RBC Wealth Management

The Benefits of Investing in — and with — Women

In the world of money, we know women often lose out. Not only do women get paid less, they have fewer senior management roles, fewer board seats, fewer assets, and less funding from large institutional investors.

Women are poorly represented in the highest levels of our industry, and the statistics are staggering. Only five percent of S&P 500 CEOs are women. Only nine percent of senior venture capital investors are women. Only three percent of senior hedge fund management positions are occupied by women. In fact, in 2016, only 10 percent of all US fund managers were women.

But, things are changing. Goldman Sachs just announced a $500 million investment in businesses for funds run by women. Goldman Sachs isn't doing this out of the goodness of their heart; they are doing it because they know investing in women is good business. According to the Harvard Business Review, "Diversity significantly improves financial performance on measures such as profitable investments at the individual portfolio-company level and overall fund returns."

This is because diversity of representation fosters diversity of thought — unique ways of thinking about a particular problem. "Though the desire to associate with similar people — a tendency academics call homophily — can bring social benefits to those who exhibit it, including a sense of shared culture and belonging, it can also lead investors and firms to leave a lot of money on the table," Harvard Business Review argues. Companies miss out when they fail to engage perspectives and experiences different from the historical norm.

The world is noticing the payoffs of diversity. Big institutional investors — think pension plans, endowment and foundations — are getting pressure from constituents urging the importance of diversity.

You may not realize it, but we as individuals can make an impact too. Some say we need to create our own "financial ecosystems," where we ourselves invest in other women through our allocation of time and money. As Let's Disrupt Money says, "Whether you have one dollar or $1 million, we can choose investments that advance women and improve our world."

How can you do that? First, start by thinking about "impact" investing or "gender lens" investing. You invest in a fund that strategically chooses which companies or funds to invest in based on how they practice gender parity themselves or how they consider the number of women in senior management and on the boards of the companies they invest in. Furthermore, you could work with a female investment advisor. According to ELLEVEST, 70 percent of women would prefer to work with a female advisor, who is more likely to listen to and understand women's concerns. And, finally, you can invest in companies whose services and products directly benefit women.

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Such investment strategies have been proven to provide increased financial return, in addition to their obvious social impact. Bank of America found that companies with a high ESG score had lower price and EPS volatility and higher ROE. A study by Morgan Stanley found similar statistics. The firm "reports higher return on equity (ROE), lower accruals and lower ROE volatility for companies with high gender diversity, relative to sector peers."

As female investors, we have the power to change the game. We believe knowledge of money is power. McKinsey estimates that achieving gender parity globally by 2025 could increase world GDP by $12 trillion. Investing in women makes sense, financially and morally. But progress towards gender equality has been slow. The World Bank estimates it will take 170 years to achieve equal pay for equal work. However, the benefits of investing in women are enormous. The World Bank notes, "The loss in human capital wealth due to gender inequality is estimated at $160.2 trillion if we simply assume that women would earn as much as men. This is about twice the value of GDP globally."

The platform for investing in women is present and growing. Investors increasingly observe "gender-lens investing" as part of ESG investing. Investing in women makes sense. It's the right thing to do from an economic and moral standpoint. The earnings potential of women remains a wholly untapped source of economic growth.

You can help. You can invest in companies that invest in women — by their product and service offerings, by their corporate governance policies, and by their diversity of management. Such companies may be less risky long-term. The idea is that companies focused on gender diversity are better companies long-term, because they are less likely to suffer reputational risk or face discrimination or sexual harassment claims.

Your investments can drive change towards achieving gender equality. The Pax Ellevate Global Women's Leadership Fund, for example, is a large-cap, global ETF that invests in the "highest-rated companies in the world for advancing gender diversity and women's leadership." The fund considers representation of women in management positions as well as their adherence to the Women's Empowerment Principles as set forth by the United Nations.

The future is truly female. Women are half the world's available labor force. The global economy suffers if women do not have equal opportunity to participate in the workforce and contribute to GDP. Investing in women means financial return and the knowledge you're helping drive important change. It's a win-win situation.

At RBC Wealth Management in Chevy Chase, our diverse team manages over $10 billion in assets. One of our top financial advisors, Ann Marie Etergino, has been named one of Barron's Top 100 Female Advisors for the past two consecutive years. The Etergino Group is over 50 percent women. The Washington, D.C. complex employs a large number of women, and we are committed to increasing diversity in the workplace and focusing on sustainable investing. Talk to us about how we can help you create a portfolio based upon your needs and designed to advance the cause of women.

For more information about this topic or our team, please go to us.rbcwealthmanagement.com/theeterginogroup/home or contact Ann Marie Etergino at annmarie.etergino@rbc.com or (301) 907 2772.

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