the figure to the right, which is based on the following *Project Sage 4.0* survey question: “As you make investment decisions, how important are gender-related criteria?”

As we detail in this report, the variance in the importance that funds assign to gender is significantly related to a number of important investment practices and characteristics.

As investors pick among funds in which to invest, they may want to understand the implications of this variance for how funds operate. To explore this topic, this research brief dives more deeply into gender lens investing, highlighting factors that are linked to

Self-reported importance of gender-related investment criteria



how central gender is in the investment criteria, marketing materials, and public presentations of the self-identified gender lens funds that responded to the *Project Sage 4.0* survey.

MEASURING GENDER CENTRALITY

To better understand how the 206 funds included in *Project Sage 4.0* differ in the importance they place on gender, we need a measure of how central gender is in a fund’s investment criteria and marketing language – we’ll call this “gender centrality” for short. As shown above, the survey administered for *Project Sage 4.0* asked respondents to rank the importance of gender in their fund strategy. This is obviously a valuable indicator of gender centrality; however, it is best practice to rely on multiple indicators to capture a relatively complex concept.¹

Fortunately, the *Sage 4.0* survey asked additional relevant questions.

The survey also asked whether funds use the term “gender lens” to describe their investment activity publicly. We consider this another indicator of gender centrality because funds that use the term “gender lens” publicly signal their commitment to gender-related investment criteria to external stakeholders with recognized industry language. Additionally, the survey asked respondents to provide the exact wording that their funds use in public statements (on their websites,

¹To illustrate, if we want to learn whether someone maintains a healthy lifestyle, it can certainly be useful to ask them that question directly, but it is even more useful to ask additional questions such as “Do you exercise regularly?” or “Do you get an average of at least 7-8 hours of sleep each night?” Similarly, to determine gender centrality, it would be ideal to have more information than just self-reported importance of gender.

Gender centrality: How important, or central, gender is to a gender lens investing fund’s investment criteria and marketing language.

in fundraising documents, etc.) to describe how they consider gender when making investment decisions. We classified these responses according to the following rubric:

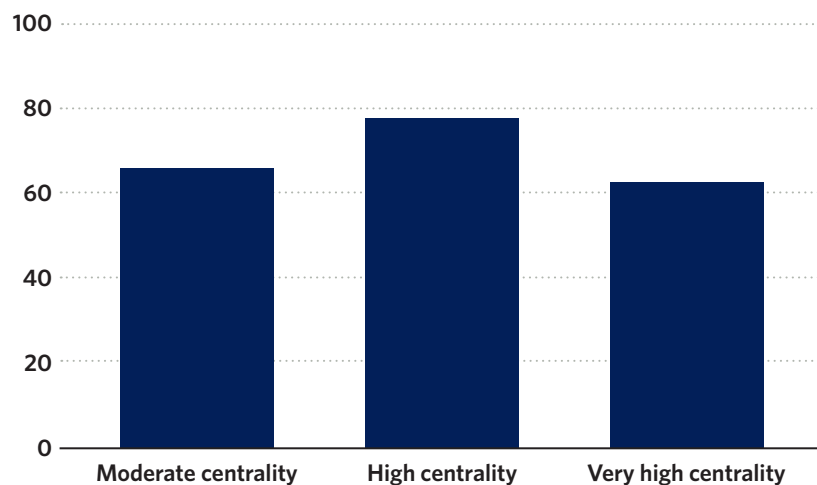
- 0 = No response
- 1 = The response includes a commitment to some type of impact but not explicitly gender
- 2 = The response includes a mention of gender but with no strategic details (e.g., nothing about selecting companies with female leadership or that provide services benefiting girls and women)
- 3 = The response provides specific details on how the fund considers gender in investment decision-making

To review, we identified the following three data points as indicators of gender centrality in a fund’s investment strategy and marketing:

1. Self-reported importance of gender in a fund’s investment process
2. Whether a fund uses the term “gender lens” to describe its investment activity publicly
3. How gender factors into a fund’s description of how it considers gender in investment decision-making (as determined by our independent analysis of text provided by the respondent)

We assigned numerical codes to each of these indicators and found that the three indicators are highly inter-correlated, suggesting that they point to the same underlying concept (i.e., gender centrality). Accordingly, we created a numerical scale of gender centrality and, using that scale, categorized gender lens funds as moderate, high, or very high on gender centrality. Below is a breakdown of our sample of 206 funds by these groups.

Number of funds by gender centrality



²No fund in the *Project Sage* database is low in gender centrality. Even a gender lens fund that is relatively low in gender centrality compared to other funds included in the *Project Sage* database is high in gender centrality compared to most impact investing funds.

FINDINGS ON GENDER CENTRALITY

Equipped with a measure of gender centrality and the other information we collected in the *Project Sage 4.0* survey, we find that differences in this indicator are associated with several important and interesting differences among funds. We also find that funds that differ in gender centrality do not differ in a number of ways, as well. For instance, we find no statistical association between gender centrality and asset class, fund size, regional focus, or the stage of investee on which a fund focuses (e.g., seed stage versus growth stage). In short, greater gender centrality does not limit a fund to a given asset class, fund size, region, or stage.

However, we do find that funds with higher levels of gender centrality differ significantly from other funds in their investment focus, leadership, and impact management practices.³

Investment Focus: Advancing SDG 5

Funds with higher gender centrality are distinct in terms of their investment focus. Funds that score higher on gender centrality generally report that a greater number of their committed investments meet one or more of their stated gender lens criteria – 92% for very high centrality funds versus 59% for moderate centrality funds. These funds are also more likely to report that they seek to advance Sustainable Development Goal (SDG) 5, which focuses on achieving gender equality and empowering all women and girls. Specifically, 98% of very high centrality funds seek to advance SDG 5, compared to 87% of moderate centrality funds. This finding suggests that gender lens funds with higher gender centrality manifest this centrality in actual investment practices, not just in rhetoric.

Fund Leadership: Women Calling the Shots

We find that funds scoring higher on gender centrality tend to have more women in leadership than funds that score lower on gender centrality. Specifically, there is a statistically significant correlation between

gender centrality and female representation on a fund's investment committee and in a fund's senior team of partners, principals, and other executives. Funds with very high gender centrality have an average of 81% and 78% female representation on the senior team and investment committee, respectively. The corresponding numbers for funds with moderate gender centrality are 64% and 53%. This finding suggests that commitment to gender shows up not only in a fund's investment practices but also in its leadership.

Impact Monitoring and Management:

A Sharper Focus on Women

Funds with higher gender centrality scores show distinct patterns in how they engage with their investees. We find that such funds are much more likely to report that they provide their investees with gender-specific technical assistance such as helping with the design of inclusive workplace policies and pairing investees with consultants. While 62% of funds with very high gender centrality provide such assistance, only 34% of funds with moderate gender centrality do so. We also find that higher centrality funds are more likely to report that they monitor gender-related performance metrics post-investment, such as the number of women on the boards of portfolio companies – 72% of very high centrality funds versus 63% of moderate centrality funds. Taken together, these findings suggest that funds with higher gender centrality frequently employ best practices to optimize investee performance, particularly as it relates to a gender-focused mission.

Potential Trade-offs: Less Emphasis on Advancing Racial Diversity and Ending Poverty

The findings we have shared thus far suggest that funds with higher gender centrality enact their commitment to gender lens investing in several important ways; they practice what they preach when it comes to gender. But we also find that funds experience potential trade-

³In this report we use a statistical significance threshold of 0.05, meaning that the findings we report each have less than a 5% probability of existing by mere chance. Results of statistical tests are available upon request.

offs when they place greater importance on gender. Specifically, we find that higher gender centrality is associated with lower representation of people of color on investment committees and on senior teams. Funds with very high gender centrality have an average of 33% people of color on their investment committees and 39% on their senior teams, while the corresponding figures for funds with moderate gender centrality are 49% and 51%. We also find that higher gender centrality is associated with lower likelihood to report that racial/ethnic diversity is part of a fund's investment criteria. Only 42% of very high centrality funds report that racial/ethnic diversity is part of their investment criteria, compared to 58% of moderate centrality funds. Further, higher gender centrality is associated with a lower likelihood to seek to advance SDG 1 – ending poverty. This difference is particularly stark, with 24% of very high centrality funds seeking to advance SDG 1 and 62% of moderate centrality funds doing so.

These findings illustrate how a strong focus on a particular impact priority may mean that other priorities

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receive less attention or are messaged less strongly. This trade-off is not inevitable. Many of the respondents in our sample espouse a strong commitment to gender while also strongly prioritizing other types of impact, including racial justice.

CONCLUSION

The findings presented in this brief point to general trends across a large number of funds. There will always be exceptions to these patterns when looking at funds on an individual basis. Still, the patterns reported here help to get a clearer sense of what “investing with a gender lens” is likely to mean in practical terms. It is easy, of course, to state that one considers gender-related factors when making investments; it takes more effort to actualize this commitment in fund staffing, investment decisions, and post-investment monitoring and management practices.

We encourage investors to consider our findings when they are choosing among gender lens funds to invest in. You may, for example, want to ask fund managers about gender and racial/ethnic diversity among their leadership and staff, whether and how they provide gender-related technical support to investees, and how they conceptualize their strategies in terms of

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concrete indicators, such as SDG 5.

In addition to informing how investors carry out their work, we hope this research brief helps to clarify what gender lens investing means and where there may be room for improvement in this growing and influential sector.