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# Navigating diversity, equity & inclusion – an asset owner perspective

# Navigating diversity, equity & inclusion

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# Executive summary

# Navigating diversity, equity & inclusion – an asset owner perspective

*Pensions for Purpose's* latest research paper, sponsored by Jupiter Asset Management, seeks to understand diversity, equity and inclusion (DE&I)

**P**ensions for Purpose's DE&I paper hopes to perceive how DE&I are considered in fund analysis from three perspectives:

- How asset owners consider DE&I within their own organisation, including policies and strategies related to the topic.
- Understanding asset owners' DE&I approach when interacting with third-party providers.
- How DE&I is considered in underlying investments.

We interviewed 21 organisations, including pension funds, professional trustees, asset managers and

investment consultants, based in the UK, Europe and the US, to understand how the market perceives and engages with DE&I, as well as the discrepancies across different jurisdictions.

## Data collection

Questions covered a range of aspects, including the main initiatives in the industry to promote DE&I issues, the major challenges asset owners face in aligning with DE&I goals, priority themes within the DE&I scope, and asset owners' perceptions of the correlation between DE&I and business performance.

## Best practice

Due to the extensive array of conversations in the gathering of data for this report, we have dedicated a section to best practice identified during the interview process. The pace at which asset owners, asset managers and investment consultants are implementing DE&I varies significantly. By highlighting examples of best practice, we hope to support those initiating or enhancing their own DE&I journey and, most importantly, help understand how this theme may evolve within our industry over the coming years.

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# Introduction





# Why did we conduct this research?

An asset owner emphasised during one of our interviews that simply achieving a good diversity balance does not automatically translate into better business performance. This is because elements such as belonging, power balance and culture are essential factors in generating positive outcomes within this equation. Understanding this statement is crucial to align our perspectives on diversity, equity and inclusion (DE&I).

The relevance of cognitive diversity has academic support<sup>1</sup>. Diversity policies enable companies to expand their talent pool by recognising the value of cognitive diversity – embracing employees' varied backgrounds, cultures and problem-solving approaches beyond just technical ability. Both financially and socially, the effectiveness of DE&I is evaluated holistically, with cognitive diversity driving innovation and superior performance compared to mere demographic diversity<sup>1</sup>.

Diversity (D) refers to equitable representation across various dimensions of human difference, including, but not limited to, gender, ethnicity, age, education level, class, physical and mental ability, and sexual orientation. Differently put, diversity ensures a quantitative balance that enables the presence of all these differences within a specific space. Equity (E) goes beyond mere representation. It guarantees,

despite differences, fair treatment, the elimination of barriers and the facilitation of equitable participation for all. Inclusion (I) implies that all voices are heard, perspectives considered and everyone feels a valued member of the larger community.<sup>2</sup>

A practical example of the difference between the three layers of DE&I might be:

- Diversity – a fund demonstrates gender balance in its leadership positions (around 50/50).
- Equity – the fund implements policies to eliminate gender barriers such as targeting equitable parental leave for maternity and paternity leave, and internal campaigns against harassment.
- Inclusion – women actively participate in decision-making processes and their voices are heard.

Previous research on the topic focused on comprehending DE&I and business performance<sup>3</sup>, along with exploring the influence of DE&I on the decision-making process<sup>4</sup>. While interviewees typically categorised DE&I as an 'S' (social) topic within the broader context of environment, social and governance (ESG) themes, this debate embraces a variety of subtopics within itself. Additionally, our research indicates, with few exceptions, pension funds only started to consider DE&I in the early 2020s. Consequently, DE&I is a relatively recent trend within the industry, one being

considered by funds across the UK and globally, albeit at varying rates and often through distinct strategies.

Given its nascency and dynamic nature, the objective of this research was to gain insights into how asset owners perceive and implement DE&I within their organisations, third-party providers and underlying investments. We sought to explore the integration of DE&I themes in manager selection, the prioritisation of specific themes in engagement with managers and underlying investments, identification of key industry groups promoting DE&I, and the challenges associated with incorporating and advancing DE&I goals.

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# 1 Asset owners' perspective

# 1 Asset owners' perspective

In our interviews with asset owners, our aim was to capture their perspectives and commitments to DE&I. To achieve this, we began by exploring their organisation's approach to DE&I. Our focus centred on the presence of policies, strategies and targets related to the theme. We then delved into how they consider DE&I when engaging with third-party providers and, finally, in their underlying investments.

This section follows the structure explored throughout the interviews, capturing asset owners' insights from these three different perspectives and providing readers with an overview of how asset owners assess and deliberate on DE&I.

Given that asset owners had largely only begun thinking about DE&I over the previous five years, we found a variety of approaches being taken and views expressed.

Despite the different levels of commitment and the variety of perceptions, all our interviewees recognised the benefits of bringing DE&I to the table.

“DE&I is a moral imperative as well as a key priority around the fiduciary duty.”

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“It's genuine, cognitive diversity that's important. Gender and nationality are variables that can help bring that cognitive diversity, but it's not always the case.”

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## 1.1 Investment beliefs underpinning DE&I as a theme

A *BlackRock* report released in 2023 examined the correlation between the average representation of women (2012-2021) and the average return on assets (RoA) of companies listed on the *MSCI World Index*. Their main takeaway was gender balance, rather than the over or underrepresentation of women or men, was the driving force in the observed increase in RoA. By dividing their sample into five different levels of women's representation, *BlackRock* found companies with better gender balance outperformed their peers by as much as two percentage points in the period covered in their analysis.<sup>1</sup>

While just one of several DE&I themes, asset owners consider female representation as a great starting point on their DE&I journey due to the relative ease of gathering data and monitoring progress. As many

of them mentioned, it is a tangible and quantifiable area within DE&I.

Among all asset owners we interviewed for this research, the positive correlation between DE&I and business performance was a prevailing consensus, reflecting a shared perspective about the benefits of promoting DE&I. Here is a summary of the main reasons supporting their belief:

### Existing evidence on the topic.

Asset owners pointed to the available evidence exploring the links between DE&I and business performance, which proves essential in building the investment case to support the theme. One asset owner stressed investors are increasingly viewing the lack of DE&I as a business risk. Even though many funds

“In investment management, there's a lot of people who followed a similar path in order to end up managing portfolios. They are all looking at investments in broadly the same way and coming up with broadly the same conclusions and I think missing lots of opportunities.”

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are still building their knowledge and understanding of this topic, reports from entities like *BlackRock* and *McKinsey* significantly influenced their opinions.

A company needs to represent their customer base, which is a challenge for the financial industry. One asset owner expressed concerns over insufficient representation at senior levels in pension funds. Despite technical expertise in senior groups like trustee boards, there is a risk of excluding the broader population's perspective, leading to missed opportunities.

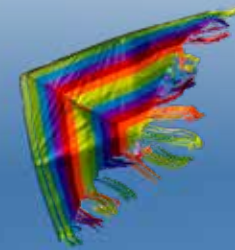
**Diversity enables teams to see arguments from different angles, fostering a more robust investment process, ultimately leading to better investment performance.** One asset owner mentioned the importance of different voices challenging debated topics, while another highlighted people from diverse backgrounds and cultures as an advantage for investment teams, since they help to identify more varied allocation options and provide a better understanding of risks. Typically, decision-makers in the financial industry share similar backgrounds and lifestyles, reducing space for different opinions, and resulting in a tendency to think alike.

DE&I needs to be embedded within a company's culture to avoid groupthink. DE&I must not be a tick-box exercise but genuinely integrated into the business. In this research, there was an overall belief in the importance of combining 'identity diversity' with 'cognitive diversity'.

**Greater diversity on the board leads to better governance.** It also helps to embed DE&I within the company's culture by 'setting the tone from the top', as one asset owner mentioned.

“We have a group with people from diverse backgrounds, ages and very different way of processing thoughts. Our work benefits from that in a sense that some of the questions I might not consider will then come out because someone will look at it from a different perspective. So, they might be challenging questions, but ultimately that's helped me to present frameworks and policy documents that are more well-rounded.”

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**Insight:** Pension schemes share the view DE&I can lead to positive financial outcomes, mainly due to reports on the topic or their own experiences demonstrating the advantages of having an investment team with diverse individuals. In addition to the necessity for schemes to represent their member base, diverse boards can contribute to a more effective decision-making process, as they raise more questions and consider a broader range of viewpoints.

### PENSIONS FOR PURPOSE'S PERSPECTIVE

Although recognised as beneficial for financial results and organisational culture, pension funds need to be cautious not to reduce DE&I to a mere quantitative tick-box exercise. As discussed in the introduction, DE&I presents different layers that extend beyond the proportional representation in boards and the workforce. DE&I initiatives, like quotas, should align with other policies to enhance aspects of equity, inclusion and belonging. The combination of these elements yields better results.



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### Jupiter Asset Management's view

Leading human capital policies at an issuer level, which support DE&I are viewed by us as a proxy for operational excellence when allocating capital.

We are cautious to apply blanket thresholds at an aggregated level as the cultural drivers of DE&I have to be considered, in our view, on a regional, sector and industry basis. Our capital allocation framework is designed to identify respective leadership; focusing on real world outcomes are key to understanding our conviction in the long-term economic trajectory of the investment opportunity.

For instance, we see interesting dynamics in a developed market software service-based business with strong human capital policies that has global-leading employee and client retention characteristics, which aligns to attractive economic return supported by high recurring revenue.

Understanding these aspects is an important input to our conviction enhancement when allocating capital.



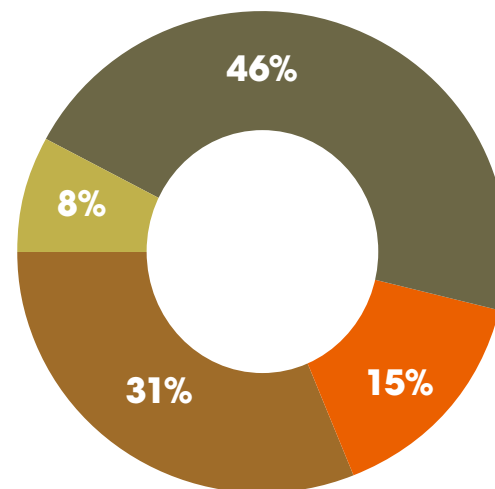
## 1.2 Internal focus: workforce, strategies and policies within asset owner organisations

DE&I is rapidly gaining ground as a relevant topic for pension funds. A recent report shows around 50% of UK pension funds and professional trustee firms had DE&I strategies in place in 2023, a notable increase from the 26% reported in 2022.<sup>1</sup> Besides the investment beliefs highlighted in the previous section, this significant uplift reflects the rising regulation and discussion on the topic. Between September and December 2023, the *Financial Conduct Authority (FCA)* opened a consultation to introduce a regulatory DE&I framework in the financial sector. Among the reasons, the *FCA* mentioned strong DE&I reduces the risk of groupthink, enhances company culture, and improves comprehension of a wider range of consumers, impacting industry competitiveness.<sup>2</sup>

DE&I is a recent and emerging theme. Asset owners have only begun to seriously contemplate this topic within their organisations in the last two decades, with a more intensified focus over the past five years. See figure 1. Among our interviewees:

- 46% embarked on this journey in 2020-2022.
- 31% described DE&I as a critical issue that has always been part of their organisations' DNA, but that gained more shape from 2020 onwards.
- 15% started looking at DE&I between 2015 and 2019.
- 8% began considering DE&I in the early 2010s.

**Fig 1 | When interviewed asset owners started their DE&I journey**



- 2020-2022
- An integral part of DNA, but its significance has increased since 2020
- 2015-2019
- Early 2010s

Across all interviewees, commitment to DE&I has increased notably over time, often formalised through policies, strategies and targets.

Those who started their journey between 2020 and 2023 referred to the momentum the topic has gained as a motivating factor, with some anticipating its sustained growth in importance. Others have begun to consider the theme because it aligns with their organisations' mission and/or they have defined DE&I as one of their ESG priorities.

Pension funds who initiated their DE&I efforts earlier (between 2015 and 2019) alluded to the rise in ESG regulations and overall sustainability policies as their primary drivers for continuing to include DE&I in internal discussions.

*The Diversity Group*, established in 2016, was commonly mentioned as a catalyst for pension funds to adopt DE&I practices and integrate the theme as a stewardship priority.

By analysing pension funds' implementation of DE&I policies and strategies, we have identified similarities between those who started thinking about it around the same time. We have divided responses into four time periods:

## FOUR TIME FRAMES WHEN DE&I JOURNEYS BEGAN

### 1 Early adopters: implemented DE&I in the early 2010s

Funds that introduced DE&I initiatives in the early 2010s defined it as strongly tied to good governance. In their case, DE&I initiatives were aligned with their overall sustainability policy, falling under the social (S) pillar within ESG. They implemented voting and engagement policies, expecting boards to ensure good identity representation – gender and ethnic – which, in their view, would translate into cognitive diversity – encompassing social mobility, class and neurodiversity.

“ (We started thinking about DE&I) quite early on, I would say around 2011 or 2012, when the EU released a green paper on this topic. As regulations began to take shape, we made a concerted effort to stay ahead and supported the emerging regulations.”

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### 2 DE&I was part of the fund's DNA early, but developed from 2020

Funds that have always considered DE&I as part of their DNA have largely invested in achieving gender, background and age balance at the early stages. They recognise data gathering as a challenge, particularly for small organisations, despite its importance in improving their DE&I practices. These funds mainly incorporate DE&I considerations into their recruitment processes, member communication, monitoring and oversight procedures with investment consultants and managers.

“ This has always been a critical focus, especially since our Sustainability Officer joined in 2020. The emphasis on sustainability significantly increased in 2021, making it a key priority for the past two years. Our Sustainability Officer has actively promoted this agenda through interviews and presentations, even featuring on Asset Owner TV. We have not only emphasised it publicly but also made it a priority in our stewardship efforts, engaging with managers accordingly.”

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### 3 Started the DE&I journey between 2015 and 2019

Despite lacking formalised policies or targets, those that started initiatives from 2015-19 actively integrated DE&I considerations into their membership communications, accommodated diverse member backgrounds, and embedded DE&I in their organisation's culture. In addition, funds also considered enhancing age and gender representation across pension committees.

“ We lack a formal policy but have actively addressed issues below the surface. Although we don't set targets, we've engaged members to understand their concerns, particularly on diversity. We have held webinars focused on the BME community and their pension fund experiences, highlighting the importance of pensions. While we have had member feedback, expressing concern over fund values conflicting with their beliefs, discussions have revolved around balancing member perspectives, such as deep green environmental concerns.”

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### 4 Started the DE&I journey between 2020 and 2022

Those who recently started their engagement on DE&I issues often initiate the process through more formalised and written structures, primarily influenced by the availability of the *Asset Owner Diversity Charter* and the *Asset Manager Diversity & Inclusion Questionnaire* – topics explored in the next section.

“ (We started considering DE&I) years ago, even before my involvement, we recognised a consistent trend of improvement. In 2022, we signed the Asset Owner Diversity Charter, marking a significant step forward. This presented another chance to engage our managers and elevate our commitment. We prioritised it as an ESG focus in 2022 and incorporated it into significant voting decisions in 2023. The point is, progress is evident each year and we anticipate this positive momentum to persist.”

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All the pension funds that have commenced their DE&I journey since 2020 either have an action plan or strategies dedicated to the theme, but their level of development varies significantly. Almost a third have not set specific targets related to the theme, yet gender and ethnic diversity remain a common focus. The implementation of recruitment processes to increase gender and ethnically diverse representation within the fund is also a shared action.

Three pension funds we spoke to stood out due to their advanced thinking on the topic:

**1 DE&I as an engagement topic.** The first fund incorporates DE&I into their annual oversight questionnaires for asset managers, assessing their policies and their portfolio companies' initiatives on the theme. They evaluate and rank managers based on their DE&I responses but stress termination would not be solely based on their regard for DE&I performance. Instead, a manager's overall sustainability objectives and performance are their primary criteria.

**2 DE&I as part of the annual diligence process.** The second fund incorporates DE&I into their annual due diligence process, collating results from surveys with their third-party suppliers, which includes DE&I data. They have established an annual engagement strategy using survey results, selecting managers for deeper engagement based on the initial questionnaire responses. While they currently use the diversity questionnaire, they aim to implement a more detailed survey for specific managers.

### Jupiter Asset Management's view

Promoting diversity, equity and social inclusion is a core priority of the capital allocation process, with human capital across a company's value chain being a key focus of aligning 'our clients' savings' with important social outcomes.

We understand the importance of transparency in savings being aligned to real world outcomes. As such we work with our client partners to support their reporting initiatives, which includes the disclosure of our portfolio holdings, DE&I performance improvements and incorporation of broader outcomes in the context of solutions or social impact multipliers, such as Living Wage commitments. We view our clients as partnerships beyond just investment, and seek to support broader initiatives such as engagement and wider industry collaboration, which are of priority to their underlying members.

We adapt to be responsive to their needs.

**3 Aligning DE&I and climate change.** The third fund adopts a five-year strategy with two core commitments: addressing climate change and promoting DE&I. They aim to integrate both aspects into every decision-making process. Still, they acknowledge gaps in the industry and take them into account to set realistic targets. They avoid commitments that cannot be supported by concrete steps.

### PENSIONS FOR PURPOSE'S PERSPECTIVE

Early DE&I adopters are strongly motivated by their overall sustainability policy, as they recognised a connection between DE&I and their sustainability commitments. Although the funds that have recently embarked on their DE&I journey are doing so with a more formalised structure at hand, the first movers, even those without a written policy, are successfully embedding DE&I within their company culture. They achieved this by focusing on a broad range of stakeholders when addressing the topic, including investment consultants, investment managers, members and employees. In general, DE&I policies and strategies are closely linked to stewardship and engagement, with a particular emphasis on the hiring process. Key themes such as gender, ethnic and age representation were highlighted, partly due to their ease of quantification and progress measurement.

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## 1.3 Third-party providers: considerations in the manager selection and oversight process

Ninety-two percent of the pension funds we interviewed incorporate DE&I factors into manager selection and oversight processes. During manager selection, asset owners focus on implementing DE&I-related questions to understand the presence and integration of DE&I practices by fund managers they consider for capital allocation.

DE&I emerges as a point of consideration when asset owners introduce new mandates. In this context, the role of investment consultants in proposing investment managers for new mandates is essential. While some funds incorporate DE&I considerations alongside other ESG factors in their consultant requests, others integrate DE&I explicitly into their request for information (RFI) and request for proposal (RFP) processes, even assigning it a specific weight within the overall scoring criteria. In one case, DE&I was an ESG factor within the fund scoring system for the manager selection process, constituting 10% of the overall score of their RFP.

**“DE&I is one of the key pillars of our sustainability strategy. At the manager selection stage, it is part of the request for proposal (RFP) process, feeding into the ESG scoring, which represents 10% of the overall score for an RFP.”**

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**“Every time we have selected a fund manager, we incorporate a range of questions on DE&I. We are a very diverse pension scheme and over half of our members are either women or part of an ethnic minority representation. So we’ve made it clear that we want that to be represented in the way our money is managed as well. Asking managers these questions at the point of selection is really important. And when we meet them, we want them to demonstrate how they’re thinking about DE&I.”**

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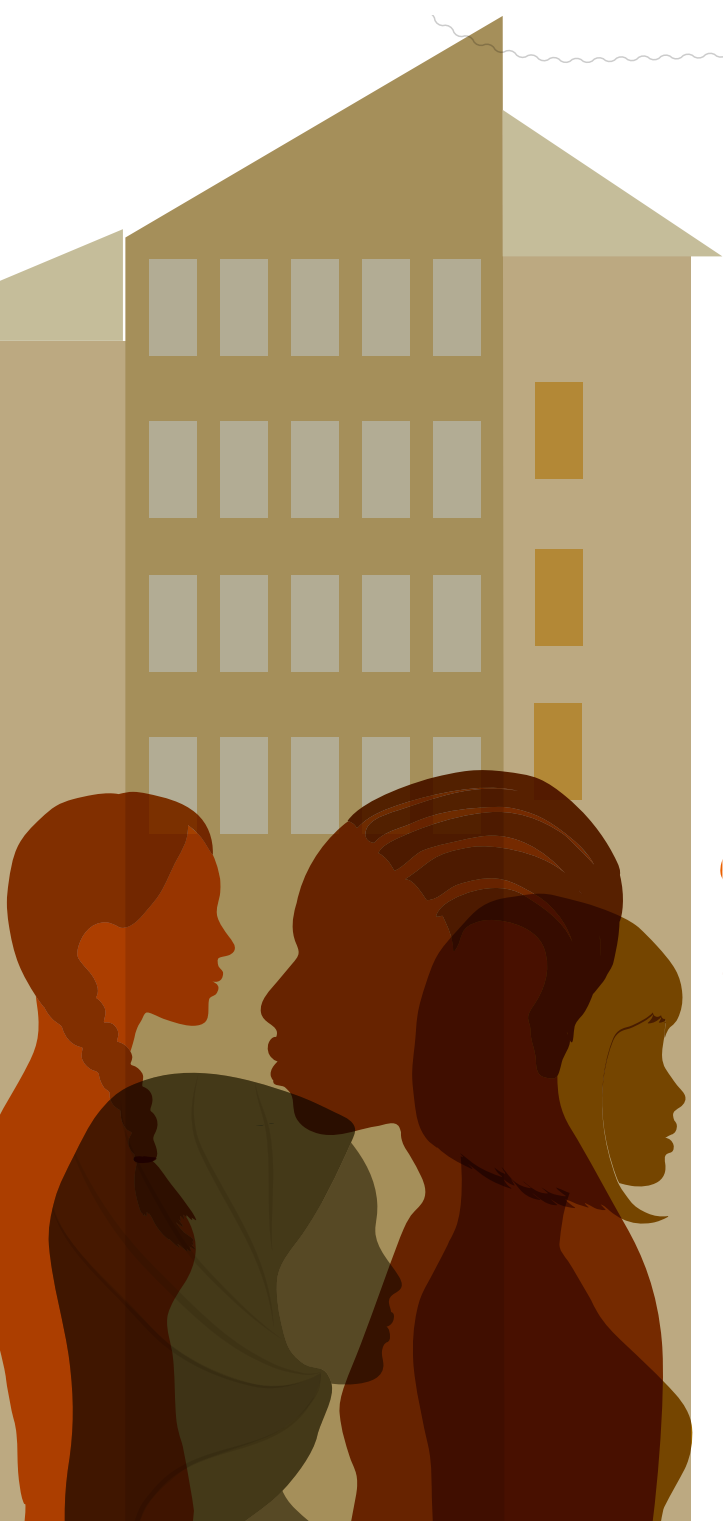
One asset owner stood out for setting explicit representation targets, mandating a minimum participation of 50% of women or individuals from underrepresented backgrounds on investment committees of their outsourced CIO. This approach exemplifies efforts primarily focused on gender and ethnicity balance, although setting such specific targets is not yet common practice.

### Oversight process

Asset owners broadly mentioned their reliance on investment consultants to drive DE&I awareness and action among fund managers. They often pointed to the potential impact of consultant enquiries on managers’ behaviour and information disclosure. Still, one pension fund stressed despite challenging investment consultants on the topic, they are careful to not disrupt their business model, and rather promote a sustainable transition. They mentioned the necessity of balancing the desire to influence behind the scenes with the need to avoid public disruptions.

Engagement with external managers extends beyond formal assessments, with asset owners maintaining an ongoing dialogue on DE&I matters. This discussion encompasses the dissemination of questionnaires (mainly the Asset Manager Diversity & Inclusion Questionnaire), sharing of toolkits for implementation, and alignment of voting policies, all aimed at fostering mutual understanding and alignment on DE&I objectives.

Additionally, a common practice we identified among asset owners is to informally assess DE&I during meetings and presentations, noting underrepresentation in products or management teams. These observations serve as informal indicators, contributing to the overall evaluation of potential or current managers.

An illustration on the left side of the page. At the top, there is a stylized building with a brown roof and several windows. Below the building, there are silhouettes of four diverse people (two women and two men) in profile, facing right. The colors used for the silhouettes are shades of brown, orange, and green.

Pension funds who are signatories of the Asset Owner Diversity Charter and implement the questionnaire demonstrated a comprehensive integration of DE&I considerations from manager selection to ongoing engagement and due diligence. This includes use of the questionnaire to gather annual comparable data, understand the nuances of diversity trends and monitor progress over time. In some cases, DE&I has also become a topic asset owners cover during annual reviews with some of their managers. Showcasing DE&I as a relevant stewardship topic, asset owners are increasingly writing to managers advising them of their engagement in the Diversity Charter and, generally receiving good feedback after their contact.

“Informally, if a manager came to present to us and there was a very non-diverse product team or management team, then that’s something that would be noted and something that would be marked down for them.”

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“In 2023, we started to include DE&I in the formal due diligence questionnaires we share with investment teams annually. We create an annual engagement strategy based on that information across all of our assets. The initial questions in the overall due diligence questionnaire serves almost like a triage to map the ones (managers) we then want to engage more with. The ones we consider there’s been no significant progress in DE&I will receive a more detailed questionnaire, so we can actually try to work out what the symptoms to the illness are. This year we are going to use the *Diversity Project*, which is a more detailed questionnaire.”

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## Consultants' and managers' workforce diversity data

Only 8% of the pension funds we interviewed do not request any kind of DE&I data from asset managers and consultants. However, the level of engagement, frequency and the type of data being requested varies significantly among those who do. Each organisation is developing its process based on internal priorities and procedures. While requesting specific information regarding DE&I in the workforce from investment consultants and asset managers is not common practice, interviewees often mentioned staying attentive to diversity representation during presentations and meetings with managers and consultants.

**Priority in ensuring a policy is in place.** Among the pension funds we interviewed, 31% emphasised the primary relevance of discerning whether asset managers have DE&I policies implemented. However, how pension funds assessed the topic strongly differed – in some cases, it involved a binary 'yes or no' question, with no depth in evaluating the specifics of these policies; in other cases, pensions funds would review their managers' policies annually to evaluate their progress on DE&I.

**Informal evaluation.** Pension funds often analyse the teams managing their portfolio to gauge their seniority, experience and composition. However, this process mostly happens informally during meetings and presentations.

**Requesting DE&I information when setting up a new mandate.** If they were to go out to procure a new manager, 38% of the interviewed funds would expect managers to provide information on their DE&I initiatives in the RFP. In some cases, the information is then reviewed annually, in others, only when the contract is renewed.

**DE&I is part of the annual due diligence process.** In one notable case the asset owner makes continuous efforts to consolidate findings from yearly surveys, incorporating diversity data into formal due diligence questionnaires. This supports the development of an annual engagement strategy, guiding the selection of managers for further involvement based on the initial questionnaire results.

**Consultants often operationalise and intermediate the receipt of diversity information.** 15% of the interviewed pension funds delegate DE&I data gathering to consultants.

## Collecting DE&I data

**Priority themes.** Managers are tracking key DE&I trends, with a focus on gender diversity, gender and ethnic representation on boards, and age balance. As a consequence, data availability in those areas are often prioritised. However, other important (but less 'tangible' or 'quantifiable') DE&I topics, such as neurodiversity and disability, are not so comprehensively reported.

**Challenges in assessing requested data.** Some funds reported no challenges, as they are at the early

“We've not been prescriptive saying we want X, Y, Z. We've left it to the consultant. So we did consider, for example, that every manager needs to have a DE&I policy, but the consultant quite rightly said, 'Well, it's very easy to write policy. It's what's going on behind it (that matters)'. So we've left it to them and we trust that when they recommend a manager, it's going to have gone through this huge filter of ideas and they're going to give us the best one.”

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stages of their journey. Those who are more advanced referred to difficulties in reporting on the intangible or invisible aspects of DE&I and navigating differences in DE&I data collection legislation across regions.

**Implementation of the DE&I questionnaire.** Some funds send out the Asset Manager Diversity & Inclusion Questionnaire to all their active managers. They have observed discrepancies within the industry, with private market managers facing bigger challenges compared to those in the public market. According to them, several private market managers were coming across this type of in-depth questionnaire for the first time. Public market managers, on the other hand, although familiar with such surveys, may encounter challenges in providing certain data due to privacy regulations.

**Learning curve.** As stated at the beginning of the report, DE&I is a relatively new topic and many asset owners interviewed have only begun collecting DE&I data recently, or for the first time. This indicates lessons are still being learned and progress is ongoing for the majority of funds.

**Insight:** Pension schemes are increasingly requesting DE&I data from asset managers. However, there is considerable variation in the level of engagement, frequency and the specific data requested. Informal assessments often take place during meetings, with funds paying attention to representation factors. In some cases, asset owners simply enquire about the existence of DE&I policies without delving further into their details. Investment consultants often facilitate and operationalise DE&I data requests. In other instances, funds more advanced on DE&I discussions are integrating the DE&I questionnaire into their annual due diligence process, collecting and reviewing the data yearly.

### PENSIONS FOR PURPOSE'S PERSPECTIVE

Two significant aspects emerge from these conclusions. First, given that asset owners are predominantly in the early stages of their DE&I journey, investing in DE&I literacy and training within their organisations and among their peers is essential to ensure a successful integration of the topic into their agenda. Second, there is a notable chain reaction effect across the industry; when one agent begins focusing on DE&I, the entire industry adjusts accordingly.





## 1.4 Adherence to the Asset Owner Diversity Charter

The Asset Owner Diversity Charter is a *Diversity Project* initiative, designed to provide strategic guidance and inspiration for asset owners in advancing the DE&I theme within the investment sector. The Asset Manager Diversity & Inclusion Questionnaire is a key part of this action, serving as a tool for asset owners to monitor DE&I progress by establishing standardised metrics that extend beyond gender representation. In addition, the insights gathered from the survey enables funds to effectively track and support DE&I improvement of their managers.

Considering the pension funds we interviewed that are based in the UK:

- 75% are aware of the Diversity Charter and the questionnaire.
- 33% are signatories of the initiative.
- 58% are applying the questionnaire either fully or partially.

**Insight:** Even though the maturity level may differ among asset owners – as some are already developing scoring systems based on the results and evaluating annual progress, while others are just initiating their journey – the level of awareness and the fact that many of the funds have only recently started their journey point to the potential increase in DE&I disclosures in future years.

“About a year and a half ago now (mid-2022), we wrote to every single one of our managers and asked them whether they would sign up to the Diversity Charter. We got varied responses to that, but generally good responses. Some are already signed up, some signed up after we contacted them and, pleasingly, two of them were able to give us case studies.”

PENSION FUND

“We are actively trying to leverage best practice from that (charter) and shaping our questionnaire. But we are not using all of the questionnaire, to be honest. We did an assessment of how much of it will be decision-useful. So we adopted the matrix, but some of it goes far and beyond. So we might look to refine that and increase the aspiration over time. We also wanted to have manager buy-in as it were, rather than flooding them with requests.”

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## 1.5 Underlying investments: themes and priorities in investments and stewardship

As previous research has shown, DE&I is evolving in the pension industry. Our research confirms this evolution follows a specific path. Our conclusions corroborates the findings of the report released by *Cardano and Mallowstreet*, in which they highlight the establishment of a DE&I policy as the industry's priority.<sup>1</sup> The policy usually includes targets and an action plan, encompassing more inclusive recruitment policies, engagement policies with managers and consultants, and the application of the DE&I questionnaire.

This evolution, however, is currently limited to internal policies and engagement with third-party providers to ensure their investments are responsible, hence aligned with ethical values, and do not cause harm. Asset owners intentionally considering DE&I topics in their underlying investments are still in the minority.

Among the funds we interviewed, only two asset owners have underlying investments where they focus on DE&I, and in both cases, this is specifically aligned with gender.

In the first case, the fund decided to implement DE&I in their strategy due to a clear connection between the aim of the organisation and the topic. As their mission is to promote health, they elected three

priority areas as guiding topics around their ESG/ impact investment strategy: health, environmental considerations, and social equity, in which DE&I is the largest part – in that sense, they allocate to women's health. These themes guide their engagement with businesses and their capital allocation.

In the second case, the fund also elected gender as an important theme. They have actively asked their consultant to highlight the manager with a better DE&I policy or with the best female representation on the board, when recommending different funds. Looking at the underlying investments, they invest in two funds run by all-female teams, one focused on women's consumer products and the other focused on an HR system for women returning to work.

Apart from these examples, we identified that DE&I is more commonly considered as part of a broader ESG focus, to analyse whether an investment is responsible or not. Funds are not yet consciously directing their investments towards DE&I themes. As a reminder, while responsible investment involves incorporating ESG considerations as part of the financial analysis, impact investment goes beyond and consciously looks for investments that, alongside the financial benefit, generate a positive social or environmental outcome.

## WAYS PENSIONS FUNDS ARE CONSIDERING DE&I IN THE INVESTMENT PROCESS

### 1 | Stewardship: establishing voting guidelines

Of our interviewees, 42% have implemented DE&I voting and engagement policies, mainly expecting diverse board representation. This is especially pertinent when establishing a new mandate – some have a sustainability or ESG theme that embraces DE&I for their investment analysis.

“The way we look at our external managers and our expectations of them, it’s not too dissimilar to our portfolio companies. We have a voting policy that outlines our DE&I beliefs, which we send on to our portfolio companies prior to engaging with them.”

PENSION FUND

### 2 | DE&I as part of their sustainability policy: responsible investment

In most cases, the scheme’s overarching theme emphasises ESG considerations in investments and managers are expected to incorporate DE&I as part of ESG integration. DE&I is considered to some extent when evaluating an investment as responsible.

Asset owners often share their internal DE&I policies with managers and consultants, requesting them to align their recommendations with the fund’s practices and objectives.

One fund mentioned sustainability as a major topic for their underlying investments, which indirectly overlaps with DE&I themes, such as housing and social mobility. In another case, the fund explicitly expects managers to consider DE&I factors within their assessment of underlying companies and request evidence of that. In their case, they can focus on a specific theme if there is a raised risk related to a private asset.

“We don’t have DE&I as a specific theme, but we do expect our managers to actively consider DE&I factors when evaluating underlying companies, and we seek evidence of this. However, if there’s a private asset that heavily relies on its workforce, for example, we’ll prioritise that aspect more. For instance, in real asset portfolios focused on care homes, understanding workforce culture is crucial, so we may place added emphasis there. We don’t have DE&I as a dominant theme, we do prioritise it based on specific circumstances.”

PENSION FUND

### 3 | Selection of managers based on ESG engagement, which includes DE&I

The development of internal statements, training and DE&I policy were commonly mentioned as a scheme's first step on DE&I topics. Following this, they expand their DE&I engagement to managers and consultants, by using questionnaires focused on understanding their policies and approaches.

Half the funds we interviewed openly request their managers to incorporate DE&I as part of ESG integration, 58% of them actively try to understand how managers integrate DE&I in their overall ESG investment policy. Pension funds more advanced on the theme choose managers based on strong ESG engagement and stewardship, including DE&I, and take these into account during the selection process. In some cases, DE&I is part of the asset owners' sustainability policy, and the investment strategy/portfolio, comes under the ESG umbrella, with implementation delegated to underlying investment teams.' In one case, the fund divided their ESG investment implementation into 'in-house' (selecting the people who are investing for them and ensuring they consider DE&I) and 'external' (assessing how the manager integrates DE&I in their overall ESG or investment policy).

### 4 | Challenges of gathering data

As DE&I reporting initiatives are voluntary, there is inconsistency in companies' reports. Varying levels of reporting leads to an erratic view of the market, making it harder to base investment decisions on an incomplete picture. For this reason, some funds have been encouraging companies to align with peers for favourable investor perception, turning DE&I disclosure into a reputation issue.

“We have a sustainability policy where DE&I is considered. The implementation of this policy involves two components. Firstly, for in-house investments, DE&I influences how we select individuals to handle our investments. Secondly, for external managers, it's about how they incorporate DE&I into their broader ESG or investment policies. Regarding investment strategies specifically tied to DE&I, we don't deploy any strategies just focused on these factors.”

PENSION FUND

“These (reporting) initiatives are still quite voluntary. The problem arises when some companies report and some don't - we get an inconsistent picture of what companies are doing. It's hard to make an investment decision on the back of that. However, we can identify these gaps and encourage additional reporting from companies. We can explain that their peers have already responded to these initiatives and that investors are increasingly focusing on this issue. Besides, encouraging them to participate could enhance their reputation among investors and reduce perceived risk.”

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## 5 | Diversity, equity and inclusion themes

Apart from the two cases we already mentioned, where the funds consider gender as a theme for their underlying investments, no other topics were mentioned as having a direct focus in investments. Social mobility and housing were cited as social themes that indirectly impact DE&I.

In voting guidelines, funds mainly look at gender and ethnicity representation. When engaging with managers, asset owners believe gender is a good starting point since it is relatively easy to gather data on.

“Gender is one of the areas we probably prioritise without realising it, because it’s easier to begin a discussion and to get information on. In terms of how that flows down to the underlying investments, we are asking the extent to which managers are considering DE&I metrics when engaging with companies or underlying assets as a result of their analysis. We don’t direct any further than that but we want to see qualitative answers. DE&I is one of our ESG priorities, one of the areas we look at when considering significant votes.”

PENSION FUND

### Jupiter Asset Management’s view

In a post pandemic world, geopolitical risks have heightened. With conflict escalating across the globe, the urgency of social considerations is particularly heightened.

It is our view that companies which implement progressive policies on human capital management are attractively positioned for the long term. For example, a global large cap company with a commitment to pay Living Wage policies for Tier 1 suppliers by 2030 across their global supply chain is better positioned to

navigate supply chain risks, therefore underpinning economic resilience whilst delivering meaningful real world social outcomes. As noted by the participants of this study, the level of DE&I detail provided by companies varies and, as such, it is important for investment teams to consider these issues within their own research, including direct engagement with investments.

Evidencing how companies align members’ savings to positive outcomes is an important aspect of our long-term partnership with asset owners.

### PENSIONS FOR PURPOSE’S PERSPECTIVE

Although DE&I considerations are evolving within the industry, they are still limited to internal policies and engagement with third-party providers. The pension funds that are advancing the theme are considering the issue in their voting guidelines and often integrate DE&I within their ESG scope as well.

With regard to underlying investments, diversity, equity and inclusion is considered as an important topic to evaluate whether an investment is responsible or not; however, DE&I is not yet being seen as a theme for allocation.



## 1.6 Progress tracking: monitoring DE&I

Asset owners' DE&I policies and engagement levels vary greatly, so too does 'what, how, and when' they track DE&I progress. We identified five levels of monitoring:

- 1 Do not measure DE&I officially but are attentive to 'red flags'.
- 2 Currently developing their own key performance indicators (KPIs) on the topic. However, managers already have their DE&I metrics and targets. In those cases, consultants usually lead on the data collection and processing side.
- 3 Monitor DE&I progress, but it is a 'yes or no' exercise, without further details.
- 4 Request information on DE&I topics from managers quarterly, asking if their policies have been updated or if any new commitments have been made. Will follow up with the managers if they need extra information.

- 5 Have a scoring system to evaluate managers, which includes criteria related to DE&I disclosure practices. Managers not showing progress may be scored lower. If a manager scores poorly, particularly in terms of disclosure practices and diversity, it might lead to consequences related to funding. The fund selects which managers they want to engage further with on the topic after identifying those where they see a room for improvement. Firstly, they identify a potential area of risk/dissatisfaction. Secondly, they agree with the manager. Thirdly, they explore with the manager strategies to improve on the issue. Finally, they monitor improvement over the following months.

Despite the differences in how funds are monitoring DE&I progress, divestment decisions were not DE&I-specific in any of the cases, instead they are influenced by broader ESG concerns. Funds argued that DE&I issues should be aligned with other ESG reasons to lead to divestment and that a case-by-case analysis should be conducted.

“It's not unheard of for us to disinvest on ESG grounds and there have been cases in the past couple of years where managers were not retained based on other aspects of ESG, not necessarily DE&I. I think it would be on a case-by-case basis and that's why it's important to compare managers across asset classes. We accept there are going to be smaller private equity managers, who aren't going to compare well with our bigger public equity managers, but if we did a year-on-year analysis and there was someone who had got worse, who were already flagging as a laggard, then there would be ongoing engagement. Then I suppose it would come to a group or team decision of how significant was the issue and how significant was our position.”

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## **② Investment consultants' views**

# Investment consultants' views

As part of our research, we conducted interviews with three investment consultants based in the UK and globally to gain insights into their experiences and perspectives on the industry's approach to DE&I, and how the topic has evolved over time. Below is a summary of the findings from these interviews

## Q1 Do you have a DE&I strategy/policy and manager rating in place?

All the investment consultants interviewed had a DE&I policy and a responsible investment rating, which looks at the firm level approach to diversity and inclusion. To rate the manager, they analyse/read the policy.

One consultant assesses all managers on ESG, considering the extent to which they integrate ESG factors into their decision making. As part of that process, they ask managers about ESG issues, DE&I being one of the factors they consider to manage social risks within the companies they invest in.

They assess that, mainly, in terms of integration – ie the extent to which managers are thinking about those issues and taking into account relevant risks, also the engagement they undertake with those investments. Questions to managers include how they are engaging on ESG issues and how they ensure DE&I is factored into their engagement strategy. As part of the ESG ratings assessment, they ask managers about their own firms. Questions include how they ensure their firms' policies are consistent with good ESG practices, which would often entail good policies and practices on DE&I.

When asked whether they would reject managers if

there were red flags on DE&I, investment consultants gave a similar response to asset owners: they would look at the overall ESG rating to make that kind of decision.

## Q2 How progress is measured progress against DE&I strategy/policy?

Investment consultants track progress in various ways when analysing managers' DE&I considerations. One consultant does not monitor progress directly – for example by checking improvements in terms of percentages of DE&I representation in underlying companies. However, they do analyse best practice and targets; managers who can show improvements against their own targets will get the highest scores.

Another consultant considers DE&I from two perspectives. Cognitive diversity is the first element, forming part of the entire manager research process. It entails the thought process of the various teams managing investments and the key decision makers. It is very qualitative and the consultant does not score managers specifically on that. Identity diversity is the second part. For this, they collaborate with investment or strategic partners to enhance database transparency on identity diversity. Progress is measured against the client's specific criteria, including mission alignment.

## Q3 How do you incorporate DE&I aspects into manager searches and recommendations to pension fund clients?

DE&I factors are components of the overall rating. If managers score 'weak,' the lowest score possible, it means the manager or product is non-investable. In the case of the ESG rating, DE&I feeds into their overall ESG rating and that drives the recommendations they make.

“The DE&I score is a significant component of our overall rating. Essentially, if the rating is weak, it indicates the manager or product, because it contributes to the overall rating, may not be suitable for investment. While there are rare scenarios where the DE&I score is low but other factors are strong enough to still consider the investment, it's uncommon for one area to be significantly lacking compared to others and still pass our evaluation process.”



## Q4 How do you track and report on the investment manager's own diversity – racial, gender and other demographic representations?

Consultants are not yet conducting firmwide quantitative analyses of representation across ethnicity, gender and other demographic aspects. However, we identified they are on their way to starting this process. So far, there has been a focus on client-requested tracking of diversity, particularly policies and practices. We have identified active engagement with portfolio managers and senior executives to understand diversity policies and commitments, and to evaluate theory versus practice discrepancies. In some cases, the consultants implemented the Asset Manager Diversity Questionnaire.

All investment consultants reported they see the topic evolving over time and are optimistic for the future, citing an increase in female entry-level professionals as a potential driver for improved gender diversity in the long term.

## Q5 How is DE&I taken into consideration in strategy reviews and the manager selection processes?

DE&I questions and requirements may differ from client to client, but the general view is pension funds would like to see good DE&I policies in place.

For consultants operating globally, they see very different requirements on DE&I and other sustainability factors. In some cases, DE&I is discussed within the ESG integration; while it is not perceived as a specific theme yet, it can be openly discussed in case of a major red flag.

“We operate globally and encounter diverse client requirements regarding DE&I and other sustainability factors. Clients vary in their emphasis on DE&I, with many expressing a desire for strong DE&I policies. While not all clients insist on diverse managers for all strategies, there's a growing trend among asset owners to prioritise diversity in manager selection. For example, we've recently received enquiries from clients seeking racially diverse teams to manage fossil fuel-free strategies within specific asset classes. These requests for diversity are becoming more common in our interactions with clients.”



## Q6 How do asset owners' approaches to DE&I differ in the United Kingdom compared with North America?

The more engaged asset owners want to understand how DE&I is incorporated in manager selection. In those cases, they encourage managers to report on DE&I and significant votes, including implementation statements. Asset owners with engagement programmes are more likely to enquire about manager practices on DE&I. However, there is a firm-level approach, with a focus on ensuring a robust internal foundation first.

In the UK, most asset owners consider DE&I a risk issue which forms part of their broader ESG risk considerations. Asset owners may reference their ESG ratings to ensure managers are not overlooking these aspects. Certain schemes do set DE&I as an engagement priority, but that is still an evolving area.

Consultants operating globally reported a difference between how the UK and the North American industry approach DE&I, considering conversations on the topic more developed in North America than in Europe. According to them, in the UK, there is a general focus on seeing policies are in place and an emphasis on managers' commitments and policies. In North America, this is more specific. Asset owners go beyond asking managers about their actions, policies and practice. They usually overlay the data they receive from managers against an external data provider to develop filters and a benchmark for

DE&I strategies. Racial diversity is a very important topic in the US and Canada. In Canada, for instance, it embraces discussions around Indigenous people's rights, which is debated during manager selection exercises.

**“The more engaged asset owners would want to understand (DE&I) at the manager selection stage. In terms of ongoing engagement & monitoring, we ask managers to specifically report on DE&I, on their significant votes, and implementation statements. That's how pension funds can engage with their managers to find out how they are voting on DE&I. We focus on the asset manager's firm-level approach to DE&I because obviously you want to be leading by example – so, making sure that's quite solid at the firm-level and then asking for engagement examples around DE&I, that managers have with underlying issues or holdings.”**

## Q7 Aligning DE&I themes with the Sustainable Development Goals (SDGs): what are pension funds priorities?

Ensuring more diversity in board structures is a way to enable **Gender equality (SDG 5)**, in which one of the subtopics (target 5.5) is to 'ensure women's full and effective participation on equal opportunities for leadership at all levels of decision-making and political, economic and public life'. In that sense, gender balance has been perceived as a priority, primarily among the board and leadership positions.

## Q8 How are pension fund clients aligning D, E & I priorities (taking each in turn)?

Consultants have not identified this level of granularity in their alignment yet. According to them, there is an education issue preventing pension funds from perceiving diversity, equity and inclusion as separate layers. There is an emphasis on diversity as it is the most tangible component – equity and inclusion are less understood.

## Q9 What challenges are pension fund clients facing in aligning with DE&I goals?

Investment consultants mentioned two major challenges. Firstly, the opportunity set is still limited



when it comes to looking for ideas being managed by diverse decision makers. Secondly, there is a scarcity of data, mirroring issues faced with other ESG factors.

## Q10 When did consultants begin focusing on DE&I in their decision-making?

While all the investment consultants we interviewed recognised the positive correlation between DE&I initiatives and business performance, they adopted approaches to the topic at different times.

Some consultants have integrated DE&I analysis into their practices for over five years, starting with a basic binary 'yes or no' evaluation and progressing to a more comprehensive analysis. Others have incorporated cognitive diversity (varied thinking processes) into their methodologies for nearly two decades. However, the emphasis on identity diversity (such as race and gender) has become significantly more pronounced over the 10 years.

## Q11 How is DE&I strategy and policy evolving?

DE&I strategies have evolved, particularly in terms of training. In addition, there is a slight increase in the topics being considered by the industry.

While gender diversity was the primary focus five to 10 years ago, there is now a small shift towards embracing racial diversity as well. DE&I is a dynamic concept, continually evolving to encompass various dimensions of diversity beyond just race and gender. Looking ahead, consultants anticipate a more balanced representation of key decision-makers across all aspects of diversity within the asset management industry in the next three to five years.

“We’re seeing new elements of diversity coming in. If you go back five to 10 years, it was very much focused just on gender. The focus today is expanding to ethnicity. All aspects of diversity, I think, is going to continue to evolve. Diversity itself is not static. You’re always going to be seeing new elements of diversity coming in and (influencing) expectations for the next three to five years. We’ll be seeing a better balance when it comes to key decision makers and the asset management industry around all

### PENSIONS FOR PURPOSE’S PERSPECTIVE

DE&I strategies differ across investment consultants. This reflects the fact that requirements change from fund to fund, regionally and globally. Still, very often DE&I factors are considered in the realm of major ESG issues, composing the ESG rating to evaluate managers and products. The general view is that the topic will expand over the years, moving from a current focus on gender balance to ethnic representation and so on. However, for this to happen, education plays an essential role, mainly around exploring diversity, equity, and inclusion as three different and complementary elements.





## ③ Policy components

# Policy components

Despite the variety of levels and ways asset owners and their third-party providers have been implementing DE&I, we identified a pattern of commitments or phases in how the topic has been addressed

This pattern mainly follows the structure we used in our questionnaire.

## Phase 1 – DE&I at the firm-level

The **Diversity & Inclusion Questionnaire** provides valuable insights for DE&I implementation at the firm level. By asking qualitative and quantitative questions across five areas – board, promotion, culture, recruitment and industry – asset owners can identify their main priorities, material topics and needs related to DE&I.<sup>1</sup>

It considers DE&I in:

- Recruitment processes.
- Fostering an inclusive culture in which employees feel a sense of belonging regardless of differences.
- Offering equitable opportunities for growth and development within the organisation.
- Establishing thematic working groups.
- Participating in industry initiatives to promote DE&I.
- Ensuring equitable representation across leadership positions.

As the Toolkit within the Asset Owner Diversity Charter explains, the priority is to understand where the fund is and what it wants to achieve in terms of DE&I. Following this, it gets easier to develop its DE&I engagement and stewardship process.

“There’s no specific checklist that we’re looking for in a policy. Every policy tends to be different. We’re looking for commitments. What kind of commitments do managers have? And those commitments could be very different across the board. We don’t ask for a specific standard. But when it comes to those commitments, we want to understand how they are being measured and implemented – so the chain effect of that policy (and the process around that: the governance, the guidelines, recruitment process, talent retention). Finally, we want to understand the incentives behind those commitments.”

INVESTMENT CONSULTANT

“We have gone from figuring out our scoring system, key metrics, where we are going to focus, to now looking at the changes year-on-year. In five years, we would expect to see more diversity across senior positions in the industry.”

PENSION FUND



## Phase 2 – DE&I interactions with third-party providers

The Toolkit primarily focuses on implementing DE&I in the manager selection process and monitoring. Based on our research results, asset owners and investment consultants often include questions on DE&I in the RFP process and when establishing new mandates.

The monitoring process typically involves applying the Diversity & Inclusion Questionnaire annually to track progress with managers and following up with those where no progress is observed. However, understanding each case is crucial and interviewees often highlighted the importance of 'giving colour' to quantitative data by collecting qualitative insights. Asset owners have also been inviting their managers to participate in industry initiatives on DE&I to foster a 'chain reaction'. This phase follows the priorities identified in the first phase.

“We are focused on updating our voting guidelines. I've been conducting research, collaborating with colleagues internally and revisiting diversity considerations. Initially, I pondered the idea of implementing a blanket target for voting and engagement but realised the importance of regional and cultural nuances. Some countries have mandated different percentages, so we must balance overarching goals with practical feasibility. While aiming for progressive targets aligned with regulations like the Parker Review for ethnicity, we recognise blanket targets may not always apply. As for the evolution of stewardship, diversity and inclusion remain ongoing priorities. The industry and companies are evolving, and we're continuously striving for a more diverse future. It's uncertain where this journey will lead, but we're committed to maintaining focus on diversity and inclusion as vital in addressing climate change.”

PENSION FUND





## Phase 3 – DE&I in underlying investments

*For this phase to be reached the previous ones need to have a solid foundation.*

The primary conclusion of this research is that pension funds are not yet allocating capital to investments focused on DE&I, even though they are making notable effort to evolving in the previous phases. Engagement on the topic requires dedicated endeavours in education and training, and identification of gaps – a step we see asset owners taking.

All participants agreed on the correlation between DE&I and business performance, which highlights the relevance of embracing DE&I within pension funds.

We therefore hope this study helps to promote further discussions and more research to broaden adherence to the topic.

### REFERENCES

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“In the way that ESG a decade ago was seen as a ‘nice to have’ and now it’s integral to the decision making, I think that’s where we are to a degree with DE&I. It’s seen by a lot of people as a nice to have but, in time, it will become integral to the formulation of that board, committee or other decision-making body. It just has got a little way to go. People don’t see it as an immediate imperative, whereas from my perspective they are missing a huge opportunity by not implementing a formal policy.”

TRUSTEE

### Jupiter Asset Management’s view

Consideration of the balance of stakeholder interests in DE&I is an important input to identifying those companies leading the transition to a more sustainable world.

While remuneration linked to DE&I objectives are still in early stages on a global equity basis, the outcomes are important from both a social multiplier and an economic perspective.

A recent study from the *International Monetary Fund (IMF)* found that increased female participation in the global economy - for the bottom half of countries in their sample in terms of gender inequality - could increase GDP by an average of 35%<sup>2</sup>, showing significant economic benefits.

It is a logical imperative, in our view, for investors to integrate these considerations into capital allocation.



## **4 Pension fund challenges**

# Pension fund challenges

Asset owners commonly mentioned challenges related to data gathering, which are connected to some other issues listed below:

**Difficulties in combining multiple stewardship areas under consideration.** For example, DE&I, climate change and nature (preventing biodiversity loss, particularly addressing deforestation). They recognise the importance of various areas, including DE&I, but there is a challenge that arises from the need to prioritise and address many important areas. It leads to an evaluation of whether certain topics can be delved into for greater impact due to concerns about the ability to address all areas with the necessary depth.

**DE&I as a tick the box exercise versus meaningful progress.** Asset owners mentioned some management teams have great DE&I policies and initiatives but there are only white/male attendees at meetings, showing the lack of representation.

“We’re looking at a lot of other things in terms of stewardship and engaging with our managers. Obviously, climate change is the big one, but we’ve also focused heavily on nature and biodiversity. The biggest barrier is that while we and the trustees agree all of these areas are important, there’s a question of whether we should adopt a high-level blanket approach of simply asking all our managers about these different topics, or if we should delve into certain topics in more detail to make a bigger impact. This raises concerns about not addressing other areas, not because they’re less important, but because we may not have the capacity to delve into them deeply enough to make a meaningful impact across all areas.”







**Lack of representation.** This makes DE&I discussions difficult initially. One asset owner mentioned that, although hard at the beginning, the team had honest discussions around the theme, identifying gaps. They later launched an internship programme to bring someone from a more diverse background to the fund.

**'Slow burn challenges'.** These include slow progress in achieving stronger diversity representation, especially in portfolio management teams, and challenges associated with waiting for natural turnover or company growth to facilitate increased diversity. However, in these cases, asset owners look for a proactive approach in exploring diversity, not only at the senior level but also at the junior level and within recruitment activities.

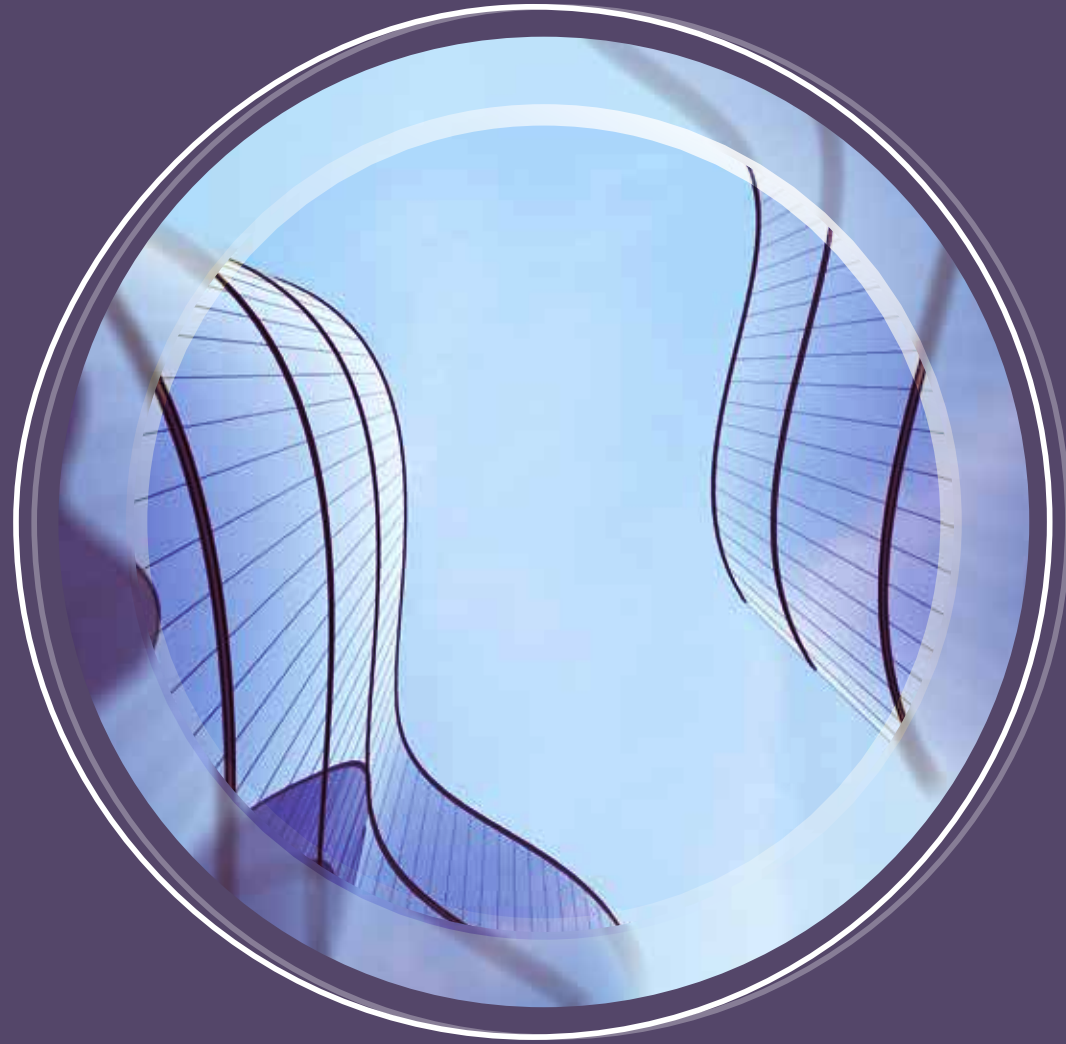
**Different perceptions around DE&I conceptualisation.** This occurs particularly between the UK, the EU and the US. Discussions usually start by aligning perceptions and definitions of DE&I. Often, meetings run out of time at the issue identification stage, posing a barrier to progress in addressing DE&I challenges.

**Inconsistency across different geographies.** Regulatory guidance and frameworks change from market to market as well as the type of data employers can collect about their employees. Self-identification is more common in the US than in the UK/Europe, which helps the former in providing workforce data (gender and minority proportions); in the UK/Europe this data collection is challenging. There is an inconsistent picture preventing effective decision making on DE&I investments.



“The issue is how meaningful is the data and how usable is it for investors to translate into their investment decision making?”





## **5** Industry initiatives



# Industry initiatives

The initiatives listed below were mentioned by asset owners interviewed during our research, which may be of help to pension funds considering a refresh of their DE&I approach.

The ***Diversity Project*** supports the promotion of a diverse and inclusive UK investment and saving sector and has led to the creation of the **Asset Owner Diversity Charter**. The Charter aims to formalise asset owners' commitments to enhance DE&I within the industry and pension funds are welcome to become signatories of the Charter.

The Asset Owner Charter includes the **Asset Manager Diversity & Inclusion Questionnaire**, created to help asset owners track how asset managers

are improving in their DE&I commitments. The questionnaire can be applied on an annual basis.

The ***30% Club*** encourages investors in the UK to participate in this initiative, focused on ensuring the investment landscape reflects the diversity of overall society. Members commit to achieving the 30% targets, including:

- >30% representation of women on all *FTSE 350* boards, to include one person of colour by 2023.
- >30% representation of women on all *FTSE 350 Executive Committees*, to include one person of colour by 2023.

***10,000 interns*** creates paid internship opportunities for Black and disabled students and graduates.

This is a great opportunity for funds aiming to either implement or expand DE&I in recruitment processes.

***HM Treasury's Women in Finance Charter***. After a report launched in 2016 revealed women represented only 14% of executive committees in the financial sector, the *HM Treasury* launched the Charter, inviting organisations worldwide to sign up to the commitment. It includes setting and reporting targets for gender representation in senior roles.

Other DE&I initiatives include:

- ***Diversity in Pensions***.
- ***Real Estate Balance***.
- ***Business in the Community*** Race at Work Charter.
- ***Disability Confident***.



## **6 Looking ahead**

# Looking ahead – DE&I in the next five years

We explored the main areas of evolution in navigating DE&I along with the main aspirations on the topic for the next five years, according to asset owners. It is important to note not all pension funds are currently implementing or planning to implement all the initiatives listed below. Funds are at different stages of their journey on the topic, and there are varying levels of commitment and ambitions in regard to DE&I.

How pension funds have evolved:

- Significant evolution of DE&I strategy and policy in the last two years.
- Integration of DE&I references policies and processes (embedding DE&I into manager selection exercises and site processes).
- Establishment of a scoring system and metrics, both aligned with their managers, so progress is tracked annually.
- Implementation of mandatory trainings on DE&I to establish an aligned understanding on the topic within the organisation.
- Incorporation of DE&I in member communication and/or on the annual ESG bulletin.
- Establishment of DE&I action plans and/or action groups.
- Inclusion of DE&I in the voting guidelines.

How pension funds expect to evolve:

- Achieve high-quality data and encourage

organisations to disclose further information, such as gender pay gap. Some asset owners also intend to extract DE&I data to get a picture of their active membership.

- Expand focus to the wider company employee base (so far, there has been a focus at the board-level).
- Consider regions and cultures. There is a desire to frame DE&I approaches for US and Asian companies; also, engagement with networks and standard setters in targeted countries.
- Build and develop initiatives across different markets and geographies but working with investors and standard setters as a starting point (bottom up).
- More diversity among senior positions within the industry.
- Identify DE&I as a priority area alongside other focus area (like climate change).
- DE&I becomes a binding restriction in manager selection in the future, but still connected to major ESG risks.
- Continuous evolution of DE&I strategy within stewardship. Recognition that the industry and companies are evolving, requiring ongoing adaptation.
- Increase the aspirational bar for DE&I, as the granularity of data improves.
- Aspiration for KPIs to measure progress effectively.
- Establish and report on specific achievements

related to diversity goals.

- Explore diversity beyond gender, such as disability, wealth gap management and potential inclusion of LGBTQI+ communities. Acknowledgment of challenges in addressing socio-economic backgrounds.
- Explore more tangible ways to implement DE&I, primarily how to incorporate it in their portfolio.

**“Over the last few years, with regards to external managers, this is something that dramatically improved. Having an internal resource that has a relationship with each one of our external managers and is able to monitor their progress on topics such as DE&I is really valuable and obviously the Asset Owner Diversity Charter makes it a lot easier for us to track external manager progression.”**

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Opinions in terms of DE&I becoming a focus for asset allocation differed. However, there was overall agreement it will continue to evolve as an engagement and stewardship issue, including voting with the underlying companies.

“How will it continue to evolve? I imagine it’s going to be more of the same. Do I think it’s going to become an asset allocation issue? No, I don’t anticipate that. Do I think it’s going to become a continued engagement and stewardship issue? Yes, I do. Our engagement and the stewardship with the underlying asset managers, including voting with the underlying companies, that’s going to continue. The rise of data becoming available is going to really help.”

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“We would like to see to what extent we can incorporate it (DE&I) into our portfolio in a slightly more tangible way. One aspect would be to try & encourage corporations, for example, to disclose the pay gap, and to understand how we can engage with the companies to see what could be done.”

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### Jupiter Asset Management’s view

The societal challenges presented require long-term commitment to solve. As the report shows, societal expectations are changing and we see DE&I only becoming more material for businesses.

Though the availability of data varies, we anticipate issuer data disclosures around DE&I initiatives will continue to improve, in consistency and reliability.

In the meantime, there are tools asset owners can embed, such as a commitment to align with the *UN Global Compact* as a baseline for social outcomes,

which includes 10 guiding principles including those relating to human rights and corruption and avoids those companies which violate those principles.

Diversity and inclusion are also essential components of the SDGs, particularly [Gender equality \(SDG 5\)](#) and [Reduced inequalities \(SDG 10\)](#). DE&I objectives can also be linked to [Quality education \(SDG 4\)](#) and [Decent Work and Economic Growth \(SDG 8\)](#). We believe investors can act as agents for positive change through stewardship, encouraging companies to adopt best practice.



# **7** Literature review





# Literature review

As pension funds increasingly prioritise gender and ethnicity in leadership roles, research suggests companies promoting DE&I enhance financial performance, and foster innovation and resilience

The reason why pension funds are increasingly embracing gender and, in some cases, ethnic representation in board and leadership positions as their first DE&I target, becomes clear when we look at the statistics. Despite gradual progress, female representation in executive positions in the UK and US is still very limited, having increased from 15% to 20% between 2014 and 2019. Similarly, ethnic minority representation has seen an increase from 7% to 13% over the same period (McKinsey & Company, 2020<sup>1</sup>). Despite evidence suggesting women's more consistent and less volatile performance as asset managers, only 7% of UK funds were managed or co-managed by women in the early 2010s (Columbia Threadneedle, 2015<sup>2</sup>).

## Gender representation

Projections show the UK has been advancing and will continue to increase female representation in the financial sector. In 2021 women accounted for 17.4% of C-suite positions and 21.8% of senior leadership

positions. The projected share in 2030 is 25.1% for both (Deloitte Center for Financial Services, 2022<sup>3</sup>).

This increase could impact investment results – a recent analysis revealed prioritising allocations in companies that promote gender equity in senior roles could improve portfolio performance by 72 basis points annually compared to the benchmark (MSCI World Index) over the last four years (BlackRock, 2023<sup>4</sup>).

## Engagement on DE&I

While we acknowledge criticisms of the analysis, such as BlackRock's preference for using return on assets over total shareholder return to measure financial performance, we found it crucial to cite this report. It was frequently referred to by interviewees in our research who either highlighted its importance in prompting attention to the topic or providing evidence to support greater engagement on DE&I.

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- 6 Edmans, A, Flammer, C, & Glossner, S, European Corporate Governance Institute (EGCI), 2023, *Diversity, equity and inclusion*, viewed March 2024, <<https://ssrn.com/abstract=4426488>>.



Using employee responses from the *Great Place to Work's Trust Index* survey, a study found weak correlation between these responses and traditional demographic diversity measures, suggesting conventional metrics may miss key aspects of DE&I.

Companies committed to DE&I have shown strong recent financial performance and lower leverage, indicating financial stability supports long-term DE&I initiatives. While no correlation was found between DE&I and stock returns, the study identified a positive link between DE&I and future profitability measures such as RoA and return on sales (Alex Edmans, Caroline Flammer & Simon Glossner, 2023<sup>6</sup>).

#### FURTHER READING

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**Useful context for social multipliers.**
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**"Time poverty is a human rights issue that must be addressed in order to fulfil the SDGs and empower women and girls everywhere to achieve their full human potential, with lasting benefits for their families, communities and nations."**
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#### Competitive edge

Industry research highlights the necessity for representation to be accompanied by robust inclusion initiatives which foster a sense of fairness and belonging among employees to deliver positive outcomes (McKinsey & Company, 2020<sup>1</sup>). Benefits arising from DE&I include improved crisis responses, greater likelihood of innovation and better anticipation of changes in consumption patterns, which generates a competitive advantage.





## **8 Best practice examples**

# Best practice examples

As well as participating in initiatives to boost DE&I across the financial sector, our interviewees shared strategies for promoting DE&I in their own organisations and with third-party providers. Here we recommend best practices of varying complexity that can be adopted by funds

## DIVERSITY, EQUITY & INCLUSION RECOMMENDATIONS

### 1<sup>st</sup> recommendation – implement internal DE&I training

“Providing clear definitions and explanations of DE&I through training can help make these concepts more widely understood and accepted. Having a shared understanding can facilitate more meaningful discussions. (Our fund) has been implementing mandatory training sessions on DE&I, which I think is a step in the right direction.”

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### 2<sup>nd</sup> recommendation – incorporate DE&I considerations into the manager selection process

“In our organisation, DE&I are pillars of our sustainability strategy. When we select our investment managers through the RFP process the ESG scoring accounts for 10% of the overall score. DE&I is also part of our annual due diligence process. Last year, we included diversity data in our formal due diligence questionnaires sent to external managers. Even if we’ve only conducted one deal with a PE manager, they’re still included in the survey. Based on the survey results, we develop an annual engagement strategy. We start with initial questions in the due diligence questionnaire to identify managers for deeper engagement. This year, we plan to use a more detailed questionnaire for managers who haven’t shown significant setbacks in diversity, to help us understand and address any issues effectively.”

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“We have extensive interaction with many consultants, and noticed a growing trend among them to require asset managers to adopt explicit DE&I policies. Recently, in my capacity as an independent trustee, I attended a presentation where DE&I was thoroughly discussed. The focus, particularly on gender diversity, comes from examining the risk premium associated with DE&I. It was argued that asset managers who consider gender diversity in their team formation tend to achieve better risk-adjusted performance over time. While I strongly believe in the benefits of diversity, current discussions focus on gender diversity. Exploring further dimensions of diversity could provide valuable insights into the potential risk premiums associated with diverse teams.”

TRUSTEE

### 3<sup>rd</sup> recommendation – engagement is the first step to interact with managers on DE&I

“As trustees began to consider DE&I internally, we incorporated it into our annual oversight questionnaires. We ask managers about their policies and how they engage with companies in their funds regarding DE&I. Our oversight process includes escalation procedures, starting with engagement where we ask managers numerous questions, including those related to DE&I, and evaluate their responses. While DE&I is crucial, termination based solely on this aspect may not occur if the manager performs well, meets objectives, and aligns with sustainability goals.”

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### 4<sup>th</sup> recommendation – combine qualitative & quantitative analysis in surveying third-parties

“On an annual basis, we apply the Diversity Charter questionnaire. After analysing the results in-house, we generate internal reports and provide feedback to managers. We’ve developed our own scoring system to assess managers and suggest improvement based on industry standards and our observations. However, it was difficult to extract the actual intent from the managers just from the questionnaire, which is an *Excel* spreadsheet. In our case, for example, two managers had the same score in our system, if you looked at the *Excel* spreadsheets, you may think that’s a fair analysis. Speaking to the managers, one was extremely hands-on, actively focusing on improving DE&I within their organisation and the broader industry. They were implementing and fostering multiple inclusivity initiatives in-house. In contrast, the other manager seemed less proactive, with ill-defined policies on flexible working. These conversations allow us to assess not only quantitative metrics but the genuine commitment of managers to advancing DE&I.”

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### 5<sup>th</sup> recommendation – boost representation across investment committees

“We only recently established an investment team. Previously, it was all managed through outsourced Chief Investment Officer (CIO) arrangements. Even then, we made efforts to incorporate diversity by setting minimum standards for diverse managers, requiring that at least 50% of the investment committee or ownership represent women or individuals from minority backgrounds. Now, we have a minimum bar of three diverse members on the investment team, which may seem like a modest requirement, but it’s actually quite significant given some of the teams we collaborate with. We’re also in the process of establishing targets for diverse managers.”

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## 6<sup>th</sup> recommendation – explain clearly to consultants how the scheme wishes to consider DE&I

“We rely on an investment consultant to select external funds for us. While we’ve emphasised the importance of considering DE&I in their selection process, the final decision rests with them, balancing various factors. Each recommendation undergoes scrutiny by our investment committee, considering factors like manager performance, history, risk profile and liquidity. DE&I is just one aspect, among many in their recommendations. Sometimes, other factors outweigh its importance, leading to discussions on trade-offs. Given the male-dominated nature of venture capital, comprising 20% of our portfolio, we stress our preference for diversity to our consultant, recognising their influential role as gatekeepers. We believe their inquiries about DE&I in manager due diligence surveys can promote positive behavioural changes, as managers strive to address these questions from a leading global consultant.”

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## 7<sup>th</sup> recommendation – consider how DE&I feeds into voting and stewardship

“On the social side, we screen for human capital management issues, such as sexual harassment, which can lead to exclusion or engagement with a company. We focus heavily on promoting board diversity through our voting policy, particularly in markets without quotas. In the US, where we hold many investments, we support shareholder resolutions related to diversity and inclusion unless they contradict our ESG principles. While we do exclude companies from our portfolios, it’s typically due to severe controversies rather than solely based on diversity and inclusion criteria. While diversity is an important factor, it’s usually combined with other issues and controversies to warrant exclusion from our portfolios.”

ASSET MANAGER

## 8<sup>th</sup> recommendation – include DE&I as an agenda item in meetings with managers

“We include DE&I as a specific agenda item in our advanced manager oversight and monitoring meetings. This ensures that managers are prepared to discuss this topic and provide relevant information. By focusing on a limited number of agenda items, such as climate and DE&I, we can have more in-depth discussions during the meeting. This approach allows us to identify areas for improvement and follow up on them in the coming months.”

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**9 Sponsor's view  
on the research**

# Sponsor's view on the research

## Feedback from *Jupiter Asset Management*

Our Global Sustainable Equity strategy was designed and launched to invest in those companies that are leading the transition to a more sustainable world. It is our long held view that companies which balance the needs of three key stakeholders, planet, people and profit, are better placed to generate attractive returns over the long-term (5-10 years.)

As such, we are encouraged by the report's findings that DE&I considerations are becoming increasingly important in the view of asset owners, pension fund members and consultants.

We recognise the challenges raised by the respondents to this research when making assessments, particularly stemming from data availability and consistency; however, we are encouraged by the ambition this report highlights to align interests and provide clarity for clients on

the real-world social outcomes of their investments. We believe investors can look to core sustainability frameworks to inform their view.

We welcome further progress in this space and believe aligning the investment chain to deliver the most impactful results will be in the best interests of all stakeholders. As highlighted in the research, policies are of limited value without tangible transparency those policies are being implemented throughout an organisation. This remains particularly challenging when considering the supply chain of a company's operations, with limited reliability of look through. There are tools that we can include in this research, but currently data remains limited across the global equity universe.

Initiatives discussed, such as the Living Wage, the UN Global Compact and UN Sustainable Development Goals are useful frameworks for asset owners to

consider alignment with.

We would also encourage consideration of the products and services of underlying issuers in the context of supporting fund level DE&I objectives. For example, global payroll operators that enable transparency of the workforce which is intrinsic for companies to understand and target better DE&I integration. Or companies which enable long term structural equality through financial inclusion, which disproportionately impacts women. With over one billion unbanked adults globally, digital payments/networks and software can better enable inclusion through mitigation of extended travel in geographies with underdeveloped infrastructure, as well as enhancement of personal security without the risk of carrying physical cash. These are just some examples of opportunities that enable asset owners to align to better economic inclusion of underrepresented stakeholders.



**Conclusion**

# What have we learned from the research?

**“Do you believe DE&I is related to business performance?”** was the opening question of our interviews with pension funds. Mentioning their own positive experiences of working in diverse teams or citing reports they had read on the subject, all of them answered “yes” to the question. The common belief in the potential of DE&I to boost performance is a great starting point to raise awareness of the importance of embedding the topic in organisations.

As a recent concept that funds have started to engage more strongly with since 2020, asset owners are in the process of identifying priorities and the best strategies to incorporate DE&I into their business models. In most cases, establishing a policy and/or connecting DE&I with the ‘social’ aspect of ESG has been the first step funds take.

Given it is a complex subject that includes both quantitative (diversity) and qualitative (equity and inclusion) dimensions, initial attention regarding DE&I themes is directed towards gender and ethnic representation. Asset owners argue that monitoring progress on these themes is more straightforward due to their quantifiable nature, in contrast to qualitative assessments.

Funds often share their DE&I policies with their managers and consultants, and, in some cases, they employ questionnaires and foster DE&I discussions with their managers. These discussions often revolve around the existence of a DE&I policy and how managers engage with companies within their funds regarding DE&I. Despite increasing involvement in the topic and growing

recognition of DE&I within manager selection and oversight processes, our research concludes DE&I is not yet a theme considered in underlying investments.

Although at different stages of progress, there is an overall willingness to embrace DE&I among pension funds. Giving its nascency and expanding significance, there are several areas of improvement and for further research, particularly regarding equity and inclusion considerations and the broader effectiveness of DE&I initiatives beyond gender representation.

We trust the conclusions drawn from this report will stimulate further dialogue and encourage funds to initiate and progress their commitments to advancing DE&I.







# Appendix



**Asset owner questionnaire**

- 1 | Do you believe DE&I are correlated with business performance?
- 2 | How do you perceive DE&I within your own organisation? Do you have DE&I strategies, policies or targets?
- 3 | Do you incorporate DE&I factors into manager selection and oversight processes? If so, how?
- 4 | Do you request consultants and managers provide workforce diversity data and DE&I policies for their own organisations? If yes, have there been any challenges accessing the data being requested?
- 5 | Have you heard of the Asset Owner Diversity Charter? If yes, do you or your investment consultants use their Asset Manager Diversity & Inclusion Questionnaire? Are you part of the Asset Owner Diversity Working Group or any other industry group that promotes DE&I issues and initiatives?
- 6 | Do you prioritise any specific DE&I themes when engaging with your managers or underlying investments?
- 7 | How do you approach DE&I in your investment portfolio? What kind of DE&I themes, if any, do your investment strategies seek to tackle?
- 8 | When did the fund begin considering DE&I for your investments?
- 9 | Do you believe that DE&I can improve risk-adjusted returns in your investments?
- 10 | Do you measure progress by your managers or in your portfolio regarding DE&I? If yes, how? What action do you take, if progress is not being made at the pace you would like?
- 11 | What challenges/headwinds are you facing in aligning with your DE&I goals?
- 12 | Overall, how has your DE&I strategy/policy evolved over the years, and where do you anticipate it evolving over the next three to five years?

**Participants who gave permission for their name to be listed in our report**

Asset owners	Investment consultants	Asset Managers	Trustees
Border to Coast Pensions Partnership	Hymans Robertson	Cardano	BESTrustees
Environment Agency Pension Fund	XPS Pensions Group	PGGM	Capital Cranfield
Esmee Fairbairn Foundation			Chris Wagstaff
Guy's & St Thomas' Foundation			
London LGPS CIV			
Pensioenfond's Zorg en Welzijn			
Pension Protection Fund			

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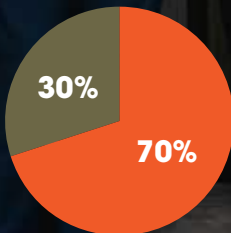




# Pensions for Purpose – our team

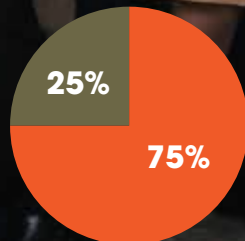


**Employees**



Male  
Female

**Board**



Male  
Female

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