



Sarona Asset Management

The 2X Challenge: Insights from Sarona's Portfolio

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I. Introduction

The Impact Team at Saron authored this paper with the purpose to inform and improve Saron's approach to gender lens investing. The data in this report is based on the annual impact data collection surveys conducted for the years 2017-2021 at both fund manager level and portfolio company level.

In addition, Saron recently became a member of the 2X Global Initiative, a global membership association dedicated to advancing gender smart investments. We assessed if and how Saron and our fund and company investees are aligned with the 2X Challenge objectives.

II. What is the 2X Challenge?

The 2X Challenge was launched at the G7 Summit in 2018 as a bold commitment to inspire DFIs/IFIs and the broader private sector to invest in the world's women. 2X refers to the multiplier effect of investing in women.

The 2X Challenge calls for the G7 and other DFIs to collectively mobilize US\$3 billion in commitments that provide women in developing countries with improved access to leadership opportunities, quality employment, finance, enterprise support, and products and services that enhance economic participation.

The 2X Challenge aims to demonstrate that innovative financing can catalyze capital to advance gender equality.

III. Is Saron as a firm 2X Challenge aligned?

Saron is 2X Challenge aligned according to the Leadership and Consumption criteria.

Entrepreneurship: Saron currently does not meet this criterion, as it is 33.3% owned by women (vs. 51% target) and it was not founded by a woman. The ratio was recently improved with the promotion of a woman in a partnership role.

Leadership: Saron meets the criteria with 33% of its board members being women and 37.5% of IC members being women (vs. 30% target). One of four partners or 25% are women.

Employment: Saron does meet the target of 40% women employees (for the financial services industry), with current women employees at 40% (6 out of 15). Saron actively seeks to improve the ratio with its new hires and has a general target of 50% of staff identifying as women. Saron has gender conscious policies, including flexible work, generous parental leave, and sexual harassment prevention.

Consumption: One of the impact mandates Saron manages, the Emerging Impact Investment Fund (EMIIF), is focused on making gender lens investments. Saron on behalf of EMIIF just closed a US\$ 4 million commitment into SWEFF (Southeast Asia Women Economic



Empowerment Fund), a women-led private equity fund focused on gender diversity as main value driver in its value creation strategy for its portfolio companies. Sarona via EMIIF has designed an ambitious technical assistance program with SWEEF. One objective is to disseminate SWEEF's approach and lessons learned to Sarona's wider network of fund managers.

IV. Are Sarona's investments in its private equity program 2X Challenge aligned?

1. Fund managers

Based on 2021 data, 67% of SGM fund managers are 2X Challenge aligned. Fund managers perform within or above 2X benchmarks on women employees and women in management positions. SGM fund managers underperform in terms of women on boards and women on investment committees. Women at partnership level have been increasing from a low base several years ago to 25%.

According to the 2X Challenge, a portfolio of fund managers is considered 2X Challenge aligned if the fund manager itself is 2X aligned *and* 30% of its portfolio companies are 2X aligned.

Sarona's flagship private equity fund of funds program is the Sarona Global Growth Markets Funds (SGGM). Between two funds, SGM1 and SGM2, totaling \$235mm in committed capital, Sarona has partnered with 21 fund managers and invested in 26 funds and 11 co-investments. The total portfolio consists of 126 portfolio companies, which are located in Africa/MENA (38%), Asia (30%), Latin America (22%) and Emerging Europe (10%).

Most companies operate in sectors of consumer goods and services, industrials, financial services, and technology. (Fig.1)

Sarona SGM1 and SGM2 portfolio, 2021

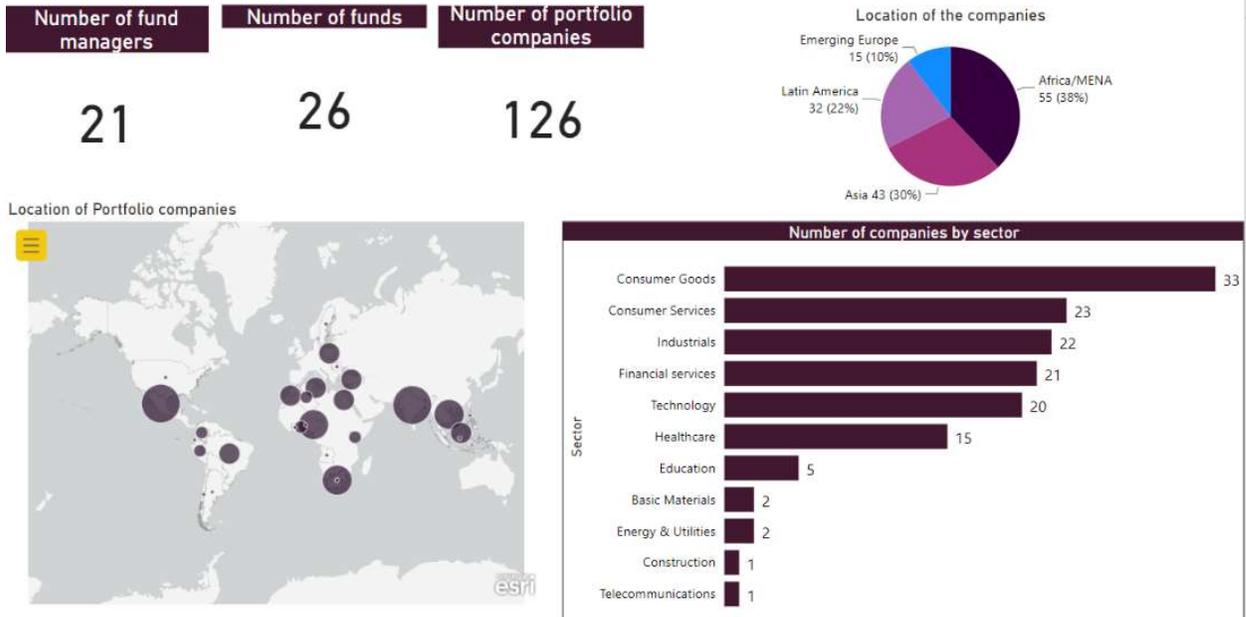


Figure 1. Overview of SGM1 and SGM2 portfolio

67% or 14 of the 21 fund managers are 2X aligned (Fig.2). For 11 of those, most of their companies are 2X aligned and just for the one its portfolio is not aligned. As for the other two 2X aligned fund managers: Sarona received no data on their portfolio in 2021. Therefore, further 2X analysis on their portfolio was not performed.



Figure 2. Fund managers 2X alignment overview

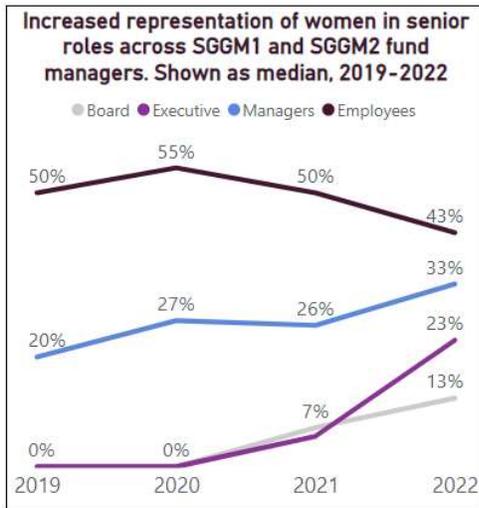


Figure 3 Median for women roles across fund managers and years

Sarona conducted a survey of its fund managers to better understand women representation in their company. There is an increase in women representation over the last 3 years, particularly at partnership and management level. There is a small increase at the board level, albeit from a base of 0% (this being a median for the portfolio).

As of 2021, Sarona’s fund managers meet more than one criterion of the 2X Criteria. The survey results show 2X alignment for women in management positions - 33% versus a threshold of 25% for the financial services representing an increase of 13% compared to 2019.

Women employees, comprise 43% of women in the workforce, versus a threshold of 40%.

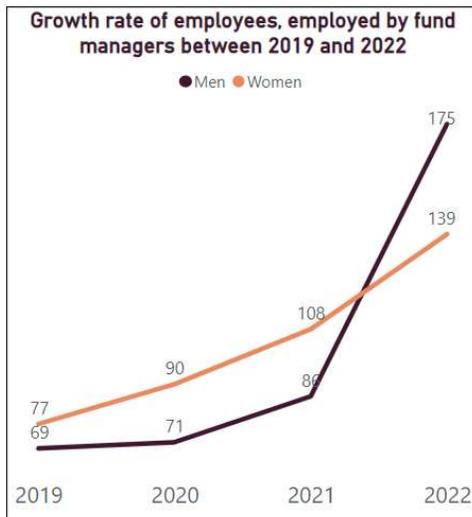


Figure 4. Total number of employees at twelve fund managers, for which the data was tracked within four years.

Even though the absolute number of women employees for the same fund managers increased 1.8x times, from 77 in 2019 to 139 women in 2022 (fig.4), the **median** has decreased from 51% in 2019 to 43% in 2021. This is related to the fact that many fund managers have hired mostly men and no women employees in 2021, and this contributed to women/men ratio change and as a result to women median in 2022. Thus, number of men has increased 2.5x times from 69 to 175 men.

In terms of leadership roles, fund managers are close to the 2X benchmark¹ of at least 25% of women in Executive/Partner roles in financial sector as we see a 23% median at the Sarona fund manager. And that number has increased from 0 in 2019.

However, fund managers underperform on women on the board, while the median for women on Investment Committees is currently at 0 (fig.4). This is worrisome since research shows how women-backed businesses (key 2X criterion) could be potentially held back by gender bias and stereotypes in the investment process^{2, 3}

In addition, there is considerable research that shows how greater board diversity leads to better governance and hence better firm performance⁴. A Deloitte analysis of 10,493 companies

¹ <https://assets.cdcgroup.com/wp-content/uploads/2020/03/16111901/How-to-measure-the-gender-impact-of-investments.pdf>

² <https://documents1.worldbank.org/curated/en/147411511507125634/pdf/121536-WP-IFC-Invest-in-Women-October-2017-PUBLIC.pdf>

³ <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>



indicated that, as of 2021, women comprise 19.7% of boards.⁵ Deloitte has also provided a detailed disaggregation by region where the 2021 data shows that in Africa, women comprise 30.5% of Boards (13% at Sarona’s fund managers), 11.7% in Asia (20% at Sarona’s fund managers), and 10.4% in Latin America (0% at Sarona’s fund managers).

As of 2021, women at fund manager comprised:

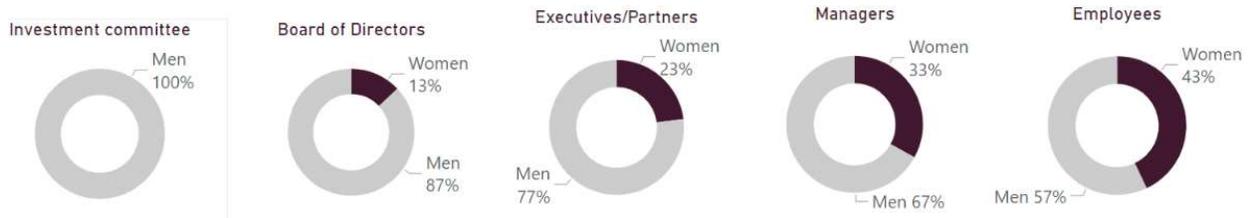


Figure 5. Median for women roles at fund managers as of 2022. Data source: Fund managers Survey, 2022

Sarona already includes gender analysis in its SEMS⁶ but going forward gender analysis will be included in the first stage investment memos (deal alerts) to help us identify gaps and areas to raise with the fund managers. For example, 74% of fund managers’ report to complete gender equality assessment at portfolio companies and 63% gender equality improvements plans at portfolio companies. If technical assistance programs are available, gender focused TA may be provided to the fund managers. Our survey indicated that 89% of fund managers would be interested in such support.

In terms of policies, Sarona’s fund managers perform well, which we owe to the fact that many are well-established firms which already have stated objectives related to social and/or gender impact, and have development financials institutions and other impact investors, including Sarona, as part of their investor base. The investors influence them positively in improving their policies and alignment with impact frameworks such as the UNPRI and IFC Performance Standards. The majority of fund managers adopt Diversity, Equality, Inclusion (DEI) KPIs, as well as Anti-discrimination, Fair hiring, Gender equality, Whistleblower, and Sexual harassment policies. Please find complete list of polices implemented by fund managers in annex.

⁴ <https://www.accaglobal.com/lk/en/student/exam-support-resources/professional-exams-study-resources/strategic-business-leader/technical-articles/diversifying-the-board>.

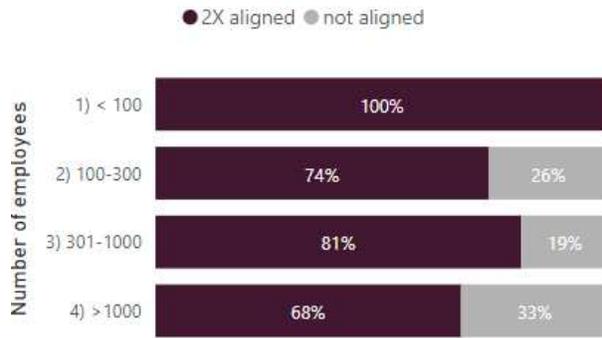
⁵ <https://www2.deloitte.com/xe/en/pages/about-deloitte/articles/women-in-the-boardroom.html>

⁶ Social and Environmental System.

2. Portfolio companies

Increasing number of women in leadership as well empowering women economically is important for inclusive and sustainable economic growth. Sarona has analyzed data of 126 portfolio companies and identified that 77% are 2X aligned. Most are 2X aligned because their number of

2X alignment depending on the size of the company



women employees meets or exceeds the 2X threshold, however women on board and managers are often below the benchmark set by 2X, i.e., 30%.

Sarona groups the portfolio companies, depending on the number of employees.

Seven companies with less than 100 employees are all 2X aligned; 34 companies with 100-300 employees, are 74% 2X aligned, 52 companies employing 301-1000 people are 81% aligned, 40 companies with over 1,000 employees are 68% aligned.

Figure 4. 2X alignment depending on the company size

As of 2021, women at portfolio companies comprised:

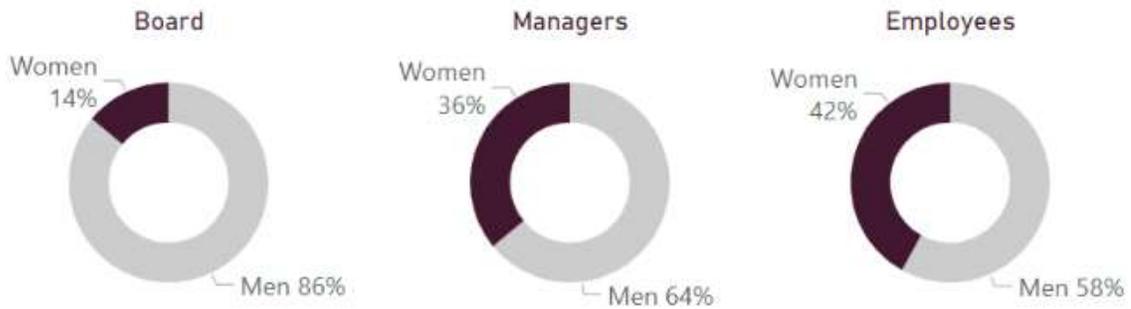


Figure 7. Median for women roles at portfolio companies as of 2021. Data source: Portfolio companies Survey, 2022

Sarona observes increased women representation across various roles over the last two years. However, similarly to what we observe at fund manager level, at the company level, the representation at senior levels, in particular boards, lags at 14%. On the other hand, there is above average representation at management levels, with 36% women managers in 2021. Overall, almost 71,000 jobs held by women are supported at SGM1 and 2 portfolio companies.

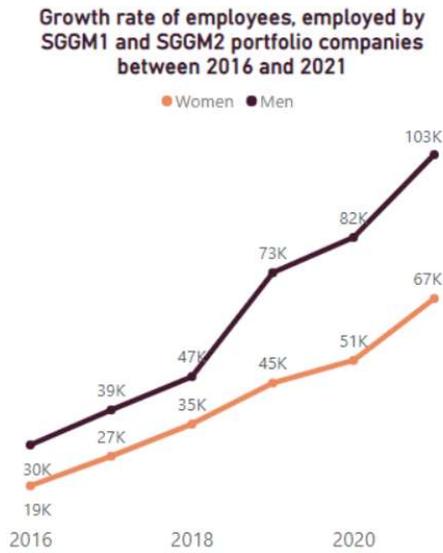


Figure 8. Number of employees at portfolio companies, which remain active in the portfolio

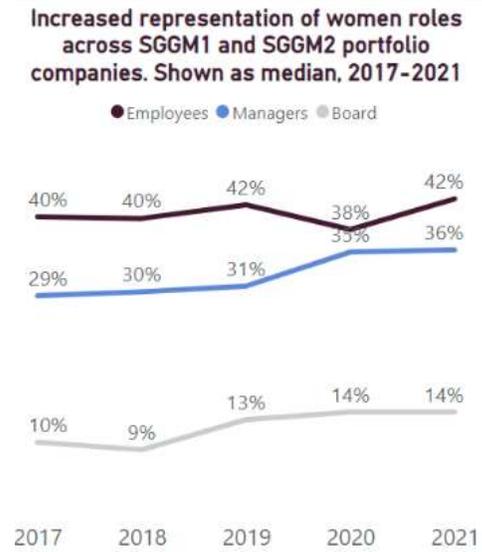


Figure 9. Median for women roles across portfolio companies and years

Over the past four years, the number of women on boards has increased by 4%, women in management by 7%, and women employees remains relatively the same at 40%-42%.

As for women on boards, 2X target across sectors are met only for Consumer Services (29% versus 25%) and are below the 2X Criteria for the rest of the sectors. Women employees 2X targets across sectors are mostly met, except for Consumer Services (44% versus 50%), Business Services (30% versus 40%) and Industrials (27% versus 40%).

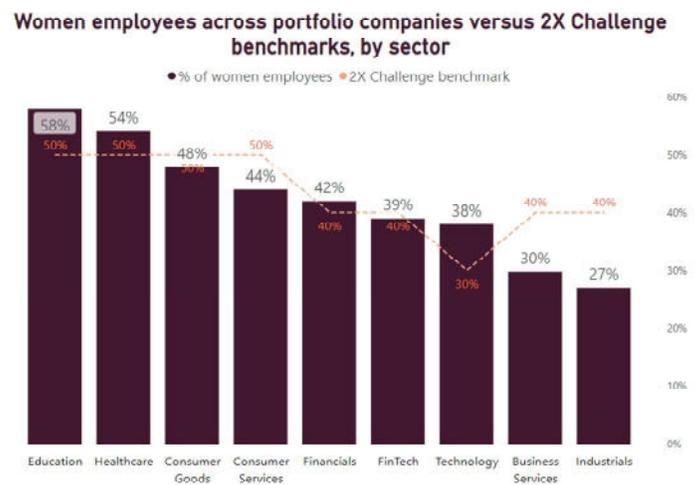
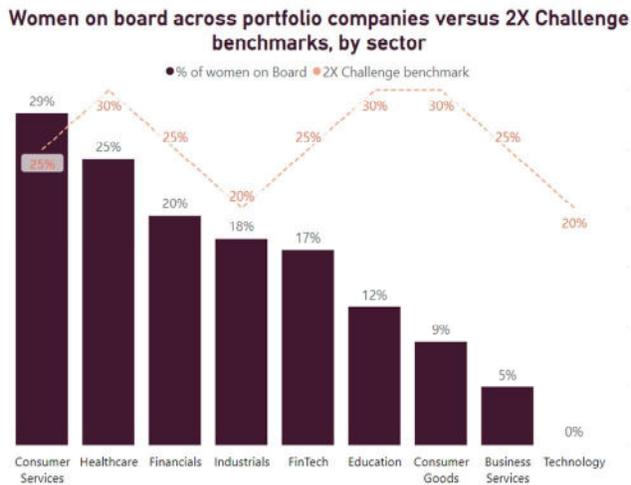


Figure 10. Benchmarking of 2X target across sectors



V. How many jobs did SGGM portfolio support and create?

Productive employment and decent work are key elements to achieving a fair globalization and poverty reduction. Decent work delivers a fair income, security in the workplace, social protection for all, better prospects for personal development and social integration, freedom for people to express their concerns, and equality of opportunity and treatment for all women and men.

92% of Fund Managers indicated a focus on SDG 8: Decent work and Economic growth. All Fund Managers except for 1, aim to create jobs at portfolio companies, and 62% access job quality according to decent work definition.

Over the five years, between 2016 and 2021, **187K** jobs were supported (38% women jobs), and **108K** jobs were created, (40% women jobs). Due to the COVID-19 pandemic the number of jobs created in 2020 dropped by half compared to 2019 and as of 2021 remained stable for the jobs created for men, whereas the number of jobs created for women has increased from 8K in 2020 to 13K in 2021. (Fig.11)

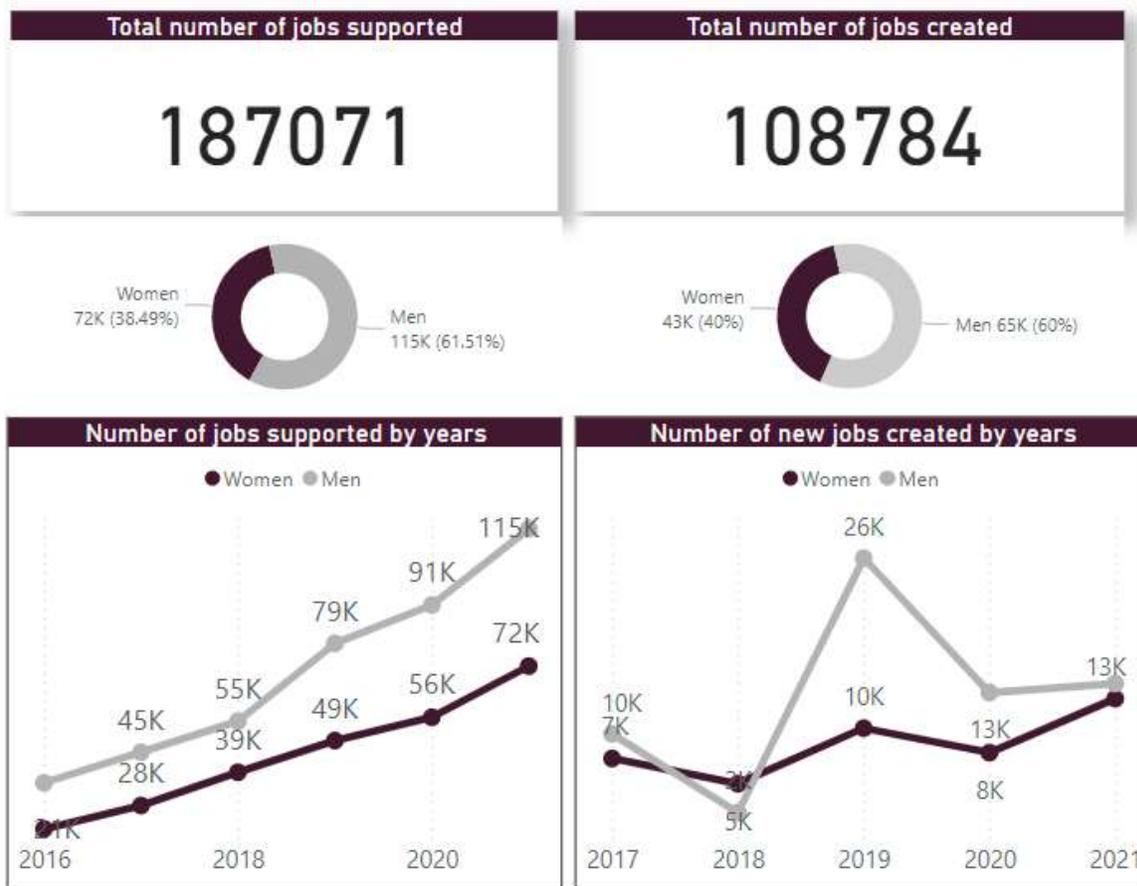


Figure 11. Total number of jobs supported and created in the SGGM portfolio between 2016 and 2021. Data includes exited companies as well



Fund Managers are generally on the board of portfolio companies (92%) and assist boards to improve budgets. 58% intend to improve DEI in products and services.

In terms of the geography, the number of jobs created across portfolio companies in Africa and Asia was equal. Around 49K jobs were created in each region, with 43% of jobs being created for women in Africa and 34% created for women in Asia. Jobs created in Latin America and Emerging Europe equal to 7K and 3.6K respectively, with women jobs approaching 50%.

Fund managers and their underlying portfolios, which are 2X aligned, created 45% of all the jobs, in total 37K jobs for women, whereas fund manager’s portfolio companies which are not 2X aligned were losing jobs for women in 2020 and 2021.

Cumulatively over five years, most jobs created and supported were in Consumer goods - 34K new jobs (55% women), Consumer services - 23K new jobs (23% women), Industrials - 17K new jobs (42% women), and Financial services - 16K new jobs (27% women). Sectors, which have not created many jobs were Healthcare, Education, and Technology (Fig. 12).

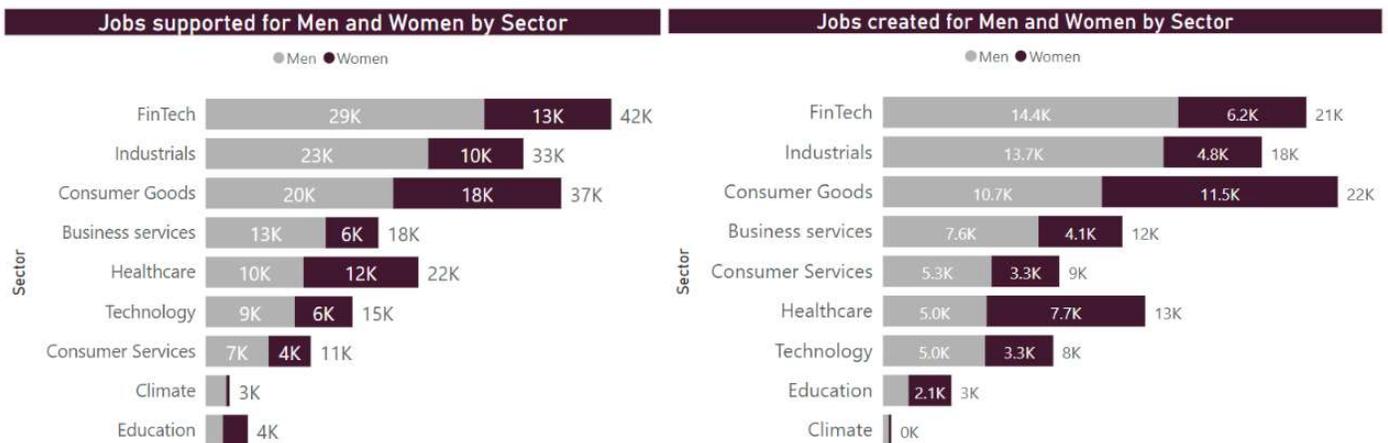


Figure 12. Jobs supported and created by sector



VI. Conclusions

The gender diversity in Sarona's portfolio has improved over the last 3 years, and we see promising signs in terms of women taking more partnership roles and being a significant percentage of the work force. Sarona has been actively discussing the issue of gender diversity with fund managers over the years and, it is encouraging to see that this type of influence is correlated with meaningful improvements over time. At the same time, significant gaps exist in women representation in leadership, which is consistent with what we observe as a broader trend in the financial industry. Moreover, it is telling that the results at portfolio company level mirror the results at fund manager level closely. This is not surprising- as numerous studies have shown that diverse leadership results in selecting and growing more diverse companies. Sarona holds a unique position as an investor in a global emerging market portfolio of funds and companies with the ability to influence gender patterns by indicating this as a priority early in the engagement and by being able to benchmark an individual investment's performance to a larger portfolio.