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Ethnic Diversity: Why Investors Cannot Afford to Remain Silent

CANDRIAM 
A NEW YORK LIFE INVESTMENTS COMPANY

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Table of contents

Executive Summary Why Investors Cannot Afford to Remain Silent	03	How Can Investors Analyse Companies for Racial Diversity?	24
Racism, discrimination and companies	04	The Mission for Investors	27
Diversity and Inclusion What We Know, and Why it Should be a Growing Concern	06	Conclusion	31
Case Studies: Approaches	18	Notes & References	32



Executive Summary

Why Investors Cannot Afford to Remain Silent

The event which pushed Covid out of the global news headlines for part of 2020 was the death of George Floyd while in the custody of police. Only one of a series of controversial police actions in the US in recent years, this time the event triggered a global campaign against racism. The Black Lives Matters movement has been revived with knock-on effects for the corporate world. These ongoing reactions demonstrate that in the era of responsible capitalism, corporations are increasingly affected by societal debates.

The corporate world is neither diverse nor inclusive. *That data which is available shows that minorities, and more harshly persons of colour, are underrepresented. The further up the hierarchy, the less diverse the corporate population. In some countries, data is completely unavailable due to privacy regulations or other prohibitions.*

Most business managers do not know how to address the problem. *Large companies want to demonstrate they are supporting persons of colour, and all ethnic minorities, in the fight against racism and discrimination. Reuters reported that within only two weeks of Floyd's death, corporations had already pledged a total of \$1.7bn to address social justice and racism. It is interesting that companies are ready to spend significant amounts to support the cause, but spending is not enough. The key question is how.*

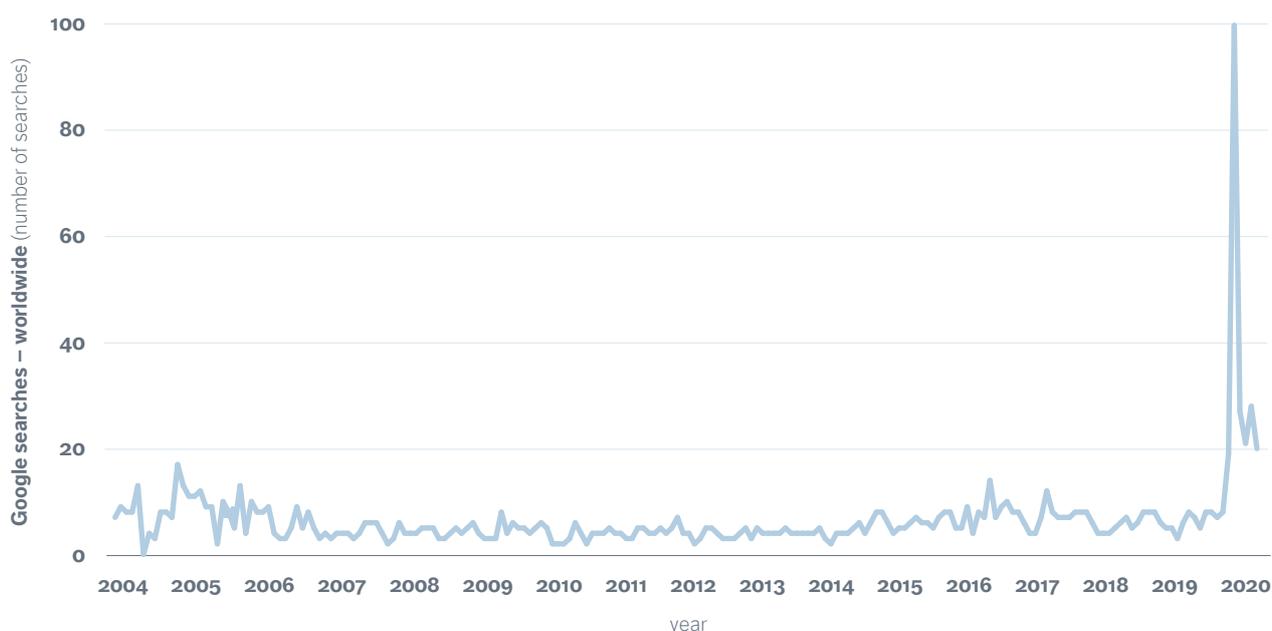
Investors are key. *Investors have long considered social issues important to the analysis of assets. The current movement tells us that society expects more progress toward the eradication of racism, along with its vicious consequences for social progress -- unequal opportunity at all levels of the social ladder, and a lack of minorities in decision-making roles.*

Candriam Responsible Investment Teams are further deepening our analysis of diversity, inclusiveness, and equal opportunity practices for investee companies. We dialogue with companies to share information, helping all to improve our approaches with new ideas. Acknowledging the different regulatory frameworks companies are facing to talk about ethnic diversity, Candriam has been and continues to assess companies' management commitment to the diversity question, and suggesting a range of actions they can take to improve their inclusion culture.

Racism, Discrimination and Companies

The death of George Floyd in the US created a wave of anti-racism protests around the world. The outrage revived the Black Lives Matter (BLM) movement, creating a sudden surge of demand for racial justice of all types in the summer of 2020. Alongside a sustained increase in the demand for racial justice, diversity and discrimination seem destined to remain front-page topics.

Figure 1: Google Searches Peak on the Topic of “Racial Justice” (worldwide)



Source: Google trends¹

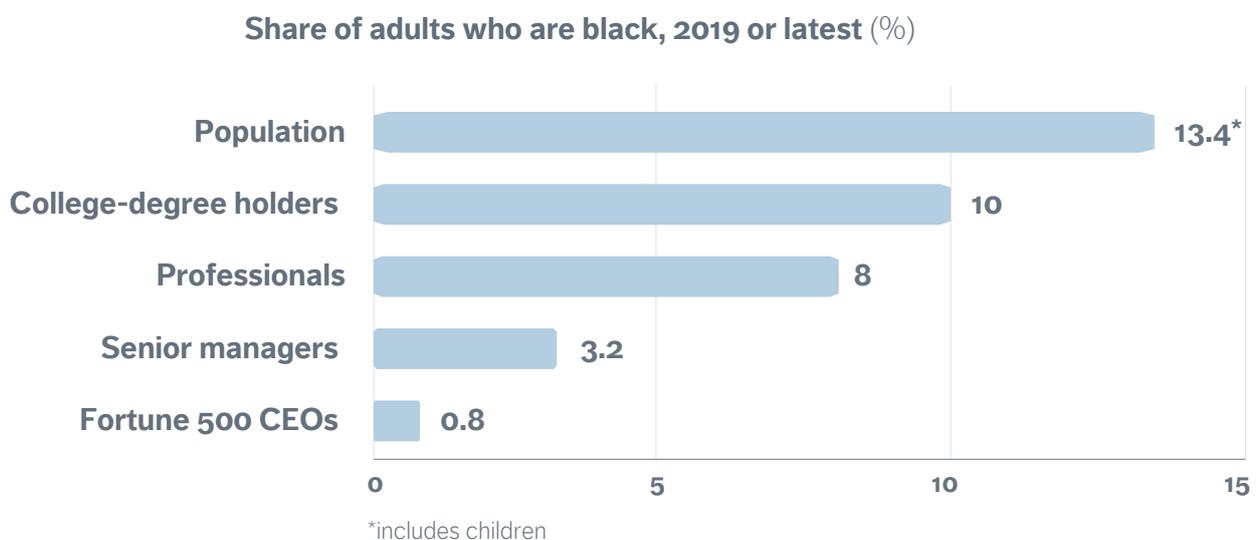
The economic and corporate worlds responded quickly to the re-energized BLM movement. **By 10 June, corporations had pledged a total of \$1.7bn to address social justice and racism**, according to Reuters². In early June, Apple committed \$100m to racial equity and justice initiatives. Estée Lauder announced a strengthening of its Diversity and Inclusion programmes; Nike donated \$40m to social justice organisations, Comcast and Warner Music Group each pledged \$100m.

Society is demanding action and results, not just promises. A survey by the Edelman Trust Barometer in June 2020³ registered broad support from the wider population:

- Sixty percent said that brands must take a stand to publicly speak out on racial injustice and systemic racism.
- Equally, six out of ten respondents said that they will buy or boycott a brand based on if and how it responds to the current protests.

The situation today is far from ideal. In the UK, the FTSE 100 has more CEOs named Steve, than CEOs who are female or members of ethnic minority *combined*⁴. In the US, the Fortune 500 only has *four* Black CEOs. Fewer than 3% of senior corporate jobs and less than 8% of all 'white-collar' jobs are held by African-Americans⁵. Of course, racism in US organizations is not limited to corporations. The Mellon Foundation has shown that underrepresentation of minorities persists in across many fields, such as art.

Figure 2: 'Black-ish' in Corporate America



Sources: Center for Talent Innovation, December 2019; US Census Bureau. Inspired by *The Economist*, 13 June 2020.

Diversity and Inclusion: *What We Know, and Why it Should be a Growing Concern*

Data shows discrimination is severe.

More data just provides more evidence.

In this era of responsible capitalism, the issue needs to be addressed by the economic world.

The gender diversity debate offers both lessons, and competition, for ethnic diversity questions

The ethnic diversity issue has been underemphasised, compared to the gender equality question. This is another reason why ethnic inclusion can be expected to remain in focus.

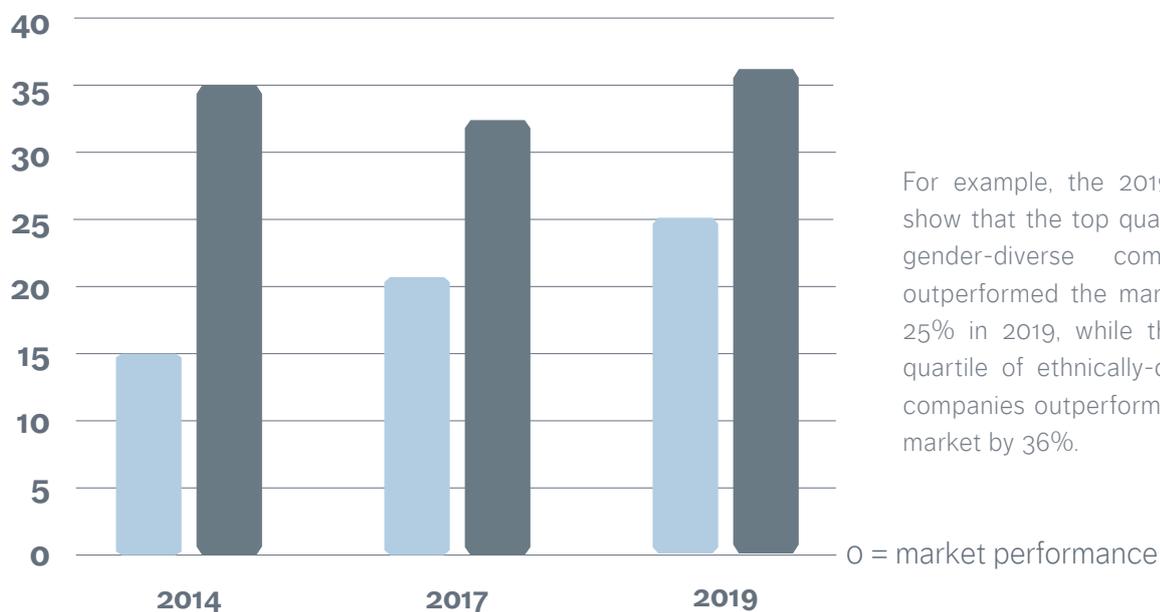
Fortunately, investors are increasingly including gender diversity in their overall ranking of material issues. In a September, 2020 informal survey on gender diversity in investment analysis, over 600 of Candriam's clients responded, underscoring how strongly investors care about this issue. A growing amount of data has enabled better analysis of the links between gender diversity and business performance.

There are key messages which may be learned from the gender equality debate. From networks and commitments to push for the representation of women on corporate boards, to the creation of gender-tilt indices and regulatory enforcement on reporting of gender pay gap, gender equality has been a busy arena. Central to gender diversity is the body of research showing the cost of lost talent. The same rationale applies to the case for ethnic inclusion. McKinsey studies on the opportunities of inclusive workplaces are particularly compelling. In fact the McKinsey studies show the likelihood of outperformance due to ethnic diversity is stronger than the likelihood of outperformance due to gender diversity⁵.

Figure 3: Market Outperformance Top Quartiles

Ethnic and Gender Inclusion Both add Value – but Ethnic Diversity adds More

■ Relative (out)performance of gender-inclusive companies
 ■ Relative (out)performance of ethnically-diverse companies



For example, the 2019 bars show that the top quartile of gender-diverse companies outperformed the market by 25% in 2019, while the top quartile of ethnically-diverse companies outperformed the market by 36%.

Source: McKinsey

Ethnic diversity is *diverse*

The conversations regarding ethnic inclusion and gender inclusion are fundamentally different.

- **It is more complex to define ethnicity** than it is to identify male, female, or non-binary.
- **Ethnic statistics are not always legal to collect.** Europe's Data Protection Directive prohibits the processing of ethnic data. Some countries have taken a very strict stance on the rule: France, for example, prohibits collecting and using any sort of personal information (unless certain strict conditions), whether related to ethnic origin, health, religion, sexual preference, or political opinions. The result is a lack of data to analyse. The mechanisms of discrimination can only be understood through a different fashion in those places.
- **Statistics are slowly becoming available.** By contrast, UK public authorities have a legal obligation to collect data to monitor progress. US companies with more than 100 employees must report racial diversity data to the US Equal Employment Opportunity Commission.

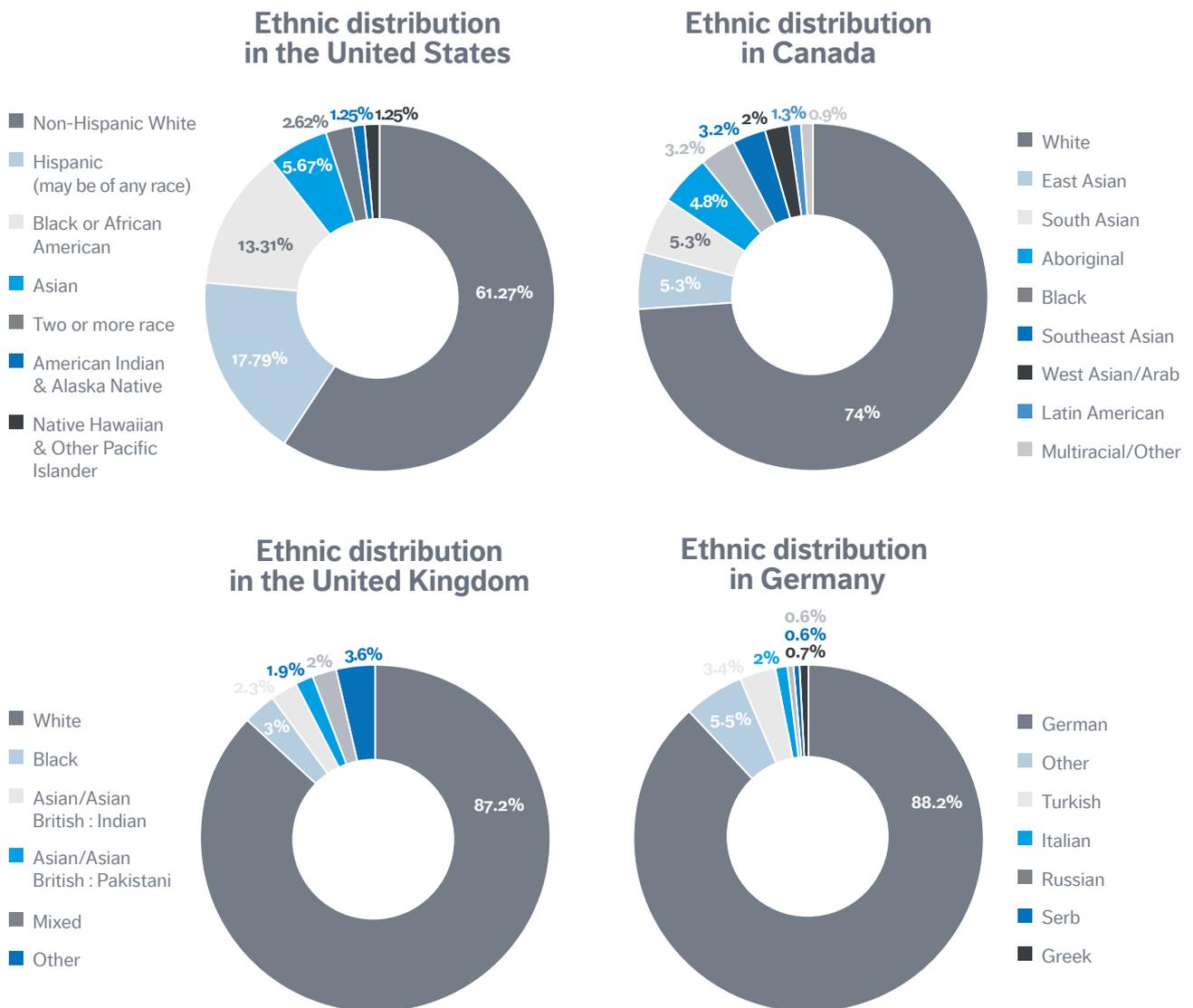
Canada is one of the few examples of increased diversity reporting beyond gender to include race and persons with disabilities. Federally incorporated public companies, which include most financial institutions, are now required to disclose their policies and practices on diversity at board levels and within senior management. The objectives of the new disclosure requirements are to empower investors through information transparency; to press listed companies for continued advances in diversity; and to provide better data on the impact that diversity at senior levels can have on a company's overall operational and financial performance.

- **'Ethnicity' introduces a semantic debate around the concept of race.**
- **Ethnicity is often a taboo.**
- **Ethnicity is both a relative notion, and one which needs to be self-declared.** It cannot be exact, and it hides the complexity and uniqueness of each individual and their history.

- Ethnic diversity does not have the same definition across regions** (Figure 4). Geographic and cultural specifics in countries and societies mean that we need to adapt our criteria to each area of operation. Definitions of minorities or persons of colour, are groups which are specific to each location or situation. This must be factored in to both statistical analyses, and inclusion initiatives.

As a result, the reporting of ethnic diversity is not only relative to the local population context, but takes different forms depending on what type of ethnic recognition the governmental authorities encourage. Some refer to historic migrations whilst others refer to colour, religion, or nationality of parents, as illustrated by the examples of the US, UK, Germany, and Canada.

Figure 4: Ethnic Composition of United States, United Kingdom, Germany, and Canada according to local definitions



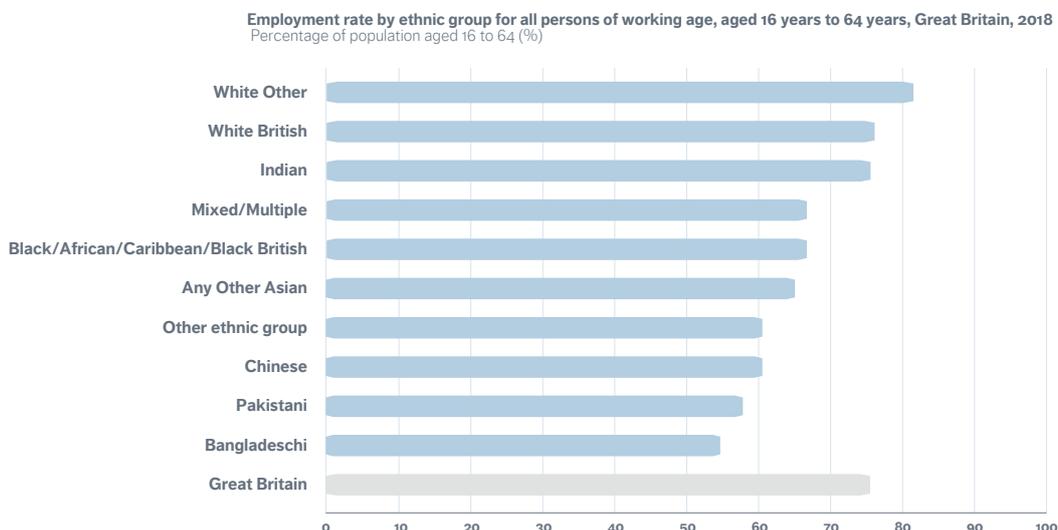
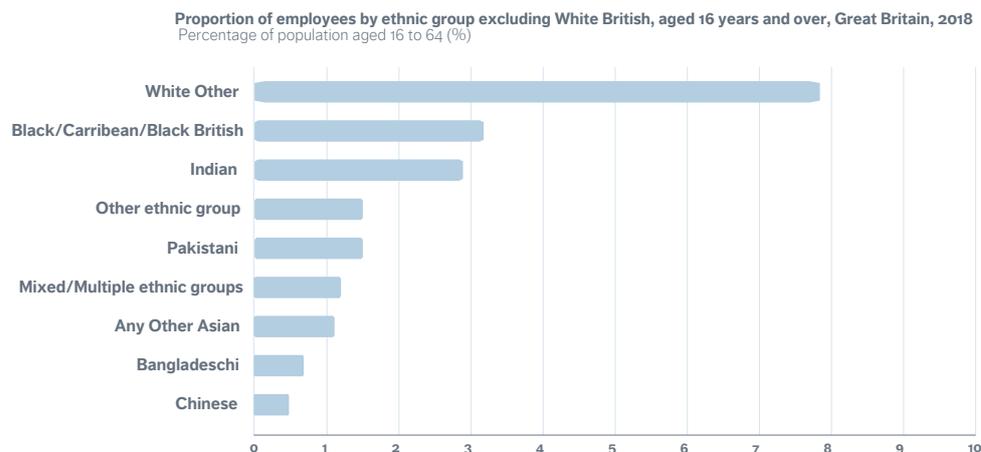
'Ethnicity' varies according to the history of each nation

Sources: US - Statista 2020; UK - Statista 2020; Germany - Britannica.com, Canada – Kailchan.⁷

These complexities might help explain why ethnic diversity has not been properly tackled so far. Recent events tell us that it is time for change. Because of these complexities, ethnic diversity requires a different approach than gender diversity. But we can still lean on our collective gender diversity experience to address inequalities and improve equal representation. And ethnic diversity could move forward much faster than we have expected.

Where data is available on ethnic diversity, it shows a sad picture of our societies and workplaces. Because it is mandatory to report ethnic data to public authorities in the UK and the US – although not to the public – these two nations provide useful examples. In the UK, the Office of National Statistics has created ten reporting categories. This data enables national institutions to analyse populations, such as the composition of labour force by ethnic group, and employment rates of all categories. The results demonstrate markedly lower employment rates for minority populations than for white populations.

Figure 5: UK Workforce Statistics

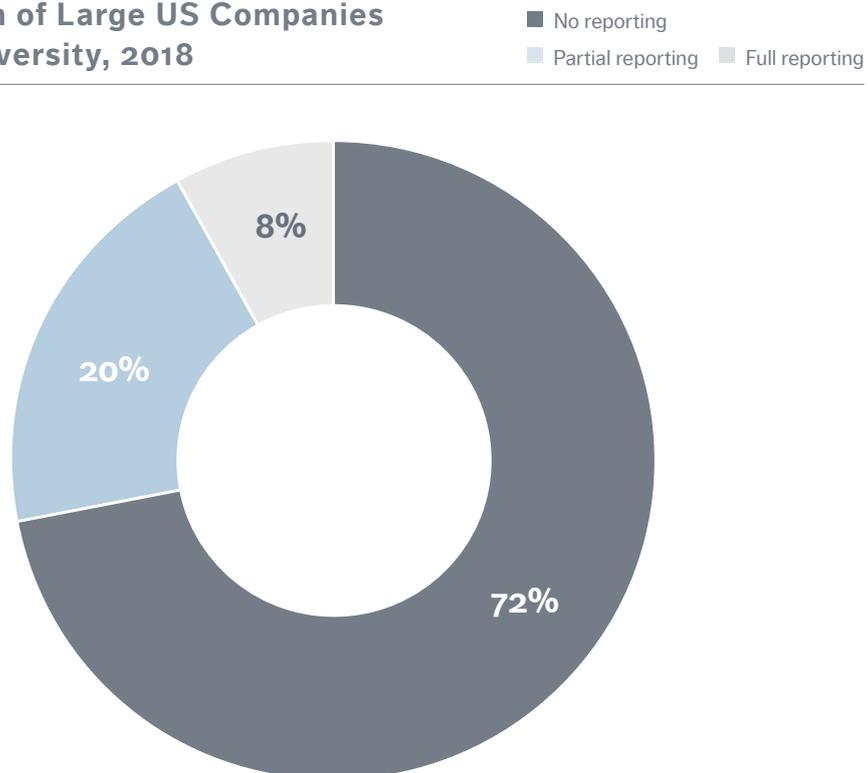


Source: UK Office for National Statistics⁸

Public reporting of even this limited data is poor or non-existent

Even where ethnic data collection is allowed or required, it is often not made public. Companies may not release the data for fear of adverse publicity or the potential for discrimination lawsuits. In the UK, a study says **only 15% of the FTSE 100 companies provide details of the ethnic diversity of their workforce**⁹. MSCI[©] ESG research analysed 372 US companies in 2018 and found that 72% do not disclose any racial diversity data¹⁰ to the public.

Figure 6: Proportion of Large US Companies Reporting Racial Diversity, 2018



Source: MSCI[©]¹⁰

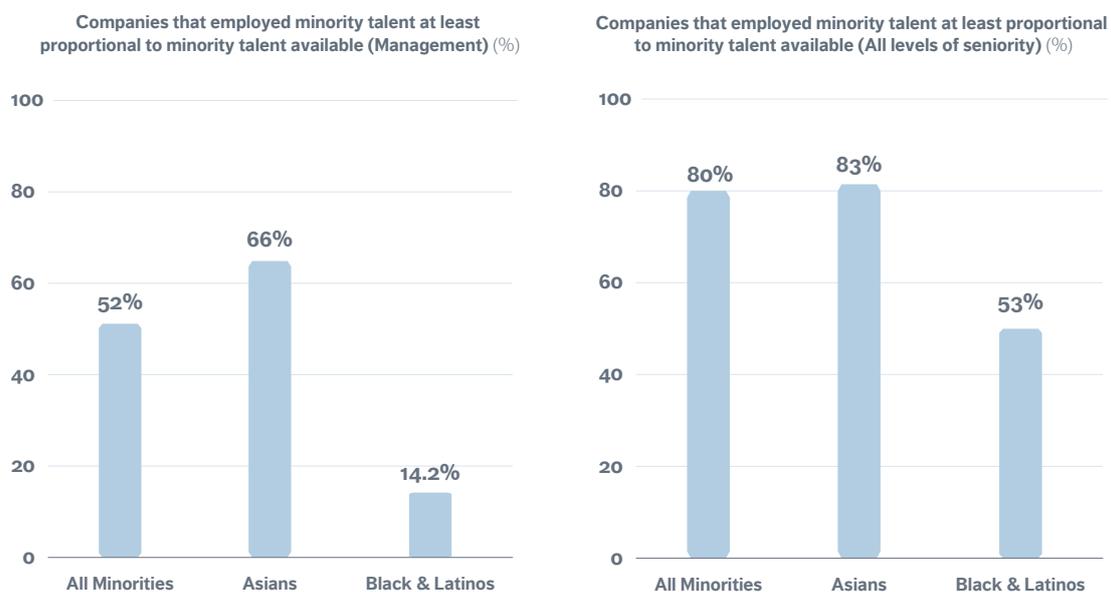
The unequal opportunity phenomenon

The complexity of the issue (mainly due to its relativity and local characteristics) may be a reason why it is often not addressed. But going beyond those challenges is feasible. Using **US corporate data**, a MSCI© study has analysed "how companies have tapped the full range of talent available to them by systematically comparing companies' workforce with the talent pool where they operate." Here MSCI© has defined talents pools as the qualified population for the discussed organisational level. To paraphrase, they conclude:

*80% of firms employ minorities at least in proportion to the composition of the talent pool, and 53% do so at the management level. However, the challenge starts when you look at the different racial groups. Indeed, **the percentage of companies that employed Blacks and Hispanics at least proportionally dropped to 55%, and the percentage of companies promoting Blacks and Hispanics to management in proportion to their estimated availability in the talent pool dropped to only 14.3%. On the other hand Asians are employed and promoted in proportion or beyond their estimated availability.**¹¹*

That is, independent of education or professional skill levels, members of minority groups are neither recruited nor promoted at the same rate as non-minorities.

Figure 7: Talent and Availability



Source: MSCI©¹¹

This data also reveals **unequal recruitment and promotion mechanisms, by sub-ethnic groups**. It points to the complexity of the ethnic diversity question as it pertains to the even more unequal opportunity of certain particular minority groups, again independent of their skills and education.

Benefits of inclusiveness

Beyond the moral issue that discrimination represents, an inclusive society helps create social harmony, when all people have the same chance to progress. When minorities have role models, they are inspired and likely to do better.

From a financial perspective, inclusive and diverse organisations are more innovative, providing a competitive advantage. They usually show higher employee motivation, as well as enhancing their 'social license to operate'. Diversity is a factor which has been shown to improve business performance.

According to the research and data set on diversity of the McKinsey management consultant, diverse companies are more likely to financially outperform their peers. We show their results earlier in the document (Figure 3).

The research based on publicly available data from 1,039 companies across 15 countries globally has consistently shown over the past five years that companies **with best ethnic diversity are 36% more likely to outperform those worst on ethnic diversity**. (*"Positive, statistically significant correlation between company financial outperformance and diversity, on the dimensions of both gender and ethnicity"*)¹²

Other studies also describe the benefits of ethnic diversity. A UK report estimated in 2017 that equal participation and progression across ethnicities could be worth an additional £24 billion per year to the **UK economy, or 1.3% of GDP**¹³. A US study found closing the racial pay gap would increase **U.S. GDP by 14%**, or more than \$2 trillion¹⁴.





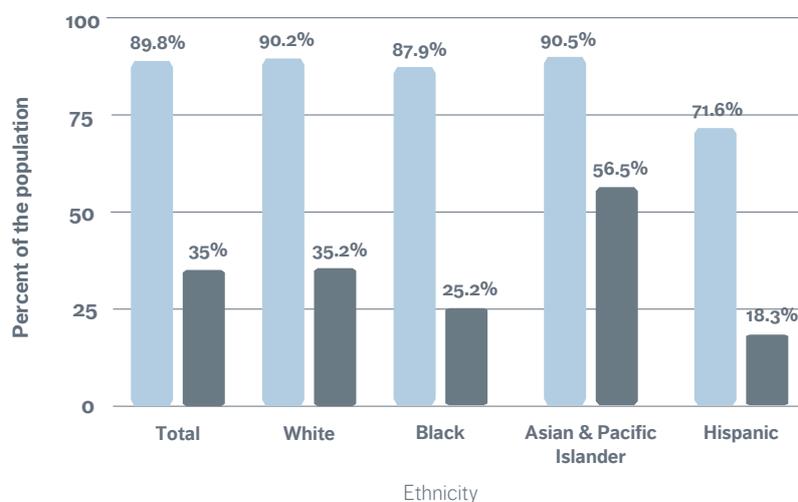
Education

Studies such as the MSCI one mentioned highlight the lack of opportunity available to members of minority groups at any level of skill or education, suggesting a lack of inclusiveness in corporate culture. Differences in educational opportunities are also noteworthy. In the US, for example, Black and Hispanic students are much less likely to complete a college education than White and other groups.

This disparity in education has long-term impacts on employment. A more diverse talent pool in the first place would probably drive a much more diverse entry level workforce, with positive effects on inclusion in the long run.

Figure 8: Education levels in the US in 2018, by ethnicity

■ High school graduate or more
■ College graduate or more



Source: Statista⁵

An unequal society is costly

The social demand for a fairer and more inclusive society and labour market will put companies under pressure. In the case of gender diversity, we know that companies have already experienced the costs of unequal workplaces through gender discrimination controversies and associated litigation costs, or tightening regulatory frameworks for gender pay gap reporting and penalties for failing to do so.

Regulation is on the horizon. In the UK, the former Prime Minister Theresa May initiated consultation about ethnic pay gap reporting, concluding in 2019 that this reporting should remain optional. Recent events prompted a petition throughout the country to explore the idea of ethnic pay gap reporting. In June 2020, the prime Minister launched a cross-government commission to examine “all aspects” of racial inequality in Britain.

Some studies have tried to put a ‘cost’ on discrimination. INvolve UK, the consultancy, estimated the cost of discrimination against ethnic minorities in the UK economy at £2.6b¹⁶. As it is difficult to be exact and comprehensive when valuing diversity, the cost could be much higher. The stakes are high for companies which fail to develop inclusive workplace cultures. The penalties can include social media backlash, consumer shift toward competitors with more inclusive policies, recruitment and talent retention hurdles, racial-discrimination lawsuits, or even regulatory scrutiny of these workplaces such as pay gap reporting and penalties.

The financial cost of neglecting racial inclusion

In 2018 Starbucks was caught up in a racial discrimination case in one its shops. The company reacted swiftly, temporarily closing 8,000 stores to deliver anti-bias training to 175,000 staff members. It cost around \$16.7 million in lost sales, but the reputational loss would presumably have been much more had the company not acted.

While the costs of a non-diverse world must be considered, focusing on the benefits of an inclusive workplace is a more efficient approach. The benefits of inclusion can be a force for change. Understanding the opportunity, numerous large corporations have expressed their solidarity with the Black Lives Matter movement. The expectations are high that they will follow up their public commitments with tangible actions.

Challenging the status quo: Who has stepped up?

Data shows very few companies are challenging the status quo. In the UK for instance :

- Half of the largest companies - 52% of the FTSE 250 - have no mention of ethnicity in their board diversity policy. Most of the FTSE 350 do not set measurable ethnicity targets, according to the Financial Reporting Council (FRC).
- Just 14% of FTSE 100 companies set measurable objectives for board ethnic diversity, while the figure is a meagre 2% for the FTSE 250.
- No FTSE 350 companies report progress against objectives.¹⁷

Why might this change now? The Black Lives Matter movement has prompted a wave of corporate statements and re-commitment to issues of diversity and inclusion. Some companies have published strong statements on their webpage, such as *HelloFresh*, shown in the box under 'Case Studies'.

Case Studies: Approaches

How can companies take action?

Society wants these statements to be supported by real action, and only the building of the right culture for the long term is likely to result in permanent change.¹⁸ What is at stake is the creation of an equal opportunity environment, **from recruitment throughout management promotion and board composition.** What differentiates companies is their ability to build diverse teams, push back unconscious biases and processes which discriminate even unconsciously, so that a diverse talent pool is promoted equally up through the most senior roles. As the differing regulatory framework in each country can dictate how, or even whether, companies can communicate on ethnic diversity, there are huge differences among companies in both managerial approaches and in reporting. But existing good practices provide a starting point for learning, both for investors and managements.

We present a few examples of diversity management and disclosure practices, demonstrating a range of approaches and options for companies to consider. The policies and programmes in place are not an indication of the quality of the management of the ethnic diversity issue by the companies. They are rather presented here as an evidence of the various approaches companies may take on the issue, often driven by regulatory and cultural contexts as well as company-specific CSR practices.

Sources: With data limited, and sometimes prevented by governments, the first thing investors need to examine is intent. We present 'Case Studies' of several companies which are publishing their policies and approaches. These are directly from websites or annual reports. These company statements were published on company websites accessed July, 2020.

Example: *HelloFresh* statement

We want to be clear that we do not tolerate racism or any form of discrimination and we commit to further educating ourselves and holding ourselves accountable for taking action to improve.

As a result, we have spent the last few weeks listening to understand how we can take meaningful action now and in the future. Our newly established Diversity and Inclusion Forum has decided on a number of clear and actionable initiatives that HelloFresh commits to in the UK.

These commitments include:

- Changing how we advertise vacancies to include more inclusive language and reconsidering how we describe requirements to make sure candidates from all backgrounds feel encouraged and empowered to apply. Starting immediately, we are changing the way we advertise, recruit and select for roles to be more mindful and supportive of diversity and inclusion.*
- Increasing diversity at all levels, with a focus on management roles, by upgrading our training and paths to progression. To deliver this, we are reconsidering our internal processes to reflect diversity and inclusion, with a focus on the language and procedures for appraisals, interviews and management policies.*
- Establishing a Diversity and Inclusion Committee, open to all employees, which is a follow up to the Diversity and Inclusion forum. This committee will prioritise actions to be taken and hold HelloFresh UK accountable for continued long- and short-term development and changes.*

We know that this is just the beginning of the work we must all undertake to continue this conversation and ensure demonstrable change within our workplace and across the communities where we have influence.

Source: <https://www.hellofresh.co.uk/about/sustainability>, accessed 16 October, 2020

Case Study: *Johnson & Johnson* approach

CEO endorsement	Johnson & Johnson has a global Diversity and Inclusion strategy, and a Diversity and Inclusion impact review, endorsed by the CEO
Leadership	Johnson & Johnson has a Chief Diversity and Inclusion Officer; also a Global Office of diversity and inclusion
Policy and programmes	Global Diversity and Inclusion Policy, Equal Employment Opportunity Policy Affirmative action programs
Board	Reports that “2 of 13 nominees are African American” Board regularly updated on key talent metrics for the overall workforce, including metrics related to diversity and inclusion, recruiting and talent development programs
Remuneration	Compensation policy includes talent development and diversity metrics to ensure leaders drive long-term growth

Case Study: *HSBC* approach

Employee engagement	HSBC employees participate in global employee networks for gender, ethnicity, LGBT+, ability, working parents and carers, age, faith and HSBC Communities. HSBC’s ‘Embrace’ network for ethnicity provides opportunities for colleagues to speak up about internal and commercial issues and opportunities, make connections, and learn from each other
Board diversity	Ethnic diversity is reflected at Board level, with five Board directors reported as having an ethnic minority background. HSBC is committed to monitoring and reporting on its progress towards annual targets

Case Study: *Puma* approach

Board	6% black and 33% female
Workforce and management	Puma Workforce is 49% female, with a management team that is 41% female
Code	Diversity charter since 2010 “ensure a fair work environment and equal opportunities for all PUMA employees, regardless of their gender, nationality, ethnicity, religion, disability, age, or sexual orientation”

Case Study: Nike approach

Training	Nike: >50% of global employees have participated in unconscious bias awareness training
Employees	Nike: 21% of Vice Presidents at Nike U.S. are drawn from underrepresented groups, a 2 percentage point increase from 2018 to 2019
Board	Nike Board: 15% black and 31% female
Diversity programmes	Nike announced a \$40 million commitment over the next four years to support the Black community in the US (5 June 2020)

Case Study: Lloyds approach

Workforce and Management targets	Lloyds committed to BAME ¹⁹ representation of 8% at senior management and 10 % for the total workforce by 2020. By the end of 2018, 6.4% of senior managers were BAME colleagues, compared with 5.6% in 2017, while BAME colleagues made up 9.5% of total workforce, compared with 8.3% in 2017
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Case Study: Estée Lauder approach

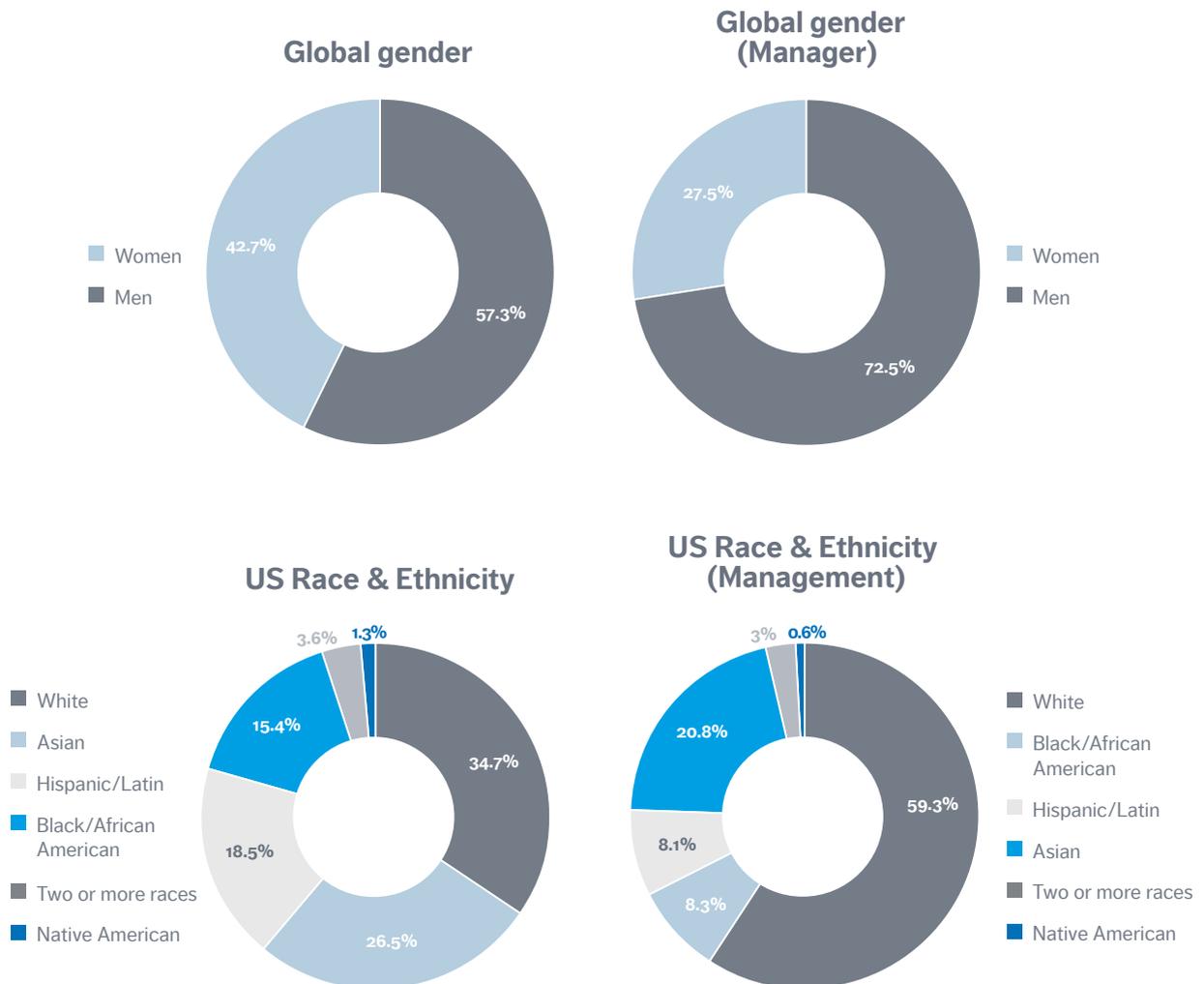
Commitment and communication	
Training	Unconscious bias training mandatory for all full-time employees in the US Additional training for managers; training at points of sale Further training on all hair types and hair brands
Community	Black employee resource groups, to better support Black employees
Targets and transparency	Commit to semi-annual update on progress against goals and KPIs
Workforce and management	'360' performance management feedback tools for leadership and middle management
Talent and employee development	Provide Black employees have equal access to leadership training and mentorship programmes Ensure Black candidates are on succession list of senior level positions Target: Reach US population parity for Black employees for all levels in the next five years
Products	Ensure product portfolio of meets diverse skin tones, and meets needs of Black consumer
Suppliers	Support Black-owned businesses: double amount spent on sourcing ingredients, packaging materials and supplies from Black-owned businesses over the next three years

Case Study: Amazon approach

Recruitment	Partner with organizations and academic institutions that reach underrepresented communities, including Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs), women's colleges, and tribal colleges, in the U.S.
Composition	In the U.S., 15.4% of Amazon employees identify as Asian, 26.5% as Black/African American, 18.5% as Hispanic/Latinx, 1.3% as Native American, 3.6% as two or more races, and 34.7% as White. Among managers in the US, 20.8% identify as Asian, 8.3% as Black/African American, 8.1% as Hispanic/Latinx, 0.6% as Native American, 3.0% as two or more races, and 59.3% as White
Employee engagement	Two affinity groups, also known as employee resource groups, bring Amazonians together across business segments and locations around the world. Examples include the Black Employee Network (BEN), Amazon Women in Engineering (AWE), and 'Indigenous'

Example: Amazon reports global gender, and US race and ethnicity data

as of 31 December 2019



Source: Amazon

Case Study: Barclays approach

Policy	<p>Inclusive of race, ethnicity, nationality and faith</p> <p>"Committed to supporting all our colleagues, regardless of religion, ethnicity, nationality or race. The Multicultural Agenda strategically engages to increase the opportunity to attract world-class colleagues and the diversity of thought-leadership, judgement and innovation required to compete in the changing international landscape and to sustain business success."</p>
Charter	<p>Signatory of the "Business in the Community's Race at Work Charter" which includes five commitments:</p> <ul style="list-style-type: none"> • Appoint an Executive Sponsor for race • Capture ethnicity data and publicise progress • Commit at Board level to zero tolerance of harassment and bullying • Make clear that supporting equality in the workplace is the responsibility of all leaders and managers • Take action that supports career progression for ethnic minorities

Case Study: L'Oréal (France) approach

Statement	<p>"Global figures regarding the Multicultural Origins of our employees are not available. Aligned with UN recommendations, each country investigating ethnic characteristics of its population must carefully define terms such as "race", "origin" or "tribe" which may have differing connotations. By nature of the topic, categories and their definitions will vary widely from country to country; therefore no internationally accepted criteria are possible"</p>
Training	<p>Employees trained on Diversity and Inclusion topics</p>

Case Study: Kering (France) approach

Leadership	<p>Kering has a Chief Diversity since October 2019, Inclusion and Talent Officer</p>
Policy 'Equal Opportunity Employer'	<p>Kering has a public statement and commitment to diversity in "all its forms" which it defines as gender, age, nationality, beliefs, sexual orientation</p>
Diversity charter	<p>It commits to a Group-wide inclusive hiring policy, engages every employee to support diversity and condemn all forms of workplace discrimination.</p>

How Can Investors Analyse Companies for Racial Diversity?

Good practice shows that a range of solutions and tools exist to build an inclusive business culture. It is often made of a mix of qualitative policy and commitments and a set of quantitative indicators and targets.

1. Programmes and initiatives to help assess a company culture and its commitment to build and benefit from an inclusive and diverse workplace.

- Corporate Governance: Board commitment to diversity and inclusion (e.g. refer to the UK Parker review).²⁰
- Leadership: Committees, Champions and Chief officers for equal opportunity, inclusion and diversity.
- Policies: Ethnic diversity and Equal opportunity policies.
- Goals: Setting of SMART targets (Specific, Measurable, Assignable, Relevant, Time-Based).
- Employee Training on ethnic diversity, including unconscious bias and related discrimination issues, alongside data indications on the scale and uptake of those tools.
- Employee Surveys on the topics of Inclusion and Equal Opportunity.





II. When permitted, data reporting and analysis can be useful tools offering a clear picture of a company's position on the ethnic diversity question.

- Ethnic and broader diversity in the workforce, reporting against a pre-defined talent pool.
- Ethnic and broader diversity in management, at both middle and senior levels.
- Ethnic and broader diversity reporting, of company ability to promote its own diverse talent, establishing a ratio to permit comparability across companies and through time.
- Ethnic Diversity on the Board.
- For companies which are prohibited by regulation to provide such data: some useful result indicator they choose to build and share. It can be, for instance, the results of an employee survey on inclusion, hours on inclusion topic.

The Mission for Investors

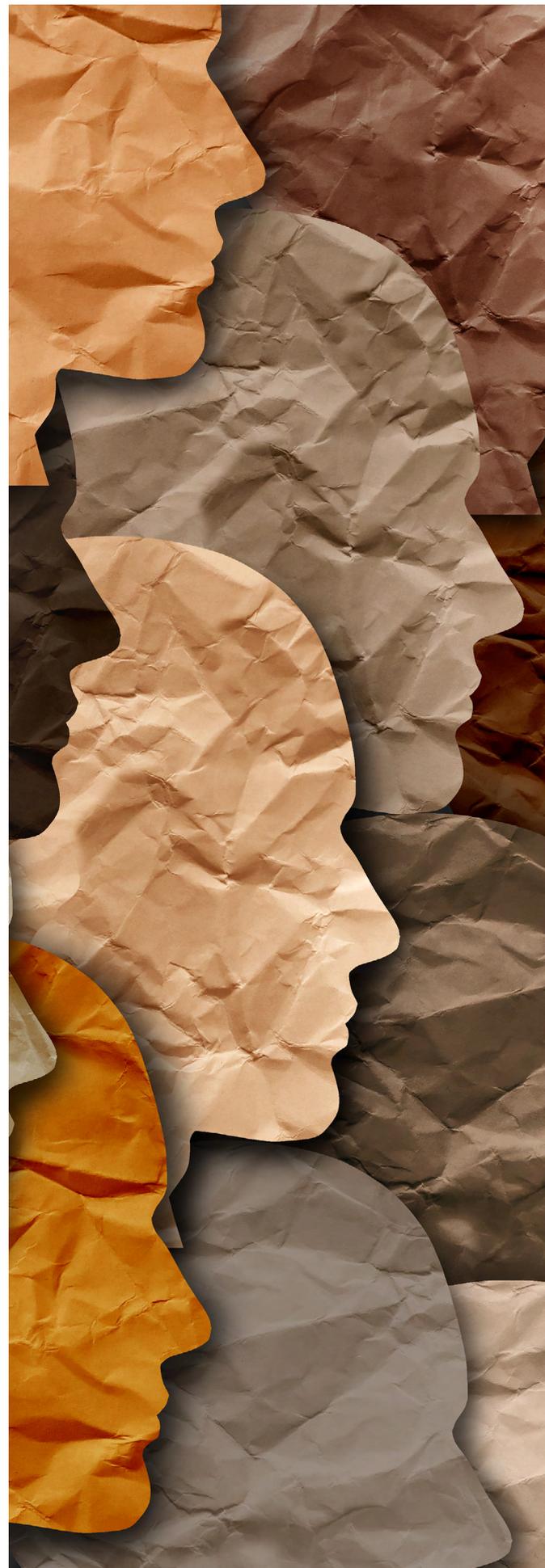
If you search for good practice, you will find some. A growing number of companies have developed diverse senior management teams and boards, report workforce diversity data, and offer open communications about their commitment to inclusiveness. Our mission as investors is to push for the broadening of these good practices. As Responsible Investors, at Candriam we have taken steps to embed diversity and inclusion in our analysis of portfolio companies :

- Candriam has been **integrating** Social factors into our proprietary ESG framework since 2005. Depending on the type of business, workforce and supply labour-related factors represent between 20% and 40% of our stakeholder management-related indicators. Because analysis can only be as complete as the information available, Candriam was a founding signatory to the Workforce Disclosure Initiative in 2017, which has grown to represent more than \$4 trillion in AuM.
- We are taking the diversity question to the next level: **naming** the issue, highlighting all its facets, and developing indicators, both qualitative and quantitative, to help us assess the issue and where things are improving
- **Assess** and **engage** our portfolio companies on diversity, pushing for an open dialogue on the racial and ethnic discrimination challenges.
- **Invite** companies to talk to us about diversity within the boundaries of their countries' regulations, share with them good practice we have observed. We acknowledge that regulator context varies dramatically by country, requiring us to differentiate our assessment tools.
- **Support resolutions** for inclusion on the AGM agenda, where we can, demanding more transparency for diversity data at workforce and/or board level. As we have recently experienced, we may agree with the demand but be unable to support resolutions because of legal constraints in the countries of operation. In such cases, we will engage with the resolution co-filers to discuss possible adaptation of the resolution wording so that we can bring our support during the next voting season.

Our next step is to embed diversity analysis into our investment decisions through engagement with investee companies. Having identified diversity performance laggards, or those which lack data or policy disclosure, we will engage with those issuers, ask for better disclosure and push for better practices.

Reporting the results and monitoring progress of our engagement programme on the ethnic diversity of our investee companies, and feeding this information back to our investment teams, is key. They will be factor diversity into their existing valuation models. Diversity is a key human capital and corporate governance performance factor. It is also a proxy for company inclusive and progressive culture, which can help enhance innovation and growth.

“Diversity is a key human capital and corporate governance performance factor. It is also a proxy for company inclusive and progressive culture, which can help enhance innovation and growth.”







Conclusion

The systemic over-representation of white people in Western societies in the corporate world, as well as in cultural and political institutions, is detrimental to societal progress. A consensus is emerging -- Truly addressing racism and discrimination requires naming the problem, acknowledging our own biases and responsibility, and endorsing the challenge. The endorsement must be shared by all parties -- majority ethnic groups and minorities.

Inclusive policies at corporations are driving business and investment performance. There are strong ethical reasons for investors and their investee companies to reject racism and discrimination. In the era of Responsible Capitalism, the role of investors is to allocate capital where assets can be best preserved, and to grow whilst making a positive impact. As stewards of capital, investors must investigate, query, and push for inclusion and ethnic diversity.

As shown, simply obtaining data on ethnic diversity is a challenge for investors. Candriam, along with 40 other investors with AuM totalling \$4 trillion as of June, 2020, has signed the Workforce Disclosure Initiative. By surveying investee companies about a wide range of workforce issues, and explaining how investors use the data, the asset managers in the WDI aim to improve corporate transparency and provide comprehensive and comparable data.

Learning from and sharing best practices of our investee companies, whatever their regulatory framework and reporting constraints, is a good place to start. Most importantly, breaking the taboo, recognising our past failures and opening the discussion are the best ways to challenge the status quo within our investment, and clear the path forward.

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