ENDER lens investing in both fixed income and equities grew out of evidence that companies with higher women-in-leadership (WIL) metrics outperformed on a range of financial and share price criteria.

This correlation between WIL metrics and superior performance was first demonstrated in 2007 research from Catalyst, and studies by Credit Suisse and Merrill Lynch, among others, made similar observations.

The primary publicly traded gender lens equity funds available to individual investors include mutual funds, exchange-traded funds (ETFs), société d’investissement à capital variable companies (SICAVs), one exchange-traded note (ETN), and one unit trust. Divided into six global equity funds and 13 regional funds, these funds as a group totalled US$1.49 billion in assets under management (AUM) as of Sept 30, 2019, with the United States, Canada, and the United Kingdom leading the way in terms of country allocation.

What does the sector distribution of this asset class look like? Financial services is the top sector allocation (by AUM), followed by information technology, consumer staples, consumer discretionary, and healthcare. Data on the top 10 holdings for these funds indicates information technology and financial services are the top holdings, with distributions of 10 per cent and 9 per cent, respectively. This suggests a degree of sector allocation by design.

Among the financials appearing in the top 10 holdings across the whole group of funds, there are nine banks, three insurance companies, and one asset management firm.

No one sector has emerged as the leader in WIL, pay parity, or any of the other measures that track women’s progress in the workplace. But financial services is a curious sector leader for gender lens shares, despite a clear lack of women’s progress in the space as widely documented since the financial crisis.

In the US and other developed economies, women constitute roughly half of all financial services employees. But in the top 20 global firms, women made up only 18 per cent of executive committees in 2018, up from only 13 per cent in 2014. Among S&P 500 companies, women make up 26.5 per cent of executive and senior-level positions. Progress is particularly stuck in some locales. Despite a robust financial services sector, only three of 50 Swiss financial institutions have women CEOs.

In the US, 33 per cent of financial advisers are women, but only 12.5 per cent of Fortune 500 CFOs are as of 2016. Within financial services, women and men start out in equal numbers at the entry level, but women hold a smaller percentage of C-suite positions than the already-low US average for all industries. The representation of women of colour drops precipitously with each step up the ladder, and they are especially scarce at the top rungs.

Moreover, financial services has the broadest wage gap in the US. Women account for at least half of all employees in the sector, yet they earn just US$0.63 for every US$1 that men make.

In the UK, the first year of mandated pay parity disclosures showed that asset managers had a gap of 31 per cent, which is more than the average 28 per cent gap in the financial services sector overall. Some fund managers actually saw the gap widen during the second year of required reporting.

In the face of ongoing inequality, the gender lens sector and top holdings data point to emerging WIL progress among banks and insurers, a trend highlighted by recent research.

Equileap, a leading provider of gender lens indices, recently issued its annual global rankings of companies by gender equality. The survey found that financials score poorly as a whole but some in the sector are going against the grain, including 36 of the global top 100 companies.

Bank of America, a gender lens top holding, scored highest among all US companies. Mirvac, an Australian REIT and recent top 10 holding, achieved the highest score in Asia-Pacific.

Looking further into the data, of the 36 financial services firms identified by Equileap, only three are among the gender lens top 10 holdings. Among those 36 are 13 Australian companies, five from Scandinavia, and four from France. This indicates a clear geographical disconnect with the current top gender lens financials and suggests additional opportunities for gender lens investing, particularly for actively managed shares, in financial services.

In an environment where no sector is making vast leaps in WIL metrics, why is financial services the top sector weighting for gender lens funds? Is this a mismatch? Might other sectors be ruled out due to environmental, social, and governance (ESG) criteria and other screens? Or does this reflect emerging WIL leadership in banking and insurance? Will this trend continue and broaden to other parts of the sector? Most importantly, will gender lens investment in financials help women throughout the sector?

These issues bear watching as this young asset class evolves.

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