GENDER SMART

Unlocking
Gender-Smart Capital
At Scale

Gender Lens Investing State of the Field 2022

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Foreword

Welcome to the GenderSmart State of the Field

Suzanne Biegel
Co-Founder, GenderSmart

We have chosen that wording carefully – 'State of the Field', rather than 'State of the Market'.

While the two undoubtedly intersect, they are also distinct. The state of the market is a stock-take of how much capital is moving at any given time, through which instruments, in which places. The state of the field encapsulates the people, institutions, organisations and structures that enable us to invest in a more gender-smart and inclusive way.

Right now, the sheer amount of different approaches to sizing the market makes it difficult to put accurate numbers on both public and private markets (a challenge we explore in depth in the Data section of this report). This is just one reason we have chosen to focus on the gender finance field, from the political climate to the dominant narratives to the stakeholders shifting the status quo.

There is no doubt that the field of gender-smart investing is only getting stronger, wider and deeper. There have been some notable wins, such as GPIF's investment of over $3 billion into two different gender and diversity indexes, and Alitheaia IDF as well as Women's World Banking Capital Partners Fund ii each closing at over $100 million. But in spite of this, the market is still not moving at the volume nor the pace we would wish to see.

In part, this is because some of the plumbing isn't there; we're building the plane while flying it, channelling our energy into staying in the air.

However, this stagnation is affecting more than the gender finance field. With the COVID-19 pandemic, economic and supply chain disruption, geopolitical conflicts and widespread instability, there is no corner of the market that is not feeling the sting.

Investing does not happen in a vacuum and there have been some marked macroeconomic shifts and signals in the wider market. From the recent shelving of the European Commission's social taxonomy and the rolling back of Roe v Wade, to a global economic downturn and the very questioning of our current form of capitalism, these are unsettling times for us all.

In the context of this upheaval, our aim was to take a snapshot of gender lens investing through the eyes of those who are doing the work. This report is designed not only to shine a spotlight on the challenges and opportunities in the field but also to celebrate the vast number of people from myriad institutions across the globe who are putting gender lens investing theory into practice – many of whom have been doing so for a decade or longer.

In spite of the obstacles we have faced together over the past two years, real headway has been made. Nevertheless, there is still a long way to go to get gender lens investing from Traction to Transformation. That is why we are here: to provide the tools, frameworks and processes to help every actor across the capital continuum shift more capital, more strategically.

Who We Spoke To

To create this report, we interviewed 141 investors, intermediaries and gender experts around the globe.

Many of these were people who lead with gender, or who see themselves as field builders working to grow, refine, and mainstream gender-smart investing. Others were people who don't lead with gender – or even in some cases, explicitly name gender – but who incorporate a gender lens into their investment strategy nonetheless.

Although we spoke to gender-smart investing leaders from around the world, our sample is weighted towards North America: a reflection of the fact that to date, there has been more momentum and capital flowing from that region. But you will find insights from leaders across Africa, Asia, Europe and the UK, the Middle-East, and Australasia too.

While this report is not exhaustive, it is extensive, capturing the broadest and most in-depth spectrum of insight and experience across the gender-smart investing field to date. We hope these insights assist you with your own investment strategy and process and vision for a gender-smart future.

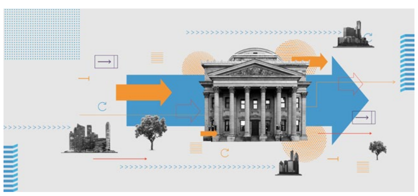
View a breakdown of respondents at genderfinance.today

State of the Field: Executive Summary

What Stood Out

This report is structured primarily around eight leverage points, designed to help actors across the gender-smart ecosystem think about what they can do to move both their own work and the field in general forward. For a more in-depth picture of how these leverage points fit together, see the original systems map designed by Nexial for the first GenderSmart Investing Summit in 2018.

Explore the Eight Leverage Points

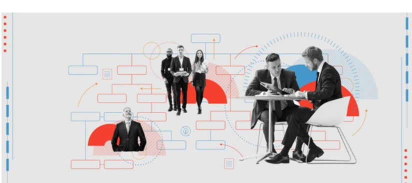


Shifting Institutions ▶

Financial Products and Services ▶

Data, Materiality and Analysis ▶

Narratives and Nudging ▶



Leadership ▶

Influence and Engagement ▶

Policy ▶

Civil Society ▶

We also identified eight recurring investment themes across our interviews, and in broader gender-smart programming:

- the Care Economy
- Financial and Digital Inclusion
- Gender-Based Violence
- Supply Chains and Procurement
- Sexual and Reproductive Health
- JEDI (Justice, Equity
- Diversity and Inclusion), and
- Climate and Gender.

On the following pages are seven key insights that stood out across interviews, transcending any one theme or leverage point.

Key insights: 1 2 3 4 5 6 7

1

There is a disconnect between the conversations investors are having at the leading edge, and the way the majority of capital is moving.

Fuelled by the impact of the ongoing pandemic, the #MeToo movement, and the Movement for Black Lives, investors are having increasingly forward-thinking conversations about how finance could be done differently as part of a wider movement towards stakeholder capitalism. From Janet Yellen's calls to reform and scale the World Bank and the conversations Criterion Institute is leading about power dynamics in investment, to Aunnie Patton Power's book, Adventure Finance, which details and amplifies alternative finance options beyond VC (Aunnie was one of the interviewees for this project).

As one of our respondents put it, "There's been a tremendous willingness over the last two years to be responsive to different social flashpoints that have really captured, not just the industry, but also the public's sentiments on what they consider to be both right and just."

But although these conversations are vital, they are yet to translate into a significant deployment of capital at even the most basic level. Like climate, we have extensive buy-in on the theory, but not the execution.

Women founders in the US raised just 2% of all venture capital in 2021, a percentage that has remained stagnant since 2008. Despite public enthusiasm for Justice, Equity, Diversity and Inclusion, investment in Black founders has declined sharply in 2022. And according to the Knight Foundation, as of September 2021, just 1.4% of US-based assets under management were managed by firms owned by women or people of colour. Things are little better in Europe, where female founders raising capital were hit harder by the downturn. At the fund level, the 2022 European Women in VC report found that 91% of male General Partners have access to carried interest, compared to 70% of females with GP as a title.

These are simple numbers that speak to deep underlying structural problems. But at present, there is a disconnect between the forward-thinking investment actors who are working to reimagine capital, and the majority of the investment field as a whole, which is still focused on short-term returns over all else.

2 Gender-smart investors are increasingly moving away from silos and bringing gender into existing conversations – whether climate, or ESG, or sustainability standards.

More and more members of the GenderSmart community believe that in order to achieve the wholesale transformation of the investment field that many of us are working to create, an integrated approach is more effective than one that explicitly focuses on gender as an end to itself.

In practice, this means bringing gender analysis into all investment themes – whether in climate, tech, health, financial services, consumer products or infrastructure – to consider how gender is playing out across an investment's products, employee base, customers, and supply chains. It also means considering how gender can be leveraged to achieve better financial and impact outcomes.

This approach has a number of advantages. Theoretically, it gives gender-smart investors the ability to access and influence the entire pool of global capital – whether that means using gender as a lens to sharpen other impact themes such as climate and sustainability, or integrating gender into funds without an impact mandate.

It also reduces the likelihood of gender being sidelined in favour of other issues. As one North American respondent put it: "If it's not a pandemic, it's a war, it's supply chains, it's increasing interest rates, inflation, climate – it's too easy to not prioritise gender. All of our leading thinkers have done a really good job of buttoning gender to these bigger overwhelming issues ... I think we have to do more of that."

An integrated approach to gender-smart investing shifts our orientation from screening out (*does this company have a gender-balanced team?*) to screening in (*how can I use my power as an investor to help this company* ***build*** *a gender-balanced team?*). As one respondent explained, "When you screen out you limit your universe. If you screen in and you use ESG [insights] ... to help you find better businesses where human capital is a priority, you still have the whole universe available."

Finally, this approach can be a way to circumvent gender bias – and the belief in a still male-dominated arena that gender is a niche issue. We know of several very big, 2X-qualified funds who do not explicitly label or call out gender in their external communications or fundraising. Other funds we've spoken to outside of this project say that being labelled with gender has worked against them with fundraising, and that they do better when they emphasize other aspects of their work, such as climate impact, tech, or future of work.

There are times when an explicit gender focus makes more sense: for example, for investors wanting to deploy capital specifically to women or other gender-diverse entrepreneurs, or those seeking to use their investments to address challenges such as gender-based violence or access to reproductive health. But increasingly, an integrated approach to gender-smart investment was seen by respondents as the path to maximum reach and impact.

3

Women's wealth is a powerful lever for change.

According to UBS, women's wealth is expected to continue to grow more rapidly than men over 2021 to 2025, and will be most pronounced in Asia where by 2025, Asian women will account for 34.4% of regional wealth, close to the 35% for their peers in the US and Europe. By 2030, McKinsey estimates that American women will control as much as $30 trillion in financial assets, a three-fold increase from the $10 trillion they held as of 2020. Much of this shift is expected to be driven by wealth transfers within families, as affluent baby boomer men begin to pass away and leave their assets to their younger wives and – more so than in previous generations – their daughters.

McKinsey flagged this "next wave" of wealth as something for wealth managers to be aware of, noting that affluent women have different expectations of their financial advisors than men do. For example, research from US-based market research firm Cerulli suggests that women under 60 especially favour investing with ESG considerations in mind.

In GenderSmart's interviews, we witnessed first-hand the role that family wealth is already playing in advancing a gender-smart agenda. Respondents noted the greater flexibility family offices have with their investments, and the greater role that values play in driving their decisions. "That's where topics such as gender become very important and are discussed in a way in which your average fund manager probably wouldn't be doing, as their primary objective is to deliver the investment return," explained one respondent. "There is also an appetite within family offices to do things a little bit differently outside the standard asset classes."

This appetite for innovation was contrasted with the institutional intransigence of DFIs, given their development brief, which were criticised by some for their conservatism over what they invest in and the kinds of instruments they back.

It is worth noting that gender-smart investments are not driven solely by the women in affluent families. One North American respondent shared how they brought a client around to a reproductive health strategy by linking the investment to Project Drawdown research. "The mother and the young adult daughter were very keen on a women's health issue opportunity that we had. ... but what really sold [the father] was explaining how it was connected to his interest in climate."

4 Gender-smart investing is increasingly intersectional – both in terms of diverse identities and also rising awareness of how different investment themes impact each other.

In both the public and private markets, more and more fund managers are employing multiple diversity lenses: 47% of the funds surveyed for Project Sage 4.0 had a dual race/ethnicity and gender lens, while 15% had a dual gender and LGBTQIA+ lens. Adasina Social Capital's JSTC ETF, meanwhile, combines a focus on gender, racial, climate, and economic justice.

We're also seeing an increasing sophistication to the conversations gender-smart investors are having as a community, and a shift in investor interest towards a broader "diversity lens" that covers not only biological sex, but also gender identity, race, ethnicity, religion, disability, income, sexual orientation and cognitive diversity. We are also starting to critically engage with the disconnect between investing's dismal numbers on gender diversity at even the most basic level, and the increasingly complex public conversation about gender: in which gender is viewed not as a binary but as a spectrum.

There is also growing awareness of the interplay between the issues gender-smart investors are working to address: for example, between climate and gender finance, between supply chain finance and gender-based violence, or between reproductive rights and racial justice.

With all this comes a deprioritisation of gender that concerns some gender-smart investors. Several respondents noted that too often, different forms of diversity are being pitted against one another: for example, racial diversity against gender diversity, or cis women against trans and non-binary people.

But although these observations are true, this approach to diversity is the opposite of what intersectionality is intended to do – which is to recognise that identities and issues don't exist in silos. It is impossible to address one form of diversity without also addressing the other.

5

While growth and development in the private markets is strong, gender lens public markets products have become stagnant.

Multiple people we interviewed mentioned a sense of stalling growth in the public markets – in terms of the amount of capital deployed, the growth in the number of products and the sophistication of those products more generally.

As one respondent put it: "What we were seeing five years ago with this hockey stick growth is definitely flattening quite a bit. In the private markets, it seems like there's a maturation of the ecosystem components. And I think because most of the major investment houses have now already done something [in public markets], there's not that race to the top."

We don't necessarily agree with this statement – there's still a lot of room for major investment houses in the public markets, especially for products that go beyond women on boards or in leadership, or products with a dual lens e.g. climate and gender. We also know that the UBS Global Gender Equality ETF, launched in 2018, reached $1.6 billion at the end of August.

There were also exceptions to this trend in Australia, where superannuation funds own 50% of the stock exchange, with one fund using its influence as an investor to campaign for a bold transformation for the gender balance of Australia's ASX300 companies. Another Australian fund manager spoke of the challenge of finding gender lens global equities to invest in.

What we need, another respondent suggested, is better data for more sophisticated products. "Differentiations between [public markets] products are so narrow – it's women on boards, women in the C-suite. Until we can get more sophisticated data, people don't have an incentive to build different or better products. They're just building the same product over and over again." We think Equileap are one exception to this, because they look at 19 variables – including women in leadership – and their data now drives over $1.5 billion in product.

6

Gender-smart investors are developing innovative new ways of meeting the needs of entrepreneurs and fund managers.

There is a growing understanding amongst the GenderSmart community that conventional VC and debt don't work for all entrepreneurs.

Although there are high profile women entrepreneurs who are building "unicorns" – Canva's Melanie Perkins, Whitney Wolfe Heard's Bumble, and Iman Abuzeid's Incredible Health among them – there are many more founders who are building normal-growth, positive revenue companies, whose needs are not being met by the investment ecosystem as it stands.

To address this gap, some gender-smart investors are beginning to work with alternative forms of financing, including venture debt, revenue-based financing, supply chain financing, mezzanine financing, early stage risk capital, and blended capital. They're also looking at creative solutions to address other challenges facing the field, such as the development of funds of funds with an explicit gender lens to drive capital to emerging fund managers.

Several respondents in emerging markets noted the difficulty women entrepreneurs face accessing credit in contexts where women don't or aren't allowed to own land. To navigate this, some lenders are devising innovative new ways to assess credit worthiness and to lend with more innovative models.

Still, many interviewees noted a hesitancy to move beyond what it already known: whether it's institutional investors being slow to pick up on blended finance opportunities, innovative fund managers struggling to get the investment they need, or investors wedding themselves more to the vehicle and financing structures they've always worked in than to the outcomes they're working to achieve.

As one respondent put it, "Every day, VCs are investing in the next generation of data-driven startups, fintechs and so on that are changing the world. So why are they so invested in not changing their own shape?"

7

As the field grows, alignment becomes more challenging.

As the gender-smart investing field grows, so too does the diversity of both the motivations that bring players to the table, and the depth of experience and knowledge of investing with a gender lens that different players have.

In one corner, we have investors who have been moving their capital with a gender lens for more than a decade, many of whom are focused on deepening their practice and analysis with ever more sophisticated tools and approaches. In the other corner, we have newer players who are still doing the work of making the case for investing with a gender lens to key stakeholders.

Alongside this diversity, our field also encompasses: investors who are impact first and those who are finance first (and also those who have different parts of their portfolios with different expectations and needs for financial return); public finance actors with a financial and development agenda and those with a catalytic capital agenda; investors focused on diversity in leadership and those focused on ensuring equitable access and participation across the value chain; and those that lead with gender versus those who bring a gender lens to other investment themes.

This diversity is one of our strengths as a field, and speaks to the breadth of ways gender-smart investing can be applied in practice.

It can also make finding cohesion a challenge. We must continue pushing for new and better ways of doing our work, while understanding that not everyone is in the same place in their journey – and in fact, the majority of investors are still not with us at all. We must seek out the points of common purpose and agreement we can align on, and not let the perfect be the enemy of the good.

Explore the full report ▶

genderfinance.today