

Investing in Women Empowerment

March 2021

Aligning portfolios with values women care about

Recent election cycles have seen women break through barriers, including Kamala Harris as the highest-ranking woman in U.S. government history. Additionally, female representation on boards is at an all-time high and all S&P 500 constituents now have at least one female board member. These are important milestones to celebrate on the road to equality, but there are still gender gaps and disproportions with respect to pay, access to capital, and leadership positions.

We recently developed a portfolio with a Canvas partner that aims to close these gaps. This portfolio focuses on exposure to companies supporting women's equality and female-aligned values. Investing is one small but important medium for promoting change as it enables investors to vote on material issues and align their values with their wallet. The specific advisor works primarily with independent, working women and wrote a book on women, wealth, and social change, in which she highlights ESG related themes that women reported to value most. After discussing her investment focus and thesis, we created a model which brings her book to life and provides a fundamentally sound investment offering for her clients.



Approach

[ESG focused portfolios](#) are typically built using three core levers, and we walk through the process below:

- 1) Exclusions
- 2) Tilts
- 3) Active Ownership

The Women Empowerment model uses all three: overweighting companies with women in leadership positions, strong diversity track records, human rights policies, and environmental stewardship; pushing poor scoring companies to change through proxy voting; and completely divesting when misalignment in values is too large.

Exclusions: The women empowerment model excludes companies with lower emphasis on diversity and equal opportunity. To highlight a few examples, it specifically excludes companies with zero women on their board and companies scoring in the bottom 5% of our diversity & inclusion and human capital metrics.

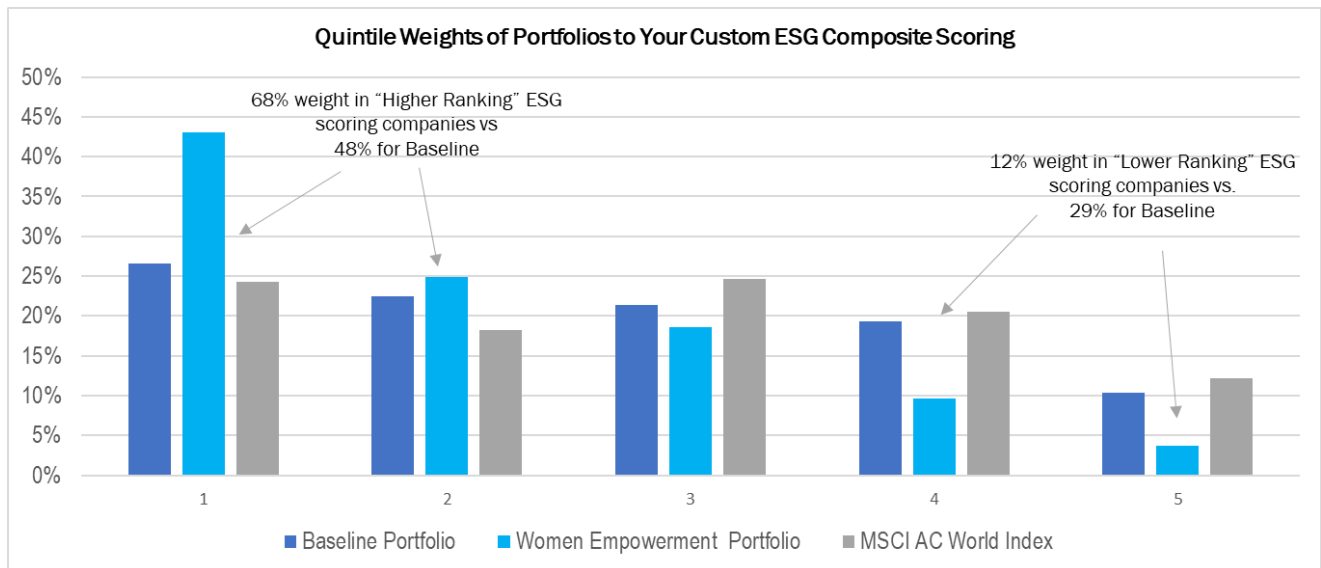
Examples:	
 <ul style="list-style-type: none">○ All-male board of directors and while shareholders have vocalized this is a concern, Nintendo has yet to name a female board member.	 <ul style="list-style-type: none">○ Founder/former-CEO had over 150 reported sexual harassment claims.

Additionally, the model has environmental exclusions such as carbon intensity, social exclusions such as human rights, and exclusions for various product ties that are misaligned with the advisor’s sampling of “women values” including landmines, private prisons, and adult entertainment. In aggregate, the exclusion list removes 544 companies from the investible universe as of March 2021.





Tilts: After these exclusions, we “score” our investible universe on appropriate metrics and overweight stronger scoring companies while underweighting and/or removing the lower scoring ones. We use proprietary data, our ESG scoring convention, and our risk-optimization engine to score and construct ESG portfolios. Our women empowerment scoring framework incorporates the themes below:

- Board Diversity
- Diversity and Inclusion
- Environmental Protection
- Human Rights
- Moral/Ethical/Family Decline

After completely removing lower scoring “women empowerment” companies we increased allocation to the higher scoring quintiles of companies by 20% and decreased allocation to the lower scoring quintiles of companies by 17% – all while maintaining the efficacy of the underlying investment model. Advisors have the flexibility to increase or decrease the “tilt level” to control for tracking error.



Data as of Oct 6, 2020

Tilt Towards	Tilt Away
<p>1. Women Empowerment:</p> <p style="text-align: center;"></p> <ul style="list-style-type: none"> Board of more than 50% women and recognized by Diversity Best Practices for industry leading inclusion focus. <hr/> <p>2. Workplace Equality:</p> <p style="text-align: center;"></p> <ul style="list-style-type: none"> Consistently rank high on diversity and inclusion and have one of the more diverse boards in America. Ranked #1 in their industry on diversity, equity, and inclusion 	<p>1. Women Empowerment:</p> <p style="text-align: center;"></p> <ul style="list-style-type: none"> Only have one female board member and lack disclosures like gender pay gap. Not restricted as they've shown improvements. <hr/> <p>2. Workplace Equality:</p> <p style="text-align: center;"></p> <ul style="list-style-type: none"> Involved in several workplace equality controversies: employee discrimination lawsuits, union strikes, and allegations of sexual misconduct. In recent years, the CEO of Warner Bros was forced to step down due to sexual harassment allegations.

Active Ownership: Owning public equities provides the opportunity to vote on shareholder issues. Adding socially responsible proxy voting allows for an active ownership approach to further influence portfolio companies. Specific to the Women Empowerment model, we proxy vote in a way that promotes more diversity in board rooms and additional transparency on diversity initiatives and data points like pay gap metrics.

Returns & Risk

We designed the Women Empowerment model to specifically match the above ESG values. In addition to maximizing exposure to the companies most aligned with “women empowerment”, the advisor wanted a fundamentally sound investment model targeting various characteristic goals: passive exposure with precise factor tilts and a focus on downside protection. Canvas is intended for exactly this: optimally blending ESG goals with target investment objectives so advisors are positioned to “do well and do good”. To do this, we manage tracking error and risk through an optimization process – working to better meet advisor objectives and providing transparency around them.

Encourage your clients to make it their own

The above looks at one definition of women empowerment or women’s values investing. However, there is no single way to invest in gender and diversity issues. Therefore, we believe values-based investing is better accomplished through a separately managed account platform like Canvas, where accounts can be built bottoms up and accurately balance all the investor’s unique goals and objectives. For advisors interested in women empowerment or gender values, within Canvas you can access this model, build a variation of it, or create something entirely new. Our mission is to precisely match unique values and [investment objectives](#) of every client.

If you are an advisor and have an ESG model or mandate in mind, we would love to talk:
esg@osam.com.

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- Composite Performance Summary

For the full composite performance summary of this strategy, please follow this link: <http://www.osam.com>

3/31/21

Past performance is no guarantee of future results.

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