

*Social Impact Investing Perspectives*

# Gender Equality and Inclusion: Just Good Business

## Exploring gender from an investment perspective

Polarization on political and social matters appears to be the norm in the U.S. in the current era, and gender-related issues are no exception to the list of things that can trigger contention. Social media and live TV have fueled debate over all manner of gender topics. We believe that gender issues are not as controversial or divisive as media accounts may make them appear. A recent report by the nonpartisan Pew Research Center notes that large majorities of both men and women in the U.S. see sexism as “a very or moderately big problem.”<sup>1</sup>

Precisely because companies vary widely in their approach to these issues, we believe gender analysis can play a useful role in the investment decision-making process. There is a strong economic logic behind this. A McKinsey report finds that “while social justice typically is the initial impetus behind [diversity] efforts, companies have increasingly begun to regard inclusion and diversity as a source of competitive advantage, and specifically as a key enabler of growth.”<sup>2</sup>

Gender-related issues can be complex to unravel due to long-established practices and inherent biases that are hard to detect. Nevertheless, the focus on gender is a vital part of our investment thinking, and helps shape our asset selection decisions. We particularly favor companies that invest in skills development programs and initiatives to create hospitable work environments for women, and those with a meaningful representation of women on their boards of directors. We believe the intentional focus of investors on the issues of gender equality will ultimately help effect real change in the corporate world.

## New momentum behind gender-focused investing

Investment strategies focused on women have attracted over \$2 billion in public and private assets in recent years.<sup>3</sup> Growth in “gender lens investing” is accelerating but remains a small percentage of total managed assets globally. Gender issues are more commonly incorporated under the broader discipline of ESG (Environmental, Social, and Governance) assessment, and assets managed by firms committed to using these techniques now total \$6.4 trillion.<sup>4</sup>

Among recently launched gender-focused strategies, private and public, investment managers are focusing their efforts on areas with the largest potential for positive impact on women’s lives. These include workplace equity, access to capital for women-owned businesses, and products and services designed to meet the specific needs of women and girls. In public markets, the hard data that managers seek on these topics is largely unavailable through routine disclosures and standard research services. As a result, many gender-oriented investment solutions focus on widely disclosed criteria such as the percentage of women on the board of directors and women in executive leadership.

We believe that more can be accomplished with better data and deeper analysis. As noted earlier, we believe that gender analysis has a place in all of our investment decisions as part of our comprehensive sustainability analysis or ESG.

**Investment and Insurance Products: • NOT FDIC Insured • NO Bank Guarantee • MAY Lose Value**

1. “Little Partisan Agreement on the Pressing Problems Facing the U.S.” Pew Research Center, October 15, 2018.

2. Vivian Hunt, Lareina Yee, Sara Prince, and Sundiatu Dixon-Fyle. “Delivering Through Diversity.” McKinsey & Company, January 2018.

3. “Investment Assets That Put Women First Surge Past \$2.2 Billion.” Emily Chasan, Bloomberg. November 16, 2017.

4. Annual Report, Principles for Responsible Investment, August 25, 2017.

## Analyzing gender issues as part of an investment process

Gender bias—both intentional and unconscious—occurs everywhere. According to Gallup, 45% of U.S. workers state that they have experienced “some form of discrimination or harassment in the past 12 months.”<sup>5</sup> The issue cuts across environmental, societal, and governance issues around the world. The Wells Fargo Social Impact Investing team’s investment approach focuses on three key areas that we believe have the potential to benefit investors in their role as shareholders and ultimately contribute to gender equity.

- **Leadership and culture:** A company’s culture starts from the top, with management teams that demonstrate a commitment to a diverse and inclusive workplace. In addition to representation of women on the board and in executive leadership roles, we look for evidence that diversity and inclusion are an integral part of a company’s business strategy. We expect companies to disclose specific actions the company is taking to back up its commitment to diversity as well as annual disclosure of gender related data such as the percentage of female employees in technical or managerial roles, pay equity, and overall retention of female employees as compared to male employees.
- **Workplace programs:** A critical way that management teams demonstrate their commitment to gender issues is through corporate policy. Policies serve to reinforce corporate values and create accountability throughout an organization. Best-in-class policies and practices help to attract and retain diverse talent. We look for specific business practices to support the advancement of women into leadership roles; policies or training programs that raise awareness of unconscious bias in recruiting, promotion, and pay decisions; and programs that support working parents. Conversely, companies with patterns of gender-related controversies, including discrimination and sexual harassment allegations or lawsuits, face a much higher bar for inclusion in one of our strategies.

*“It turns out that exceptional work cultures for women also produce outstanding workplaces for all employees.”*

Chinwe Onyeagoro  
President, Great Places to Work  
*Fortune* magazine, 100 Best Workplaces for Women, 2017

- **Supply Chain Management:** Women and children are most vulnerable to exploitation in sourcing labor and materials for globally manufactured goods. Women and girls are particularly vulnerable to labor rights abuses and, according to the International Labour Organization, represent 71% of modern slavery victims.<sup>6</sup> Companies that do not engage with their suppliers to ensure fair and safe labor practices may represent a financial risk to investors either through reputational damage or fines. Recent studies have found that retail importers reward suppliers that comply with labor standards with increased purchasing volumes.<sup>7</sup> Factors that are of particular importance to our assessment of firms include: a company code of conduct to encompass vendor relationships; training and support for vendors; third party audits to ensure compliance with said policies; and actions taken when there is a failure to comply. One of the data sources we use to assess how well a company is engaging its supply chain on social risks is “Know the Chain”, a benchmarking tool used by companies and investors to identify best practices as well as areas for improvement.

*“Gender inequality exacerbates human rights abuses in global supply chains.”<sup>8</sup>*

Verité, *Women at Work in Global Supply Chains*

## Shareholder engagement and dialogue

Corporate reporting on gender is limited, which means that investors must speak directly with companies to gain a more complete picture of their policies and practices. We use our conversations with companies to advocate for policies that promote gender equality, and we encourage companies to disclose information on pay equity. We also work for strong representation of well-qualified women on the board. As investment managers, we believe that a diversity of perspectives is crucial to good board work, and have seen many examples of companies that underachieved because of

5. “Build a culture where every employee can use their voice.” Gallup, October 2018. Accessed online at: [gallup.com/workplace/215939/diversity-inclusion.aspx](https://www.gallup.com/workplace/215939/diversity-inclusion.aspx)

6. *Global estimates of modern slavery: forced labour and forced marriage.* [PDF] International Labour Organization and Walk Free Foundation, 2017.

7. Greg Distelhorst and Richard M. Locke. “Does Compliance Pay? Social Standards and Firm-level Trade.” Working paper (MIT Sloan School of Management), April 29, 2018.

8. *Verité* is an independent nonprofit organization that gathers information about global labor practices.

groupthink. Several recent academic papers document positive impact to shareholder value from ESG-motivated engagement initiatives.<sup>9</sup> We therefore view engagement as a powerful tool that can benefit shareholders while also addressing larger societal issues.

### Closing thoughts: Moving the needle on gender equality

Approaching gender equality and inclusivity from an investment perspective is not formulaic and certainly is not easy. It requires a long-term perspective and detailed analysis that goes beyond head counting. Since much of the information we seek as investors is still undisclosed, direct engagement with companies helps us understand not only the philosophy of the management team but the steps that have been taken to ensure future progress on any stated goals. We continue to see best practice regarding gender issues evolve and improve, particularly as the number of women in the labor force and leadership roles grow. But as U.S. Supreme Court Justice Ruth Bader Ginsberg has said, “change in our society is incremental . . . Real change, enduring change, happens one step at a time.”<sup>10</sup>

9. See particularly:

- Caroline Flammer, “Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach.” *Management Science*, February 19, 2015.
- Elroy Dimson, Oğuzhan Karakaş, Xi Li. “Active Ownership.” *Review of Financial Studies*, issue 12, 2015.

10. Irin Carmon and Shana Knizhnik. *Notorious RBG: The Life and Times of Ruth Bader Ginsburg*. Dey Street Books, 2015.

### Risk Considerations

Sustainable investing focuses on companies that demonstrate adherence to environmental, social, and corporate governance principles, among other values. There is no assurance that social impact investing can be an effective strategy under all market conditions. Different investment styles tend to shift in and out of favor.

### General Disclosures

**Wells Fargo Wealth Management and Wells Fargo Private Bank provide products and services through Wells Fargo Bank, N.A. and its various affiliates and subsidiaries. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.**

Wells Fargo Bank, N.A. (the Bank) offers various advisory and fiduciary products and services, including discretionary portfolio management. Financial Advisors of Wells Fargo Advisors may refer clients to the bank for an ongoing or one-time fee. The role of the Financial Advisor with respect to Bank products and services is limited to referral and relationship management services. The Bank is responsible for the day-to-day management of non-brokerage accounts and for providing investment advice, investment management services, and wealth management services to clients. The Financial Advisor does not provide investment advice or brokerage services to Bank accounts but does offer, as applicable, brokerage services and investment advice to brokerage accounts held at Wells Fargo Advisors. The views, opinions, and portfolios may differ from our broker-dealer affiliates. Wells Fargo affiliates may be paid a referral fee in relation to clients referred to Wells Fargo Bank, N.A.

Brokerage services are offered through Wells Fargo Advisors. Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and separate non-bank affiliate of Wells Fargo & Company. United Nations Sustainability Development Goals logo and Icon used with permission.

© 2019 Wells Fargo Bank, N.A. All rights reserved. Member FDIC. NMLSR ID 399801

(IHA-6423306) Valid through May 2020



CAR-0219-00301