Navigating Diversity, Equity & Inclusion

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Jupiter Asset Management were delighted to host a breakfast seminar at our offices in Victoria to delve into the findings of the latest Pensions for Purpose Impact Lens report: "Navigating diversity, equity & inclusion – an asset owner perspective". With representation from investment consultants, professional trustees, LGPS pools and master trusts, and moderated by Karen Shackleton, this was a highly interactive discussion, with some great examples of industry best practice shared.

Below is a summary of the key topics covered at the event.

The Investment Angle on DE&I

The Pensions for Purpose research – which Jupiter has sponsored – looked at how diversity, equity & inclusion (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, including investment consultants.
- How DE&I is considered in underlying investments.

All participants in the research agreed that more diversity leads to better decision-making, stronger business performance, and ultimately improved outcomes for members. The research shows that the area with the most work to be done is investments. Whilst 58% of asset owners do challenge their asset managers on how they integrate DE&I in their ESG policy, Karen Shackleton declared that this should be 100%. Furthermore, unlike in the US where there has been a trend of "gender lens" investing, there is no evidence that asset owners are pushing assets towards DE&I-focused strategies.

Abbie Llewellyn-Waters, lead portfolio manager of the Global Sustainable Equities strategy at Jupiter, gave some examples of how she and her team look at tangible real-world outcomes when assessing companies, and how they both advocate for and identify progressive DE&I policies. There are tools that asset owners can embed, such as a commitment to align with the UN Global Compact 10 Principles which commit to fundamental policies on human rights, including the abolition of child labour.

Promoting diversity, equity and social inclusion is a core priority of the Global Sustainable Equities team's 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. Examples that Abbie gave include financial inclusion, delivering access to the 1.4 billion adults currently outside the global financial system; or an operational focus on real world outcomes, such as female participation in the workforce, which supports financial independence and economic participation.

Strong parental leave policies are an important factor for promoting an inclusive workforce, and the reduction of inequality, both for the parents receiving paid parental leave, but also the children of those employees in receipt of paid leave. This is particularly pertinent for US companies, where there is no statutory requirement for parental leave. It's a practical starting point when looking at the operational aspects of businesses, with a focus on tangible, real-world outcomes.

Social mobility was also discussed, and examples of how this could be considered included Living Wage commitments. For example, Unilever, with its large footprint globally, has committed to living wage for tier 1 suppliers by 2030, which has meaningful positive outcome for those workers receiving that commitment.

These policies are not just "nice to haves". Echoing what all participants in the research said, positive DE&I policies do increase conviction that those companies are well positioned over the long term to support positive financial outcomes for investors. Abbie referenced a technology firm held by the Global Sustainable Equities strategy which during the financial crisis introduced a tiered pay cut across the business to protect headcount. Recognising the time and cost of hiring and training up their workforce, this put them at advantage over their competitors when the economy recovered, affording market share gains. This company also has 97% customer retention and 90% recurring revenues. This example is helpful to demonstrate the overlap of progressive long-term policies and strong business outcomes.

Trustee Board Diversity

At Smart Pension, Fiona Smith noted how the Trustee carries out beliefs and training sessions on DE&I issues with the aim to benefit the end beneficiaries of the master trust i.e. DC members. This includes how vulnerable customers are served, and experiences of microaggression when communicating with Smart Pension. The Smart Trustee Board conduct an annual DE&I survey on themselves, which can be shared with prospective clients upon request. This forward-thinking approach to DE&I trickles down from the Trustee Board to the investment sub-committee who - among other things – look at DE&I from a risk perspective.

Michelle Darracott, trustee executive at BESTrustees, talked about how she focuses on the "diversity of voices" around the table. In her role as chair of trustees, she makes sure that everyone's voice is heard and that an environment of psychological safety is cultivated where trustees feel comfortable to "ask the silly questions".

Another professional trustee in attendance noted how attitudes can vary between different trustee boards, depending on the make up of the board. The topic of diversity can make some people defensive which can be a barrier to discussions. She cautioned that there are different ways to approach the subject, for example some may engage with the topic more if it's presented through the lens of risk management.

As understanding of this nuanced topic develops and data coverage improves, DE&I must remain a regular part of the trustee agenda. Case studies to bring the topic to life and show how effective strong policies can be are crucial.

Investment Consultant perspectives

Of the asset owners and trustees interviewed for this research, 15% said that they delegated DE&I to their investment consultant. All the consultant firms who participated have a DE&I policy in place, but interestingly none of them said that poor DE&I would be a red flag – in isolation – for not hiring or firing a manager.

Jaid Longmore from Hymans Robertson elaborated on this in the discussion, noting that DE&I forms part of Hymans' Responsible Investing (RI) rating, as part of the Culture component of the assessment (which also includes governance). The other components of the overall assessment include Stewardship and Climate. DE&I is one of 21 indicators they look at, so a poor DE&I approach may not therefore result in an overall red flag or 'weak' rating. Jaid went onto say that if a manager scores poorly on DE&I, "it may be a symptom of something else", and they often see poor DE&I policies in conjunction with other weakness related to culture.

Obviously, this is just one consultant's approach, but it seems likely others may follow a similar approach, therefore explaining this finding from the research.

Diversity goes beyond hiring practices

Lindsey Bass, representing the Asset Owner Diversity Charter, summed it up as about us all "making really good decisions, within a good governance framework to attain the best outcomes for our clients". When we talk of diversity, it's often within the lens of making diverse hiring decisions. But it percolates beyond this: it's about how we hire, retain, incentivise, and manage employees' well-being. It is how a company's leadership deliver the right training and development and help employees reach a position of leadership and have a voice. Instead of hiring senior women, existing employees should be elevated. This comment chimed with the approach of Jupiter's Global Sustainable Equities team who also, where the data is available, consider internal promotion rates of companies as an indication of strong culture.

Social Mobility

There is clearly more progress required on social mobility, but asset managers have made a concerted effort to recruit across a broader representation of society from what has historically been quite a narrow group of graduates. Initiatives such as Investment 2020 and Arrival, which Jupiter are supporters of, were cited. This has not passed asset owners by, and those in the room agreed that this is one area where they can influence their managers and hold them to account.

T Clark, Director Private Markets at Guy & St Thomas Foundation, made the pertinent point that intergenerational wealth can be improved if more people from lower socio-economic background can access a career in asset management – a relatively well-paid industry.

Nicola Brown, Responsible Investment Manager at the London CIV, noted how they were founding members of the Asset Owner Diversity Charter and helped them develop their ubiquitous questionnaire. The London CIV represents 32 local authorities across London, a "melting pot of cultures", and this drives their mission and the pension work they undertake on DE&I, of which social mobility is a key component.

What gets measured gets managed

The adage "what gets measured gets managed" is as relevant for DE&I as it is across the spectrum of ESG. In a drive to reduce the amount of reporting requests sent to asset managers, many of the roundtable participants utilise the Asset Owner Diversity Charter questionnaire. Nicola Brown said that this year for the first time 100% of the London CIV's asset managers responded to the questionnaire this year, which was pleasing. Not all can complete every question, whether that's for legal reasons or that they don't have the data, but year on year they can see the progress made. Jaid noted that they also use the same template and use it as a benchmarking tool, as well to engage with managers and share best practices that they see from other asset managers.

As noted in the report, "this is a complex subject that includes both quantitative (diversity) and qualitative (equity and inclusion) dimensions, [therefore] initial attention regarding DE&I themes is directed towards gender and ethnic representation." These themes are easier to quantify and therefore receive the most focus, but as noted above, social mobility and other aspects of diversity are increasing in prominence.

At Jupiter we have invested in a new data series that supports our analysis in understanding the inclusivity of companies researched by the Global Sustainable Equities team. The data addresses leading approaches to diversity and human capital more widely, including flexible working practices, living wages, pay gaps and parental leave, as well as a range of policies including those related to supply chains. This data helps us to consider how forward-thinking a company's policies and practices are on a regional-relative basis. It has also opened new avenues of engagement for us with investee companies.

Just scratching the surface

"Do you believe DE&I is related to business performance?" was the opening question of Pensions for Purpose' interviews with participants in the research. As the report concludes, "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."

In this short session, we only just scratched the surface of this fast-evolving topic. Please do read the Pensions for Purpose Impact Lens report: "Navigating diversity, equity & inclusion – an asset owner perspective, and if you would like to speak to Abbie Llewellyn-Waters for more detail on how the Jupiter Global Sustainable Equities team navigate DE&I when assessing and investing in companies, please get in touch with Jupiter.

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