



# Diversity and Inclusion and IR: Views From the Buy Side

BY ALEXANDRA WALSH



You might think as an IRO that diversity and inclusion does not apply to you in your day-to-day professional life, and that might have been true five years ago,” explains John Moten, IRC, Vice President, Investor Relations, Foundation Building Materials. “But now, whether it’s environmental, social and governance (ESG) and corporate governance, the makeup of your organization, the diversity of your C-suite and corporate board of directors, diversity and inclusion is not just a topic related to a chart – it is germane to IR as well.”

Funk says companies need to be honest about where they are and whether they have the type of composition that can attract top talent. “Diversity and inclusion are certainly good for business, and there’s a lot of data in economic journals looking at how D&I contributes to innovation and research and development,” she noted.

Funk acknowledges that as an investor, there is a lot of data to consider about a company in determining financial decisions. “We look at gender, racial representation at the board level, turnover,

## Three buy-side analysts explained what they look for in diversity and inclusion disclosures at a session at the NIRI Virtual Annual Conference.

Moten made this observation on a panel he moderated at the NIRI Virtual Annual Conference in December 2020. The panel explored how investors are paying closer attention to how companies incorporate diversity and inclusion initiatives into their businesses. He was joined by panelists that Moten says brought “three very influential buy-side perspectives.”

### Why It Is Important

Karina Funk, CFA, Portfolio Manager, Chair of Sustainable Investing at Brown Advisory, explained, “We do a ton of sustainability research, within that is ES&G, and within the S is clearly diversity and inclusion – D&I.”

She believes the E the S and the G have always been connected.

“You can’t just look at issues like climate change without understanding health equity or climate justice,” Funk cautions. “The COVID-19 pandemic provides a strong example of how everything is connected – we see in front of us the impact of climate change on communities of color and other demographics.”

arbitration policies, compensation gaps, and promotion criteria,” she says. “All of investing is a process of continual improvement. As investors, we are just trying to get better at understanding what is important to stakeholders, like ourselves, but also company vendors, colleagues, and customers, among others.”

“Diversity and inclusion are a subset of human capital management and we fundamentally recognize that the majority of the company’s value is now tied up in intangibles – which human capital is a proxy for – rather than tangible assets,” explains

Anthony Garcia, Director, Responsible Investing at Nuveen. “The question comes down to your narrative or story – what do we investors want to hear and see?”

Garcia points out there are ESG metrics that allow for ease of comparison across companies or industries. He considers those to be similar to Generally Accepted Accounting Principles (GAAP) measures, at best. “They’re a nice starting point, but when you get into the weeds of valuing a company, I don’t think many people think a GAAP number tells the whole story.”

Instead, Garcia suggests that in the IRO's story, investors want to hear how the D&I data that the company provides fits into its overall company narrative. Investors want to hear what the company is doing to recruit, promote and retain diverse talent. He says they also want to know what the company is doing, overall, in its human capital management programs.

"It's important to recognize there is a valuable investor perspective in terms of understanding what the company is doing," Garcia advised. "Does the company understand the levers it can pull that will move different parts of its human capital program, with a diverse employee base being a nice subset of that? Prove to us you really have your finger on the pulse of what your employees want and you can then extend that narrative too."

He added if the company understands what its employees want, the value proposition the company is providing them is probably going to help the company understand the value proposition to its customers, suppliers and all other stakeholder groups as well

"It really shows us at least you understand how this all fits in to that broader strategy around your intangible, and really most valuable, assets," he said.

### **Board and Company Diversity**

Moten notes at the end of 2020, Nasdaq filed a proposal with the SEC to adopt new listing rules related to board diversity and disclosure. The rules will require most listing companies to have, or explain why they do not have, at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+.

He asked, "From an IRO perspective, how should a company approach meeting diversity mandates at the highest levels of governance, like at the board of directors level, compared to the company overall?"

Benjamin Colton, Global Co-Head of Asset Stewardship at State Street Global Advisors, added, "If you think about why we're pursuing diversity and inclusion in the first place, we found that increasing racial diversity and inclusion efforts really leads to long-term performance for our clients. It's a complex discussion that will be different in different jurisdictions and companies. So we want IROs to communicate in a holistic way."

Colton says he was not seeing a great deal of diversity data across dimensions, other than gender. "At the same time, we are seeing the headline risk manifest over the past year and the material negative impact on companies that are not managing these risks effectively. So we called on companies to start

disclosing more information, not just at the board level, but across the workforce."

How companies think about balancing diversifying their board or their workforce should not be about mandates, Colton explained. "We're looking for quality directors and diversity of thought in the board room. At the board level, it is very much about access. We think the talent is out there, the pipeline can improve, as can the nomination process, and we want to see disclosure both at the workforce and the board level."

He observed that it is difficult to analyze companies when he does not have the disclosure and called on companies to disclose broad D&I efforts and provide context.

"We want IROs to really communicate the context, the strategy and the goal, saying, 'Here's where we are, we might not be doing a good job, but here's where we're going.' That's the type of conversation we want to hear," Colton suggested. "Since publishing our guidance, not one company has said it's where it wants to be. I think it's really important to acknowledge there are steps companies can take, not only with the workforce but also at the board level, and I want to understand that context."

### **Benefit of Exposure**

Moten acknowledged that IROs might see D&I data disclosure as a lose-lose proposition. "As an IRO or issuing company, it seems if I don't disclose, I appear to be hiding something, and if I do disclose it might not be a good thing for me to do," he said.

"We really appreciate a company's recognition that there is room for improvement and they are disclosing this information so they can be held accountable for achieving those goals," Colton noted. "I think the incentive for IROs and their companies to disclose is accountability."

Colton added that companies will be held accountable for this information. "We've seen the lion's share of companies committed to disclosing a lot of information around capital management. I think there's going to be a revolution in the quality and quantity of data provided in the next six to 12 months," he said. "If a company is withholding this information, I'll wonder why there is no disclosure and we certainly would hold that company accountable through our voting."

Funk explained, "The notion of a lose-lose proposition in disclosures should be dispelled by now by myself and my colleagues – we are telling you we care about these issues, we're asking about them, and we're seeking disclosures. We may not ask a question about diversity and inclusion in the 20 minutes we have with an IRO, but our teams are looking at this information. Our own clients are asking for these types of disclosures."

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### When and Where to Disclose

Moten pointed out that disclosures can live in many places. “Do investors like to see D&I disclosures in ESG disclosures, the CSR report, regulatory filings like 10-K or 10-Q, the proxy, or the earnings call?”

Funk said in terms of where these disclosures are useful, “when” is more important than “where,” and urged all companies to disclose D&I information as soon as possible. She noted, however, that consistency is critical.

“The IRO has the real ability to connect the dots among different stakeholders that care about D&I issues,” Funk observed. “There is real value when an IRO can help disclosures be consistent in the annual report, in the way you talk to your customers, and within your pitch on investor day. If this kind of information gets into your investor pitch in the first few minutes – clearly investors have a sense of your priorities. It’s not the most important thing for a lot of companies, but for some it is.”

Garcia suggested as the SEC now requires some human capital disclosures be included in SEC filing, the same frameworks

can also apply to how a company looks at its D&I disclosures. “Take that framework and either include it in the SEC filing, or as framework in a CSR report or use it for engagement to tell the narrative you’re really trying to tell,” he said.

He acknowledged CSR reports have a broader stakeholder base and recommended calling out the portions the IRO thinks have investor relevance. “Don’t hide that behind the other fluff that goes into things like corporate philanthropy,” he recommended. “Put D&I information into a nice snapshot.

“Then once you feel comfortable with your measurement framework, you’ve recognized the risk and opportunity side of what you’re doing with your human capital program, it’s a much easier decision that D&I disclosures should be part and parcel with everything else you’re putting into your SEC filings.”

### The Direction of Disclosure

Colton acknowledged he has seen shareholder proposals related to social issues such as racial equity, gender pay gap, and workforce composition during the past year.

“I think about the evolution of shareholder proposals over the last 10 years from an environmental perspective, starting with just the disclosure of baseline information, and now we’re starting to see that disclosure is becoming commonplace,” he reported. “And we’re seeing this evolve into the governance of environmental issues – hybrid governance/environmental issues are really where shareholder proposals are targeted now.”

Colton said he expects to see that same evolution happening to social issues. “I think the timeframe will be condensed into the next two years and as you ask for disclosure, you’re going to see shareholder proposals asking for the governance of social issues as well. It’s going to happen very, very quickly.”

Funk observed, “Two things are almost always true for IROs, especially at large companies. The company can be doing some things you can be really proud of when it comes to diversity and inclusion. And there are also things that don’t look so good, or feel so good, some things you might even be ashamed of at your vendor base or other activities.

“We all understand that. Being honest about where you are is what builds trust with exactly the sort of long-term investor that I think companies particularly want. Transparency and consistency are most important when it comes to disclosures.” [IR](#)

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