



January 2021

Interview with Vincent Compiègne
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Ethnic diversity: How do we integrate diversity in our investments?

CANDRIAM 

A NEW YORK LIFE INVESTMENTS COMPANY

How do we integrate diversity in our investments?

When anti-racism protests erupted around the globe in 2020, it became one of the few stories important enough to temporarily push Covid 19 news aside. What does ethnic diversity mean to investors? How do we analyse investments for ethnic diversity? We speak with our ESG Team about why ethnic diversity matters to investments, why we were already versed in this topic, and where we are headed.



Why should we care about ethnic diversity at the companies in which we invest?

Gender diversity has been in the media and on the minds of investors for some years, with increasing demands for Board and other diversity statistics, as well as demands for solutions. Academic studies¹ have shown that on average, gender diverse companies are better performers.

Academic studies² show even greater benefits to be gained from an ***ethnically*** diverse workforce. Yet if anything, the gender conversation has perhaps overshadowed the ethnic diversity issue. The world's increased awareness of ethnic diversity can be an opportunity for investors.

¹ Gender diversity and earnings growth source.

² Ethnic or racial diversity and earnings growth source.

Vincent Compiègne

Deputy Global Head, ESG Investments and Research

Why now?

Two things are increasing investor conversations around the 'S' in ESG – the unequal health and employment effects of the Covid 19 pandemic, and the breadth and force of the racial and police brutality protests. The Covid crisis has demonstrated the financial value of human capital to employers and investors. The crisis has also impacted social groups in different ways. One of these is ethnic inequality, as some ethnic groups are more at risk than others. This, combined with recent incidences of police brutality, has brought the ethnic inclusion and diversity debate to the forefront.

Where to start?

Ethnic data is difficult and expensive for companies to collect. Ethnicity can be difficult to define, and is defined differently in different cultures and nations. It is sensitive. And some countries prohibit the collection of the data, for privacy concerns. Where it is possible to collect diversity data, some companies may not be convinced of the business value of collecting the data, or may be reluctant to disclose it for reputational reasons.

How can we obtain better data on workforce diversity?

A wide range of workforce data is needed if we are to expand our analysis of the 'S' in ESG, not just diversity data. Composition of the workforce, compensation, occupational safety, turnover, and workers' rights, are all examples of the types of data investors need. Candriam was a founding member of the Workforce Disclosure Initiative in 2017. This collective investor effort has grown dramatically, and now represents more than \$4 trillion in AuM. Ethnic data will remain an issue where its collection is constrained by privacy or other regulation (for example, in France). In these countries only qualitative approaches to diversity can be applied. In regions where data collection and reporting is encouraged, investors will continue to push for better disclosure. This can further help quantify the benefits of inclusion, convincing more employers to improve their inclusion practices.

“Candriam has been integrating Social, or ‘S’, factors as part of our proprietary ESG framework since 2005.”



What else can investors do?

Investors can engage with and encourage companies to promote and disclose diversity. One thing investors can do is to explain to investee companies why workforce data is useful in investment decisions. 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.

What has Candriam been doing?

Candriam has been integrating Social, or 'S', factors as part of our proprietary ESG framework since 2005. Depending on the type of business, workforce and supply chain labour-related factors represent between 20% and 40% of our stakeholder managed-related indicators. Such analysis can only be as thorough as the information available; hence our participation in the WDI (Workforce Disclosure Initiative) and other efforts. Some companies do understand, and provide us with information on specific topics not yet covered in their public filings.

Where are we headed?

We continue to engage and vote for increased disclosure. We also continue to analyze diversity, based on a mix of the available qualitative and quantitative factors. We applaud increasing government-required disclosures on gender diversity, and encourage regulators to expand to ethnic diversity. We continue to strengthen our emphasis on the ethnic diversity topic. For companies which are not allowed to provide such data for privacy or other national laws, we encourage them to report any useful metric which they feel they can build and share, and which can help investors evaluate the company over time and relative to others.





€128 B

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