Executive Summary
Gender and Beyond: Diversity, Equity and Inclusion

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Our objective in writing this report is to broaden the scope of diversity for investors, to include identities beyond gender and to focus on equity and inclusion.

Stakeholders including regulators, investors and companies have extended considerable efforts to advance gender diversity in the workplace. Other aspects of diversity and their business benefits are often less well understood.

We present key DEI considerations related to ethnicity, sexual orientation, socioeconomic background, disability and neurodivergence, and analyse intersections of these characteristics, equipping investors with knowledge necessary to assess potential risks in portfolio companies and drive best practices, through engagement.

Disability and neurodiversity

- Mental health and physical impairments (such as issues related to mobility or stamina) constitute the most common types of disability
- Employers who adapt can benefit from specific skillsets - for example from neurodiverse employees
- Accessibility, flexible working and individual-based approaches are necessary to address the variation of impairments
- Proportion of employees affected may be greater than official numbers suggest: Some neurodiverse conditions may go either undiagnosed by medical professionals or undisclosed by employees who fear backlash if they self-identify their condition.

LGBTQ+

- Anti-discrimination laws covering LGBTQ+ individuals are growing globally, however challenges related to workplace inclusion remain significant
- Equal provision of benefits such as healthcare, parental leave and pensions are a key concern
- Various employee surveys identify psychological safety in the workplace as a concern

Ethnicity

- Unlike other diverse identities including gender and LGBTQ+ and disability, ethnicity must be defined according to regionally specific contexts
- Whilst protections against discrimination exist in most nations, few require the collection of employee ethnicity composition data (USA is a notable exception) and some (including France) restrict such personal data gathering
- First Nations and Indigenous peoples are an important consideration in several markets including Australia, USA, Canada and New Zealand

Socioeconomic background

- Family socioeconomic origins not subject to same legal protections of gender, ethnicity, disability and LGBTQ+
- Where less advantaged socioeconomic background overlaps with other diverse characteristics employees are faced with additional challenges
- Social mobility projects that deliver positive Return on Investment – may incorporate local communities, and address recruitment, training and retention practices.

Why consider DEI?

Financial return is not necessarily the be-all and end-all of DEI integration. The moral case is a critical consideration: While numerous academic and industry studies highlight the connection between diversity and financial returns, the topic continues to be contentious due to concerns regarding the methodological robustness of much of the research in this area.

> *Firm quantitative confirmation of the positive link between DEI and financial returns may not always be an exclusive requirement for investors to recognise its importance.*

Equity and inclusion warrant greater stakeholder attention: Another point of contention is the prevalence of focus on demographic diversity (tracking and seeking to increase the number of employees belonging to certain identities or characteristics) at the expense of broader consideration of equity and inclusion in a workplace.

A comprehensive approach which aims to create fair organisational practices for the benefit of all taking into account specific needs of certain groups or individuals (equity), and ensure a non-discriminatory environment where different perspectives can be shared freely (inclusion) would arguably be more effective in facilitating cognitive diversity and positive business outcomes.

Regulation increasingly integrates DEI considerations beyond gender: Global regulatory developments in the DEI realm predominantly focus on increasing transparency, and may provide stakeholders with improved data on company performance over time.

The metrics are increasingly covering a broader scope of identities and characteristics; some also consider elements of equity and inclusion. We cite frameworks from Nasdaq's Board Diversity Rule, EU CSRD, the UK Financial Conduct Authority and the CFA Institute as examples that explicitly extend diversity reporting considerations beyond gender.

Key Drivers behind the growing investor attention to DEI:

- DEI as a factor which can impact financial returns
- Stakeholder pressure increasing materiality (including the media and employees)
- Stock exchanges, regulators and industry bodies establishing new and broader DEI reporting frameworks
- Moral considerations rooted in the belief that building diverse, equitable and inclusive workplace is the right thing to do

Approaching DEI – What can investors do?

Engagement with issuers:
This paper develops not only key contexts, challenges and business benefits of broad DEI considerations but highlights engagement questions to help facilitate risk assessment and best practices in portfolio companies.

Address Equity and Inclusion:
Equity and Inclusion practices are more likely to ensure the benefits of demographic diversity are fully incorporated and retained over time to enhance strategic outcomes.

Consider diverse identities beyond gender:
These include Disability and Neurodiversity, Ethnicity, LGBTQ+ and socioeconomic background. Their overlaps or intersectionality can also be incorporated to reveal important nuances for investors. A number of regulations and industry bodies including the EU CSRD, NASDAQ, UK FCA and CFA Institute have extended their diversity focus beyond gender to include broader identities and increasingly a focus on equity and inclusion also.

Ensure DEI at management level is in focus:
Whilst board metrics are important, the management level is less often addressed even though it is a potentially material element in enhancing company performance and important in driving DEI implementation across a firm. (Recognising its importance, France's Rixain Law, for example, has extended disclosure regulation on gender representation for issuers to senior executive staff). Notably a lack of diversity (not only for gender but other diverse personnel also) at senior management level may indicate a poorer pipeline of talent for board appointments, and more broadly a prevalence of diverse cohorts at junior levels of a firm may indicate low "glass ceilings".

Considering DEI metrics in context

Understand which DEI disclosures are most appropriate for investee companies: Data is likely to improve over time as a result of a combination of stakeholders driving demand for greater transparency, not least regulators and industry bodies. Investors may engage companies where current disclosure levels on both employee demographics and DEI strategy and policies may not fit with a business model (i.e. diverse consumer exposure and growing geographical diversification).

Pay gaps that consider a broader range of relevant demographics can be meaningful and be used to understand the impact of intersectionality: the overlapping of different identities (e.g. gender and ethnicity) often leads to increased pay gaps, highlighting underlying challenges that need to be addressed. While data availability is still lacking and mandatory reporting is currently limited in scope (e.g. gender pay gap disclosure requirements in the UK and Australia), understanding the context of pay gaps is important in monitoring the impact of DEI approaches.

- Factors that can influence pay gaps: prevalence of diverse cohorts in different pay quartiles, education, sectoral and occupational segregation; age and family choices, full-time vs part-time employment

Ethnicity can be a complex characteristic to address due to regional variations in definition and lack of data in different geographies (there are few mandatory data tracking regimes – US is one example, while other countries, such as France prohibit collection of employee ethnicity data). Localised contexts often provide a starting point for stakeholder focus – where commonly used regulatory definitions of ethnic categories already exist. Material metrics to consider and engage in dialogue with issuers may include:

- At board level: Proportion of domestic (country of domicile) board member nationals and non-domestic nationalities compared to domestic revenue vs non domestic revenue (and geographical diversification strategy)

- At firm level: Number of nationalities of employees represented in a firm (across the total number of countries a firm operates in). This can be a starting point for issuer disclosure where ethnicity data is not available, indicating multicultural origins across geographical presence.

DEI as an opportunity for the energy transition: Industries undergoing transition not only benefit from but require greater cognitive diversity in order to drive the large scale change they need to achieve. Decarbonisation offers an opportunity for investors to address how DEI challenges, long deep-rooted in the energy sector, can evolve to embed more inclusive practices. This can be achieved by developing long-term strategies focusing on themes including recruitment, training, local communities and retention. Women, racial and ethnic minorities are underrepresented in the energy sector and are facing a disproportionate wage gap and turnover.