
Wealth Management

# Are you truly diversified if all your investment managers are men?

## Integrating gender diversity into your investment portfolio

There is a buzz around the importance of diversification when making sound investment decisions; however, diversity is noticeably absent from team construction in the investment profession. Is it possible to improve investor results by implementing gender diversity within the industry?

It is no secret that men dominate the investment profession. In fact, the CFA Institute—the leading global association for investment professionals—surveyed its members in 2016 and found that only 18% were women.[1] This number is remarkably low, especially when considering a study done by Warwick Business School analyzing client accounts, which found that women advisors outperformed men by 1.2%. Said differently, the unfortunate truth is that while the numbers indicate that women earn higher returns than men, men continue to outnumber women in the investment community. We know it is unwise to put our money into a single stock, a single asset class, or a single region of the world. Well, with men representing the majority of CFA Charterholders, we are essentially putting most of our money into a single gender—an action that may be considered equally risky and imprudent.

A growing body of research suggests that increased diversity and a more inclusive workforce can contribute to strong portfolio performance.[2] This positive performance is attributed to the fact that gender diversity helps to bring an array of perspectives to a portfolio. Most of this is intuitive: men and women often approach problems from different viewpoints, and through collaboration, they are able to generate more positive solutions than if they did not work together.

Gender diversity focuses on identifying the ways in which accomplishing balance in representation, empowerment, and economic opportunity can play a role in leading to superior financial outcomes. In fact, research has linked gender diversity to metrics of better performance, including return on invested capital (ROIC), return on equity (ROE), and ROE volatility.[3] In addition, similar to how the diversification of assets helps reduce risk, exercising gender diversity amongst investment managers is also beneficial as a risk management tool. This is because companies and sectors with relatively poor gender diversity may be exposed to various types of risk, such as reputation and supply chain risk. Many academic studies have demonstrated that high performance volatility (investment risk) is associated with lack of board diversity, confirming the relationship between diversity and risk management.[4]

Furthermore, female investors are more likely to pay attention to a family's financial goals over absolute returns.[5] Women tend to avoid impulsive trading, and are instead more likely to focus on securities with strong track records or on funds that are productive yet overlooked. This is likely to earn higher returns in the long run, because while the stock market is often portrayed as a high-risk, high-energy environment, taking a long-term approach is beneficial for performance. This difference in approach to trading is why a handful of world leaders, from International Monetary Fund chief Christine Lagarde to British Labor Deputy Leader Harriet Harman, were convinced that the

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2008 financial crisis could have been avoided had more women been in positions of power.[6 7]

While it is still relatively small, the movement of investment firms implementing gender diversity is growing in size and sophistication. The momentum of this market segment is anticipated to come from investor demand and the development of new investment strategies. One of the key trends is the growing evidence of gender diversity factors driving performance, as discussed above. As asset managers and investors continue to identify and explore the impact of diversity—such as board and employee diversity—the demand and offerings of investment approaches implementing gender diversity criteria will grow.

The attention brought to the importance of gender diversity and balance is increasing day by day, and investors can position their portfolios to benefit from these opportunities. Whether an investor is concerned about avoiding long-term risks or is seeking to support greater gender equality as a means of social change, integrating gender diversity within an investment portfolio has great potential to improve returns.

For more information on how we can help you and your organization reflect your values in your investment portfolio, please email Ann Marie Etergino at annmarie.etergino@rbc.com or call (301) 907-2772, or visit our website at us.rbcwealthmanagement.com/theeterginogroup.

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