ELLEVEST

Investing in Women

FOR FINANCIAL AND SOCIAL RETURNS

SYLVIA S. KWAN, PH.D., CFA, CHIEF INVESTMENT OFFICER
LAST UPDATED: 3.22.2018

Introduction

At Ellevest, we're proud of our mission to help women across the range of ages, means, and education to achieve their financial goals. Our investing platform is built for women, by women, and it accounts for differences in how women think about risk, money, and investing — as well as the realities we face, such as longer life spans and salaries that peak sooner than men's. Our investment portfolios are specifically designed to help you reach your goals, not to outperform the markets. (Read more about what makes us different here.)

Our investment philosophy is built on three underlying principles:

- *Minimize risk through diversification across asset classes*
- *Minimize costs through thoughtful fund selection*
- *Minimize current taxes using tax minimization techniques*

We don't try to time the market or select individual stocks or fund managers that we think will generate outsized returns. Study after study shows that these kinds of activities have failed to provide superior returns consistently and over time.[1] *No one, even the experts, can predict how markets will perform in the future. So instead of spending time and resources to try to predict how markets will behave, we focus squarely on the things we can control and the factors that have been shown to be critical to successful investing: risk, costs, and taxes.*

These investment principles form the foundation of all of our investment advisory services at Ellevest. As a fiduciary, we believe that our focus on these factors serves the best interests of all of our clients.

We also believe that investing in yourself can be just the beginning. Imagine investing towards your goals by investing in other women — in your community, your country, and around the world. Today, we have the ability, as well as the access, to invest in ourselves and in other women. The potential effect of this powerful investment strategy on the global economy is far-reaching.

---

[1] *R. Henriksson (1984). Market Timing and Mutual Fund Performance: An Empirical Investigation. The Journal of Business, 57(1), 73-96. Retrieved from http://www.jstor.org/stable/2352889*

For example, imagine investing in a fund that provides loans to women-owned businesses in your community. These loans can generate competitive financial returns for your portfolio (commensurate with its risks), as well as a means (and sometimes the only means, due to banking and financial dislocation) for those businesses to grow. When those businesses expand, new jobs are created, and additional profits can be recycled into the economy or reinvested into the business to generate more growth, leading to increased employment, financial empowerment, and a more robust economy.

Studies show that 90% of a woman's income is reinvested into her family and community, more than twice the percentage of a man's.[2] In fact, management consulting firm McKinsey finds that the global economy could be between $12 trillion and $28 trillion larger in 2025 if gender gaps in work and society were reduced or eliminated.[3] $28 trillion??? That's larger than the gross domestic product (GDP) of any single country on this planet, including the United States and China.[4] In short, investing in women is good for business, good for the economy, and good for people of all gender identities.

Furthermore, we believe that investing with impact has the potential to engage investors disenfranchised from the financial industry and its current offerings. The reality is that entire sectors of investors, such as women and millennials, are still mostly sitting on the sidelines in cash, possibly because they find nothing attractive about the game of pursuing uncertain investment returns.[5] For these investors, investments offering financial and social returns could be the catalyst for engagement and participation in financial markets. The economic impact of attracting even a small portion of these individuals could be significant.

Compelled by these potentially disruptive possibilities, we have launched Ellevest Impact Portfolios — designed for financial and social returns by advancing women. We believe that investing in this powerful way has the potential to

- *advance women*
- *reduce investment risk*

---

[2] *http://www.un.org/en/ecosoc/phlntrpy/notes/clinton.pdf*

[3] *McKinsey Global Institute, 'How advancing women's equality can add $12 trillion to global growth', September 2015*

[4] *2016 GDP was $11.19 Trillion for China https://data.worldbank.org/country/China and $18.62 trillion for the U.S. https://data.worldbank.org/country/united-states?view=chart*

[5] *Study showing 71% of women's assets held in cash: https://www.blackrock.com/corporate/newsroom/press-releases/article/corporate-one/press-releases/blackrock-gender-findings-survey_US and 70% of millennial assets held in cash: https://www.businesswire.com/news/home/20151022005191/en/BlackRock-2015-Annual-Global-Investor-Pulse-Survey*

- *generate financial returns consistent with the investment's benchmark returns*

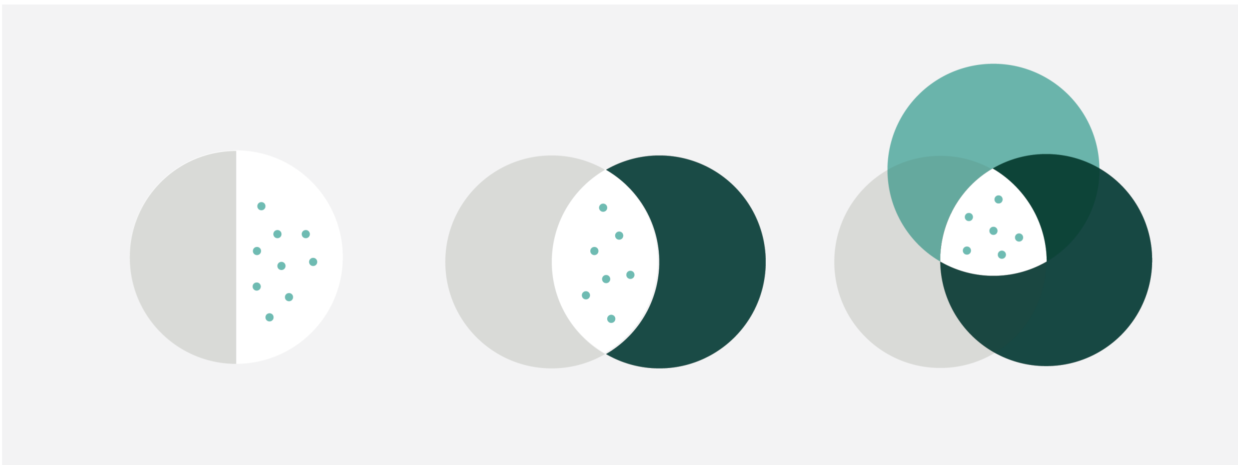
A Modern Way to Invest

We all may wish to make a positive difference, and we each do this in our own way — helping a neighbor, giving to charities, buying from local businesses, boycotting products and services that don't match our values, volunteering at non-profit organizations. Socially responsible investing (SRI), also referred to as investing with an environmental, social, and governance (ESG) lens, offers yet another way to make a positive impact.

SRI investing for individual investors emerged in the 1980s, when several investment firms launched mutual funds to invest in companies whose primary businesses did not involve weapons, alcohol, tobacco, and environmental pollution. The strategy was largely an exclusionary one, in which entire sectors or industries were omitted from an investment portfolio. No consideration was given to companies in these groups that may have had the capacity to make positive change, such as investing research and development dollars in sustainability or energy alternatives. Such limitations could result in portfolios that were not well-diversified and/or lagged in market returns. For example, if oil prices rose, large energy companies would benefit, but a portfolio that excluded these companies due to environmentally undesirable practices would not participate in those returns or their initiatives in alternative energy.

Since then, SRI investing has progressed beyond just negative filtering to employ a more positive, dynamic strategy that actively integrates ESG factors into the investment process. Specifically, these strategies analyze not just a company's financials and earnings potential, but also how well their environmental, social, and governance practices stack up against their peers.

SRI Investing Origins to Modern Impact Investing



OLD
SRI IN THE 80'S

NEWER
ESG INTEGRATION

MODERN
A DYNAMIC IMPACT APPROACH

Environmental *standards refer to how a company uses energy and natural resources, complies with environmental regulations, and manages waste and environmental risks. Companies with high environmental standards are those conscious about their energy usage and that proactively work to reduce their carbon footprint and waste. A common theme for environmentally conscious investors is to invest in companies that are fossil free or focused on renewable energy.*

Companies that meet high **social** *standards tend to have strong, respectful relationships with their customers, employees, vendors, and community. This means working conditions, policies, and a culture that attracts and retains great employees, fair practices that build long-term relationships with business partners, and strong engagement with the community. In a 2011 article, Michael Porter says, "The opportunity to create economic value* *through creating societal value will be one of the most powerful forces driving growth in the global economy."*[6]

High **governance** *standards refer to transparent financial reporting, a culture of compliance with laws and regulations, and ethical business practices. Companies demonstrating high governance standards serve as prudent fiduciaries of resources and operate with integrity and accountability in areas such as business operations, board structure and procedures, shareholder rights, misconduct including corruption, bribery, and fraud, and board and executive diversity.*

ESG Factors

E ENVIRONMENTAL	S SOCIAL	G GOVERNANCE
CLIMATE CHANGE	HUMAN CAPITAL	BOARD
CARBON EMISSIONS	LABOR STANDARDS	PAY
NATURAL CAPITAL	PRODUCT LIABILITY	OWNERSHIP
WATER STRESS	PRIVACY AND DATA SECURITY	ACCOUNTING
CLIMATE CHANGE	STAKEHOLDER OPPOSITION	CORRUPTION
RENEWABLE ENERGY		BUSINESS ETHICS AND FRAUD
GREEN BUILDING		

6 *Michael E. Porter and Mark R. Kramer, 'Creating Shared Value', Harvard Business Review, January-February 2011http://www.nuovavista.com/SharedValuePorterHarvardBusinessReview.PDF*

Integrating ESG factors into investment decision making can help uncover risks not readily apparent in financial statements, provide insights into corporate practices and culture, and help identify well-run companies focused on enhancing performance in the long term. All of these factors can have a material impact on a company's profitability and share price.[7]

At Ellevest, we aim to take SRI investing even further, with impact investments specifically designed to generate measurable, positive social, environmental, and governmental outcomes, with a focus on advancing women. We strive to minimize and/or avoid investing in companies involved in controversial businesses, such as tobacco, firearms and weapons, and nuclear power, and we can actively support companies and businesses engaged in improving the environment, supporting and advancing women, and enhancing lives around the world. Examples of impact investments include enterprises that support growing small businesses owned by women and other underrepresented populations, investments in renewable energy, the purchase and sustainable renovation of housing for workforce tenants, companies that bring essential services to rural communities more efficiently and at lower cost, and high-yield loans to businesses in developing economies with a social impact mandate.

Impact Investing to Advance Women – The Ellevest Way

You may be surprised to learn that investing in companies that care about sustainability, value transparency and good governance, and promote social responsibility, in fact, helps advance women and close some of the gender gaps women face today. That's because the environment and climate change, poor governance and corruption, unequal pay and the lack of gender diversity disproportionately impact women.

Climate change particularly impacts women in developing countries, where female farmers currently account for 45-80% of all food production.[8] *Increasing floods and drought can lead to the loss of crops and food sources. In many of the poorest areas, energy comes from*

[7] *https://www.msci.com/www/blog-posts/has-esg-affected-stock/0794561659*

[8] *FAO. Women and Food Security. FAO FOCUS http://www.fao.org/FOCUS/E/Women/Sustin-e.htm*

traditional fuels such as wood, charcoal, and agricultural waste, and the responsibility of collecting and managing these fuels falls to women and girls. With adverse environmental changes, women must travel longer distances to find wood and water, exposing them to danger and leaving them less time for earning income, schooling, and other activities that help raise their socio-economic status.

Inequitable social practices also impact women disproportionately. We're all too familiar with the gender pay gap and the challenges women face advancing in their careers. Even more significant is the impact of corruption, the dishonest behavior and abuse of trust by people in power. Women in poverty are particularly vulnerable. Even basic public services may be out of their reach if they do not have funds to pay off corrupt officials. And in the US, story after story is surfacing of sexual harassment and abuse of women in the workplace by persons in power. It's clear that corruption and poor social standards are a significant barrier to the achievement of gender equality.

By investing in enterprises with high environmental, social, and governance standards, we are, in essence, helping to advance women around the world. While elevating women's lives in and of itself is surely a worthwhile endeavor, we believe even more strongly that the impact of doing so drives positive social and economic change for everyone. After all, this is not a zero-sum game. It's not the advancement of one group at the expense of another. It's about significantly increasing the participation of half the world's inhabitants in the global economy, expanding the economic pie, and enriching the lives of everyone. Our impact portfolios and investing strategies at Ellevest are purposefully designed to help accomplish these goals.

Impact Investing the Ellevest Way

Impact Investing: Seeking to Lower Risk

Efficient market theory establishes that there is a set of portfolios — a combination of asset classes — that offer the highest expected return at each given level of risk. For decades, the financial industry has obsessed over chasing "alpha" (which are investment returns greater than benchmark returns over a specified period of time) by trying to time the market and/or invest in companies that they believe will outperform their peers. In general, these efforts have proved costly with disappointing results.

Instead of chasing alpha, what if we pursued market returns with lower risk? While not conclusive, recent studies have shown that this is possible by investing in companies with *gender diversity and high ESG standards.*[9] *These companies are purposefully engaged in activities that inherently reduce business and reputational risks. At Ellevest, one of our key investment principles is a focus on reducing risk — both through the diversification of asset classes, and now by investing in funds and companies with high ESG and diversity standards.*

For example, companies that have strong, trusted relationships with their customers and business partners (good social governance) engender loyalty, which is particularly important during tough economic times. A company with unfair practices and poor personnel policies is more likely to experience low morale and high employee turnover, which is not only costly, but also exposes the company to competitive threats and reputational risks. Companies with poor environmental practices are exposed to potential financial loss and damage to brand and reputation, as well as business disruption. Firms with poor governance lie exposed to corruption and distrust, which can lead to the loss of customers and deteriorating profits. We don't need to look far to find numerous examples of companies suffering economic stress due to poor environmental, social, and governance standards.

Furthermore, investing in companies with greater diversity in leadership has been shown to reduce business, as well as investment, risk. Studies show that diverse groups are smarter than homogeneous ones when it comes to solving problems and making decisions.[10] *People who bring different perspectives, skills, and backgrounds are more creative and better prepared to make decisions and anticipate different viewpoints. A Credit Suisse study of more than 3,000 global firms found that women appear to manage more for downside risk, rather than focusing on just returns and upside.*[11] *Companies with more women decision makers tend to have higher returns on capital, which implies the potential for better-than-market returns at lower risk.*[12] *Lastly, an earlier study looked at insolvency, a different facet of risk, and found compelling evidence that having more women on boards is associated with a lower probability of insolvency for companies.*[13] *So…that begs the question, would the 2007-08 financial crisis have been less severe if more women were in leadership positions at the top financial firms responsible? As Christine Lagarde so aptly quipped in 2010 as France's finance*

---

[9] *https://www.msci.com/documents/10199/4a05d4d3-b424-40e5-ab01-adf68e99a169*

[10] *https://hbr.org/2016/11/why-diverse-teams-are-smarter?referral=03759&cm_vc=rr_item_page.bottom*

[11] *Credit Suisse Research Institute, "The CS Gender 3000: Reward for Change," September 2016.*

[12] *Kristin N. Johnson, "Banking on Diversity: Does Gender Diversity Improve Financial Firms' Risk Oversight?" Social Science Research Network, October 10, 2017*

[13] *Nick Wilson and Ali Altanlar, "Director Characteristics, Gender Balance and Insolvency Risk: An Empirical Study," September 22, 2009*

minister, "*if Lehman Brothers had been "Lehman Sisters," today's economic crisis clearly would look quite different*".[14]

Another strategy we employ for reducing risk is to seek impact investments with low correlation to public US equity and bonds. Such investments help reduce overall portfolio risk due to expected return and risk characteristics that are not sensitive to the behavior of equity markets, or the direction of interest rates. These investments are difficult to find as mutual funds or ETFs, but we offer these alternative impact investments within our private wealth management practice. For example, short-term senior loans to profitable and growing companies in developing countries offer yields above current yields in the US. While there are unique risks associated with such loans, they are different from those associated with investing in the US. Rising interest rates in the US will impact US fixed income instruments far more than a fixed-rate loan to a profitable enterprise in Nigeria. Whether this particular company has the ability to pay interest and principal is irrelevant to how US equities are performing, as their expected returns are not tied to fluctuations in US markets. We believe that an allocation to these kinds of alternative impact investments in a portfolio has the potential to reduce overall risk and enhance returns.

Impact Investing: Seeking Financial Return

We believe that investments designed for positive social impact by advancing women are simply a smart, effective way to invest, and may achieve financial returns consistent with market benchmarks (or better) with less risk. This kind of investing is not only good for ourselves and our wallets, but also has the potential to advance the socio-economic status of others and, by doing so, the world economy.

But make no mistake: Impact investing is not charitable giving. At Ellevest, each investment we consider for our impact strategy is guided by our investment principles and philosophy first and foremost. If an investment does not meet our fiduciary criteria, does not offer market returns commensurate with estimated risks, it simply does not belong in your portfolio. There are hundreds of causes and issues we care about, that are worthy of our

---

[14] *Christine Lagarde (2010), 'Women, Power and the Challenge of the Financial Crisis' New York Times, May 10*

dollars; but there is a difference between investing and giving. Investing without expectation of returns, or with expected returns lower than market returns, is not investing — it's philanthropy. Each investment we curate for our impact strategies must offer potential economic returns as well as the risk and return characteristics we seek in the context of a globally diversified portfolio.

Uncovering investments that meet our fiduciary criteria and have the impact we seek isn't easy. First, there aren't many publicly traded investments available that are designed for impact relative to the universe of mutual funds and ETFs —and to uncover them takes time, boots-on-the-ground research, a wide net, and persistence to find those fund managers with the relevant experience, skills, and passion. Second, we believe that global diversification across different asset classes is critical to effective investing, and for some smaller asset classes, there simply aren't impact investments available, let alone ones that meet our criteria. As a fiduciary, we believe that offering a portfolio that is 100% impact but not well diversified isn't in the best interest of our clients.

At Ellevest, we believe differently — that employing an investing strategy that applies robust investment principles together with a social impact and gender lens can offer financial and social returns.

Today, too many conversations about impact investing are caught up in a perceived tradeoff between doing good socially and doing well financially. There is an assumption that investors must concede some financial returns in order to invest with impact. At Ellevest, we believe differently — that employing an investing strategy that applies robust investment principles together with a social impact and gender lens can offer financial and social returns. And so far, limited data supports this thesis, that companies with higher ESG and gender diversity standards actually perform better than those that do not.[15]

[15] *http://www.morganstanley.com/sustainableinvesting/pdf/sustainable-reality.pdf and https://www.sciencedirect.com/science/article/pii/S0014292117302234*

What about fees?

Today, investors have a wide choice of low-cost funds designed to match market returns. Most of these funds use readily available data to identify the companies that should be included in the fund and to manage the fund on an ongoing basis. Unfortunately, this is not the case for funds designed for impact. Researching, gathering, and attaining the information and data necessary to determine which companies have more women in leadership positions, and which meet certain ESG standards, is not only time consuming, but also costly to obtain. Funds with such criteria must also continuously monitor holdings to ensure they continue to meet their mandates for advancing women and maintaining high ESG standards. These higher operating costs translate into higher fund fees for investors. At Ellevest, we carefully select funds for our impact portfolios that balance our preference for impact with the costs. The average fund fee for our digital impact portfolios ranges from 0.16% to 0.23%, compared to 0.06% to 0.15% for our core portfolios.

Conclusion

At Ellevest, we're pushing the forefront of investing by seeking investment returns and positive impact by advancing women. This new and powerful way to invest — by women, for women, in women — benefits you as well as others.

are imprecise and hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results.

The information provided does not take into account the specific objectives, financial situation or particular needs of any specific person.

Diversification does not ensure a profit or protect against a loss in a declining market. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

While past studies of SRI or impact investments demonstrate investment return, there is no guarantee that the characteristics of these investments that led to the achievement of market returns with lower risk will lead to similar results in the future, or that the Ellevest impact Portfolios will have the same factors that led to the results from the studies.

Investing entails risk including the possible loss of principal and there is no assurance that the investment will provide positive performance over any period of time.