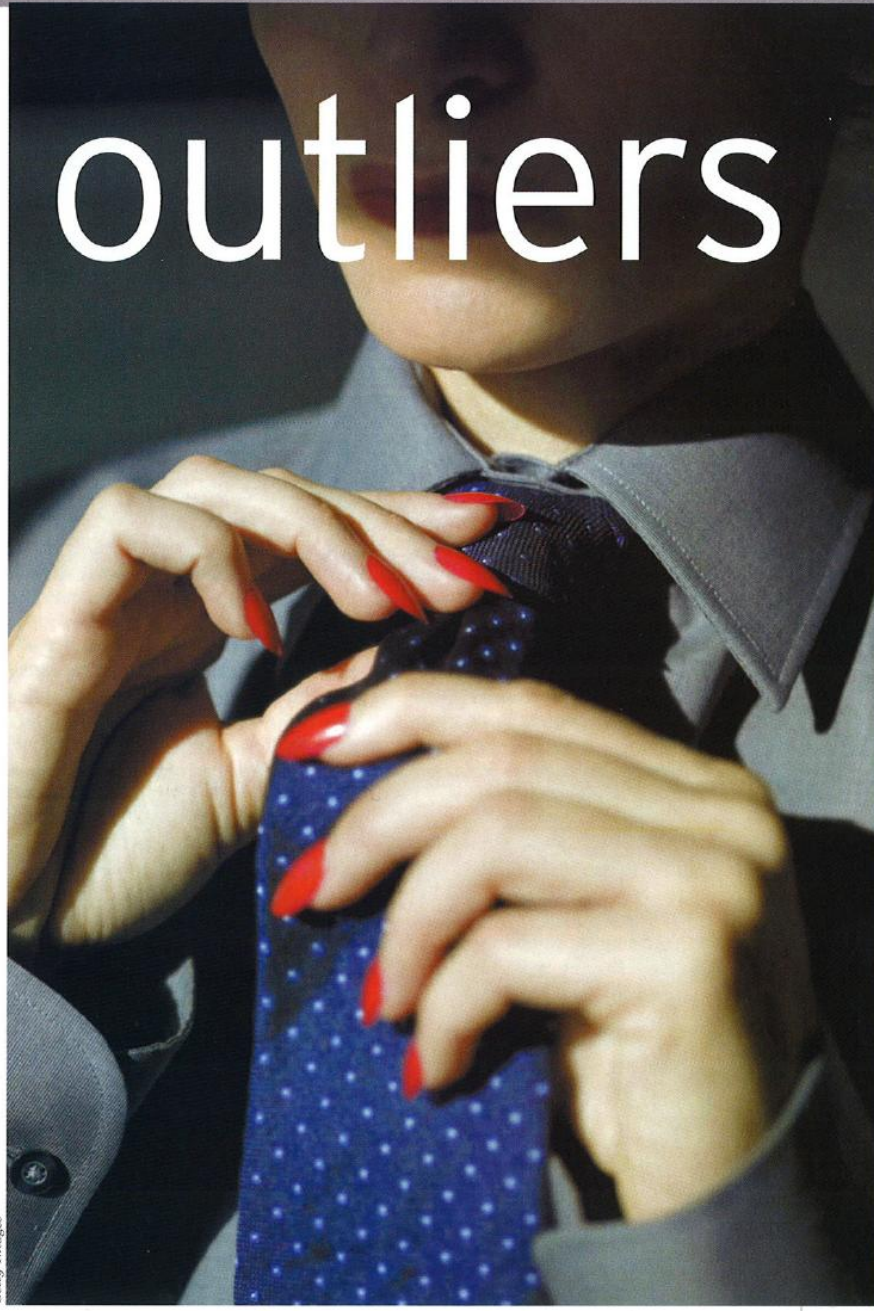
The outliers



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It's a boy's world, but women are pulling in better returns than their male colleagues

Outsiders and outperformers — this probably best describes women dabbling in the dynamic, fast-changing world of fund management.

They are outsiders because the proverbial glass ceiling in the fund management space is still firmly in place. The gender gap in investment management is still a wide one — in an industry still dominated by men. Statistics on the number of women in overall fund management are hard to come by, especially in SA.

WHAT IT MEANS

> Women manage only 3% of assets in the US$1,9 trillion hedge fund industry

There are 919 rand denominated unit trusts in SA, but no-one seems to have any idea how many have women managers at the helm.

According to the CFA Institute, a global organisation of investment professionals from more than 100 countries, women manage only 3% of assets in the US$1,9 trillion hedge fund industry. And only 10% of mutual fund managers are women. Mutual funds are a type of collective investment scheme that pools money from many investors and invests in securities such as stocks, bonds and money market instruments.

Though the number of female CFA charterholders globally has risen in absolute numbers from 5 719 in 2000 to 15 992 in 2009, the percentage of charterholders who are women has not moved much — from 18% to 19% — over that period.

In SA, males dominate the roles of portfolio managers and investment analysts, while females dominate the administrative and compliance roles, according to research by 27Four, SA's first black multimanager.

If transformation is taken into account, the picture is even worse: black women don't feature in the ownership structures, says Fatima Vawda, founder of 27Four and SA's first woman hedge fund manager. Of the 14 biggest black fund managers surveyed by 27Four, 93% of the firms are predominantly owned by black

WOMEN MANAGERS

Jeremy Glyn

Fatima Vawda

males. Of the two firms with black female ownership greater than 15%, one firm is 100% owned by a single black female. Only one of the nine fund managers has 17% women representation on its board.

There's a simple explanation: It's widely reported that men are hardwired to be bigger risk takers than women, and because most investors are men, they tend to relate better to fund management houses run by men.

Delphine Govender, a director at Allan Gray and one of the few black female portfolio managers in SA, acknowledges there are few women in senior fund management positions in the country who have influence over large sums of money and how it is managed and invested.

"The dominance of men does not affect the ability of women fund managers to excel in their roles. But it could be argued that fewer women remain within the industry because it seems to be so dominated by men," she says.

"The challenge is you are in an industry dominated by men, and there is the natural inclination and ease men have in terms of interacting comfortably with other men in a professional environment. It occurs from day one and women typically have to learn to fit in."

Women fund managers tend to agree that men are generally better self-promoters than women and are promoted faster because they're seen as more capable than their female colleagues.

Interestingly, in a profession that is all about risk, testosterone may not be such a good thing. There is hard statistical evidence — albeit based on what are, for obvious reasons, limited sample sets and relatively short time horizons — that suggests that the small universe of women managing assets are dramatically outperforming their benchmarks, most notably in down markets. Hence, the description of women fund managers as "outperformers".

A new study by Chicago-based Hedge Fund Research in the US found that from January 2000 to May 2009, hedge funds run by women delivered nearly double the investment performance of those managed by men. Female managers produced average annual returns of 9%, versus 5,82% for men. And in 2008, when financial markets were crashing, funds run by women were down 9,6% compared with a 19% decline for men.

One theory holds that women aren't necessarily afraid of risk, they are just better at managing it. Women represent less than 10% of the managers of the AsiaHedge composite index — but they weighed in with a median total return of 153,26% between January 2000 and December 2007 versus 88,82% for the index as a whole, according to a study by AsiaHedge.

Women in Fund Management, a report published by the National Council for Research on Women (NCRW), concludes, based on both anecdotal evidence and a survey of academic research, that women fund managers take a more long-term, measured approach to risk. It says they are more detail-orientated researchers, and are less likely to succumb to groupthink than the traditional male manager.

Most reports say male investors tend to take a more aggressive approach to share dealing, trading more regularly and following stock market fads and trends. Most investment experts say the approach by women fund managers is likely to be a more successful strategy over the long term.

Research by the *International Journal of Bank Marketing* made the following points in terms of gender differences in investments: Women seem to be more holistic in their investment process, and tend to consider all of the relevant investment factors. This tendency to be more comprehensive may lead women to be more thoughtful and informed investors.

"Women appear to be more risk-averse in many types of decision-making, while males are more likely to decide quickly and take risks . . . one important advantage of the greater risk aversion typical of female investors is a tendency to trade less often, which in many cases can lead to higher returns," it says.

Of course, it is important to remember that these are generalisations. But a financial website, DigitalLook.com, has been tracking the performance of its male and female investors for the past eight years. Its most recent data indicates that women investors consistently have the edge on their male counterparts.

The NCRW report set out to investigate some of the academic studies that might explain the absence of women in the headlines chronicling the spectacular market blow-ups of the most recent financial meltdown. One highlighted the research paper "Boys Will Be Boys: Gender, Overconfidence and Common Stock Investments", which found that women are less likely to indulge in excessive stock turnover than men. The researchers analysed data from more than 35 000 households that held accounts with an unnamed discount brokerage firm between February 1991 and January 1997. The accounts were divided equally into those opened by men and by women, and trading activity and performance of each group was evaluated. The results showed that men traded 45% more than women and that overtrading reduced men's returns by 2,65 percentage points a year versus 1,72 percentage points for women. Noteworthy was that single men traded 67% more than single women. Consequently, single men's returns were reduced 1,44 percentage points more a year than the returns of single women.

The researchers linked men's overtrading to overconfidence, defined as a belief that the precision of one's knowledge about the value of a security is greater than it actually is.

Another study cited by the NCRW report found that women's reactions to stress are better characterised by "tend and befriend" than "fight or flight." For example, in stressful situations women tend to engage in nurturing activities and rely on supportive relationships rather than engage in aggressive, impulsive behaviours. The researchers linked this response in part to women's traditional roles as nurturers and their skills at social networking. They also found evidence that female reproductive hormones and the hormone oxytocin played a role in women's ability to handle stress in nonaggressive ways.

> "Women appear to be more risk-averse in many types of decision-making, while males are more likely to decide quickly and take risks" **– RESEARCH REPORT**

In another study by D'Acremont and Van der Linden in 2006, 124 middle school boys and girls were instructed to complete two tasks commonly used to gauge assessment and decision-making skills. Though both sexes took greater risks in the betting task when the chance of winning was greater, the boys generally made riskier bets than the girls. Also, the girls earned more money than the boys by learning to avoid the riskier decks. These results, according to the researchers, suggest "boys are less sensitive to future consequences than girls".

Do women fund managers agree with these conclusions? Would the investment markets be in some way transformed if, reflecting the broad demographics, the majority of fund managers were women? In SA, there is a growing crop of recognised women fund managers who are at the forefront of managing billions of rand of investors' money.