LGBT Great

Investing with Pride: LGBTQ+ Lens Investing

Member Roundtable Briefing

October 2023

Welcome! Thank you for taking the time to join us at this roundtable event, exploring LGBTQ+ lens investing. LGBT Great is delighted to be partnering with Janus Henderson Investors to explore some of the nuances of investment strategies that centre and acknowledge the lived experiences of LGBTQ+ people and communities. This roundtable forms part of LGBT Great's ongoing series of events and engagements exploring this topic following the publication of our 2020 report, *A New Frontier: LGBT+ Lens Investing for the 2020s* (2021).

This briefing outlines some of the important background to this roundtable, as well as collating some of the latest data on the LGBTQ+ community to help inform and enhance conversations on this topic.

Introduction

What is LGBTQ+ Lens Investing?

Investing in LGBTQ+ equity describes the effort to **direct investment capital toward advancing populations historically disadvantaged based on their sexual orientation or gender identity.** The goal is to advance equitable and inclusive opportunities for the LGBTQ+ community by using investor capital as a lever to help minimise harm and drive positive outcomes for the LGBTQ+ community. As with other types of thematic investing, other financial goals are also considered.[1]

Understanding the context

In a rapidly evolving global landscape, where issues of equality, diversity and sustainability are at the forefront of societal discussions, it is imperative that we collectively examine how financial investments can play a pivotal role in fostering a more inclusive and sustainable future. In the last three years, we have seen a global pandemic, economic recession, and an increase in LGBTQ+ discrimination.

As such, investment strategies that are more mindful of social inequities are more important than ever. LGBT Great has been at the forefront of this conversation and change across financial services. In 2020, we published *A New Frontier: LGBTQ+ Lens Investing for the 2020s*, in which we found:

1. Professional investors' **knowledge of the LGBTQ+ business case** was falling short with 34% stating that *"no DE&I training was offered"*.[2]
2. A **lack of quality data and metrics** is holding professional investors back from making informed decisions.[3]

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[1] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[2] Source: A New Frontier (2021), LGBT Great. Download here: https://www.lgbtgreat.com/research/new-frontier

3. A majority (88%) of investors said that their firms had **no formal framework or mechanism(s) for gathering any LGBTQ+ sensitive data** about portfolio companies.[4]
4. 80% of professional investors believe that social sustainability metrics would be of interest to their clients.[5]

Why this conversation matters

The playing field remains unlevel for the LGBTQ+ community

We know that social issues like these can disproportionately affect members of any marginalised group and have a direct impact on equitable outcomes for those communities.

Baselines: Barriers from an early age mean that LGBTQ+ people are starting off at a disadvantage. The ability to create, build, and maintain wealth can be an uphill battle for members of the LGBTQ+ community.[6]

Access to financial products: Same-sex couples are more likely to be rejected for a mortgage application compared to heterosexual couples, according to Iowa State University.[7]

Pay inequality: On average, LGBTQ+ millennials make less than their non-LGBTQ+ counterparts, a 2018 TD Ameritrade survey found.[8]

Additional financial burdens: LGBTQ+ people can also face higher one-off costs — for example, if individuals decide to undergo medical treatments to transition.[9]

Financial wellbeing: A 2022 study from NEFE surveyed US LGBTQ+ adults on a range of issues regarding their interactions with the financial services industry and found that between 12% to 17% indicated experiencing bias, discrimination, or an inequitable experience in the following contexts:[10]

- *Employment or career opportunities (17%), Housing (16%), Credit (15%), Pay (15%), Healthcare (14%), Lending (12%), Banking (12%).*

Criminalised: Many countries still criminalise LGBTQ+ people, which will have a direct impact on the support organisations provide to the community.[11]

Recent data paints a clear picture of the potential for an LGBTQ+ investment lens

Recent data has further articulated that there is a robust business case for increased LGBTQ+ sensitivities across the full spectrum of sustainable investment strategies given:

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[3] Source: A New Frontier (2021), LGBT Great. Download here: https://www.lgbtgreat.com/research/new-frontier
[4] Source: A New Frontier (2021), LGBT Great. Download here: https://www.lgbtgreat.com/research/new-frontier
[5] Source: A New Frontier (2021), LGBT Great. Download here: https://www.lgbtgreat.com/research/new-frontier
[6] Source: Inequity in Investing, Progress and Challenges for LGBTQ+ Investors (businessinsider.com)
[7] Source: Inequity in Investing, Progress and Challenges for LGBTQ+ Investors (businessinsider.com)
[8] Source: Inequity in Investing, Progress and Challenges for LGBTQ+ Investors (businessinsider.com)
[9] Source: Inequity in Investing, Progress and Challenges for LGBTQ+ Investors (businessinsider.com)
[10] Source: Nearly 1 in 3 LGBTQIA+ Respondents Say They've Experienced Discrimination, Bias in Financial Services (nefe.org)
[11] Source: KPMG Inclusion, Diversity and Social Equality

The "rainbow dollar" exists: The global LGBT GDP has risen to US$4.7 trillion per annum, an approximate rise of £800 billion since 2020.[12]

Index performance suggests real potential: The LGBTQ Equality Index by Credit Suisse[13] outperformed its benchmark, the MSCI All Country World Index, by 238 basis points on average annually between 2010 and 2022.[14] The two main LGBTQ+ exclusive indices which currently exist are:

- LGBTQ 100 Index by LGBTQ Loyalty Holdings
- LGBTQ Equality Index by Credit Suisse

Impact investment as a strategy is on the rise: The impact investing market has reached USD$1.164 trillion in 2022, shattering the glass ceiling of $1 trillion.[15]

Asset surge: ESG assets surged to over USD$35 trillion in 2022, representing a 15% annual increase.[16]

Chronic undervaluation of LGBTQ+-owned assets suggests an industry-wide bias: A 2023 study found that portfolios formed of stocks with LGBTQ+ CEOs robustly outperform broad market indices, evidencing that the companies that LGBTQ+ executives lead are persistently undervalued.[17]

Investors already *understand* the power of an LGBTQ+ lens

Institutional investors have an unprecedented opportunity to cater to these high demands by expanding their products and services to integrate LGBTQ+ sensitive equity and tap into new markets.

Demand exists…where is the supply? 45% of all U.S. investors demand a broad range of strategies and products that advance LGBTQ+ inclusion.[18]

Investors see the gap: 42% say that there is a lack of investment opportunities with LGBTQ+ impact.[19]

Allies are engaged: 1 in 3 non-LGBTQ+ investors say they would likely switch providers to access better investing solutions in this area.[20]

Demand for these products *will* grow

The wealth is already there: Research from Cerulli estimates that USD$73 trillion – more than half of the overall wealth figure today – could be transferred down generations in the coming decades in the U.S.[21]

Wealth transfer: New data indicates that wealth transfer from older generations to new generations could increase the percentage of U.S. investors interested in LGBTQ+ equity investing from 33% (currently) to almost 50%.[22]

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[12] Source: LGBT Capital Data aggregated via 'Global Wealth Report 2022' and 'Global Wealth Databook 2022.
[13] Source: LGBTQ Equality Index. We identified another index that also has explicit LGBTQ+ sensitivities, LGBTQ 100 Index
[14] Source: Sustainability Report 2022, Credit Suisse, 2022.
[15] Source: Sizing the Impact Investing Market 2022, GIINsight, 2022.
[16] Source: ESG Global Study 2022, Harvard Law School Forum, 2022.
[17] Source: LGBT CEOs and Stock Returns 2023
[18] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[19] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[20] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[21] Source: Cerulli, 2023.
[22] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.

Younger demographics are the most values-driven generations ever: Demand for products and investment strategies that advance LGBTQ+ equity and inclusion was highest among younger age groups.[23] Therefore, organisational positioning as a leader in LGBTQ+ investing should be a business imperative to capture future markets.

This is a material decision-making factor: 80% LGBTQ+ investors and almost 1 in 3 non-LGBTQ+ investors say that they would change their financial advisor or investment platform for better access to products and strategies that address LGBTQ+ equity and inclusion.[24]

Engagement appears to be higher: Surveyed LGBTQ+ investors are around 25% more active and engaged than the total investor population.[25]

Looking ahead – key considerations for organisations

In evaluating their maturity and formulating ESG strategy, organisations should consider:

Enlightened shareholder value

ESG is increasingly becoming an integral part of business obligations[26], rather than an optional community outreach exercise in corporate social responsibility – as evidenced by the introduction of the section 172 statement regime in respect of UK companies. Section 172 of the Companies Act 2003 places directors under a duty to promote the success of the company, and explicitly indicates that this includes long-term holistic decision-making with consideration for "the impact of the company's operations on the community and the environment".[27] The Act was amended in 2018 to require large companies to produce a "section 172 statement" setting out how the board has sought to comply with its obligations in this regard.[28] In the light of the public nature of such statements, and their potentially wide reach, companies should be mindful of how their commitments and subsequent actions may be perceived in future publications and reports.

Demand for ESG

Millennial and Gen Z individuals, who will account for higher proportions of the workforce and investor demographic in the future, support investment firms' influence in ESG policies, even if this leads to a decrease in the value of their investment. However, under half as many boomers agreed.[29]

Regulatory environment

Whilst the UK approach to ESG has generally been one of "*comply or explain*" [30], other jurisdictions adopt a much less laissez-faire approach. Germany's "New Supply Chain Due Diligence Act", which came into force on 1 January 2023, imposes severe penalties for failure to report on their efforts to maintain

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[23] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[24] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[25] Source: Broadening the Spectrum of Investing 2023, Morgan Stanley, 2023.
[26] Source: Reporting on stakeholders, decisions and Section 172, July 2021, Financial Reporting Council, 2021.
[27] Companies Act 2003, section 172
[28] Companies Act 2006, section 414CZA
[29] Source: The ESG Generation Gap, 10 November 2022 – Stanford Graduate School of Business
[30] Source: Environmental, Social & Governance Law 2021 – International Comparative Legal Guides

the required supply chain standards. These can include fines of up to 2% of annual turnover and exclusion from public contracts for up to three years. [31]

ESG litigation

Litigation related to ESG practices is emerging as a small but growing area of legal practice at federal level in the US, with environmental impact and deceptive corporate statements on ESG accounting for a significant proportion of cases filed in 2022.[32]

Lack of universal definition

The absence of consensus on the meaning of “ESG”, combined with the societal interest in ensuring entities are transparent about their impact outside of their corporate microcosm, means it is imperative for firms to be unambiguous when making ESG commitments.

Accountability

Firms should consider the mechanisms to be deployed to facilitate ESG-related progress, including the board of directors, regulatory reporting, and potentially ESG performance-based remuneration. A study of over 4,000 firms found that over the 10 years from 2011 to 2021 the percentage of listed firms linking executive pay to ESG performance increased from 1% in 2011 to 38% in 2021.[33]

Some questions to explore

1. How do you see the LGBTQ+ dimension fitting into a broader ESG framework for sustainable investing without this being diluted?
2. What challenges have you encountered in gathering reliable data on LGBTQ+ inclusivity, and how have you sought to address these challenges?
3. Can you provide any insights into observable performance benefits when investing in LGBTQ+ inclusive companies or funds?
4. How can investors actively engage with companies to advocate for LGBTQ+ inclusivity, and what impact can this have on a company's ESG profile?
5. Are there particular industries or sectors where the integration of LGBTQ+ inclusivity into sustainable investment strategies has proven to be more impactful or challenging?
6. What are some of the common risks associated with LGBTQ+ inclusive sustainable investments, and how can investors mitigate these risks? Are these unique to an LGBTQ+ context?
7. How does your organisation monitor and stay abreast of evolving global regulatory trends related to LGBTQ+ inclusivity in investments?
8. Could you share any innovative strategies or financial products that cater to LGBTQ+ inclusive investments? What have been the results?

[31] Source: ESG Laws Across the World, July 2023 – Squire Patton Boggs
[32] Source: 2023 Litigation Statistics Series: ESG Litigation – Bloomberg Law
[33] Source: IESE Insight, 13 September 2023 – IESE Business School, University of Navarra

9. How do you view the interplay between LGBTQ+ inclusivity, corporate culture, and financial performance within invested companies?
10. What advice would you offer to organisations or investors looking to initiate or enhance their LGBTQ+ inclusive sustainable investment strategies?

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Member Roundtable – Executive Summary

This document summarises insights from a recent discussion hosted at Janus Henderson Investors by LGBT Great, where the focus was on addressing ESG challenges with a specific emphasis on LGBTQ+ lens investing. Several themes emerged during the roundtable conversation:

LGBTQ+ metrics, data disclosure and surrounding challenges:

- We have seen a tenfold increase in LGBTQ+ data disclosure over six years for 220 assessed companies. (Source: Out Leadership Report 2023)
- Attendees acknowledge extant LGBTQ+ pay gaps and that there remains inadequate LGBTQ+ representation at senior leadership levels across the industry.
- Acknowledgement of a difficulty in measuring 'E' & 'I' in DE&I.
- Discussion around LGBTQ+ DE&I data is not always being an organisational priority and/or publicly available with attendees reflecting
- Recognition of GDPR issues faced by firms attempting to collect DE&I data – attendees reaffirmed well-known issue around heterogeneity of data capture laws and regulation.

Prioritisation of Internal DE&I and a culture of trust

- Suggestion that companies should focus on their own DE&I targets before setting targets for investee/portfolio organisations.
- Emphasis on educating investors on LGBTQ+-specific DE&I matters as a matter of priority.
- Recognition of the catalysing effect of a trusting organisational culture on DE&I data disclosures with the acknowledgement that organisations are encountering difficulties in cultivating such an environment.

FCA's Regulatory Impact:

- Discussion on the potential impact of the FCA PRA consultation paper, which proposes mandatory reporting on certain strands of diversity data.
- Concerns that a high selection rate of 'prefer not to say' remains. Setting effective targets based on low participation rates is a real risk as this is a 'barometer' of trust.
- Improving engagement is critical to setting effective and realistic targets around self-ID.

Diversity-Focused Funds:

- Advocacy for clarity in LGBTQ+-sensitive funds and their short-term viability.
- Suggestion to target upper management and leadership in investee organisations for discussions around LGBTQ+ sensitive funds as a mandated part of the investment and engagement process.
- Utilisation of checklists to assess LGBTQ+-friendliness of an organisation through the evaluation of policies, governance, and protections for LGBTQ+ individuals, along with indices (like Bloomberg) to track and understand an organisation's DE&I priorities.