BY THE NUMBERS: HOW DIVERSITY DATA CAN MEASURE COMMITMENT TO DIVERSITY, EQUITY, AND INCLUSION

VIRTUAL HEARING

BEFORE THE

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

OF THE

COMMITTEE ON FINANCIAL SERVICES

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THURSDAY, MARCH 18, 2021

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

BY THE NUMBERS: HOW DIVERSITY DATA CAN MEASURE COMMITMENT TO DIVERSITY, EQUITY, AND INCLUSION

Thursday, March 18, 2021

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DIVERSITY
AND INCLUSION,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., via Webex, Hon. Joyce Beatty [chairwoman of the subcommittee] presiding.

Members present: Representatives Beatty, Pressley, Lynch, Tlaib, Dean, Garcia of Texas, Williams of Georgia, Auchincloss; Wagner, Budd, Gonzalez of Ohio, Rose, and Gooden.

Ex officio present: Representative Waters.

Also present: Representative Green.

Chairwoman BEATTY. Thank you. The Subcommittee on Diversity and Inclusion will now come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Members are reminded to keep their video function on at all times even when they are not being recognized by the Chair. Members are also reminded that they are responsible for muting and unmuting themselves and to mute themselves after they are finished speaking. The staff has been instructed to only mute Members and witnesses as appropriate when not being recognized by the Chair to avoid inadvertent background noise. Members are reminded that all House rules relating to order and decorum apply to this remote hearing.

Today's hearing is entitled, "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity, and Inclusion."

I now recognize myself for 4 minutes to give an opening statement.

Good morning, and thank you to all of the Members and witnesses for joining us this morning. Diversity & inclusion (D&I) is not new. Several Congresses ago, our chairwoman called on the Government Accountability Office (GAO) to study this issue, and persistently called for leaders in the financial services sector to embrace in good faith diversity, equity, and inclusion throughout their businesses. During that time, racial wealth disparities have increased; home ownership rates for minorities have fallen; and women and people of color continue to pay higher discretionary fees for leveraging financial services.

In January, we called upon the Biden Administration to take immediate steps to embrace diversity and inclusion, and the President responded by lifting the Trump ban on diversity and inclusion training programs supporting the LGBTQ community and promoting racial equity with all 15 of his Federal Cabinet members, and throughout the agencies. In fact, the Department of the Treasury announced this week that they will conduct a racial equity audit to ensure that it is achieving economic fairness and meeting the needs of all Americans.

Today, we are calling on the regulated financial entities to fully disclose the diversity there. Only through the transparent examination of performance benchmarks will we achieve lasting and sustainable opportunities for women and people of color in the financial services sector. Good diversity and inclusion performance has been proven unequivocally to increase innovation and profitability while lowering regulatory risks.

Nevertheless, analysis by the GAO of diversity performance trends for senior leadership found that it rose from 2007 to 2015, that the hiring and promotion of African Americans declined, and that the rate for women remained unchanged. To address the poor performance and achieve greater accountability, Chairwoman Maxine Waters led the enactment of Section 342 of the Dodd Frank Act. Congress' intent under Section 342 was for the Offices of Minority and Women Inclusion (OMWIs) to conduct oversight of the diversity and inclusion performance of regulated entities.

On average, more than 80 percent of regulated entities have failed to share any metrics of D&I performance with their primary regulators. By any measurement, the voluntary self-assessment of diversity and inclusion performance by regulated entities has failed to meet the spirit and intent of the statute. Today, I will introduce the Diversity and Inclusion Data Accountability and Transparency Act, which will make the sharing of diversity data, pursuant to Section 342, mandatory.

Last year, the House Financial Services Committee published a report analyzing diversity and inclusion performance at the nation's 44 largest banks, because many had failed to share this data with their OMWIs, and we wanted to make sure that we were moving the needle in diversity and inclusion.

Today, I am announcing that we will be sending diversity data surveys to American's 31 largest investment management firms, which manage more than $47 trillion in assets. Without objection, I would like to submit this letter for the record.

Without objection, it is so ordered.

For the benefit of the economy of all, we will not rest. What gets measured, gets done.

The Chair now recognizes the ranking member of the subcommittee, my colleague from Missouri, Mrs. Wagner, for 5 minutes. The floor is yours, Madam Ranking Member.

Mrs. WAGNER. Thank you, Madam Chairwoman, and my friend, Joyce Beatty. It is a pleasure as always to be working with you again on this subcommittee, and I hope that we can come together to discuss the most successful strategies to foster a diverse and inclusive workplace within the financial services industry.

Republicans agree that there is more work to be done to improve diversity and inclusion, particularly at the executive level. Industry has acknowledged this and has taken great initiative to address the challenges related to recruiting and retaining minorities and women.

As this committee considers policies related to diversity and inclusion, it is important that we remember to structure them in a way that, as our witness, Mr. Wade, has said in his testimony, "is flexible and durable." Mr. Wade goes on to say that, "An initiative that might make sense in a highly-populated metropolitan area might not make such sense in a rural one."

I support your sentiment, Mr. Wade, and truly believe that a one-size-fits-all approach will not allow the financial services industry to really reap the benefits of our country's diversity. Diversity and inclusion, while related, are separate issues that should be addressed. Companies should expand their recruitment outreach, but it is equally as important to make sure that the environment is inclusive for retention.

Without an inclusive workplace, diversity efforts will not yield the results that a business might be seeking. We know that an employee is more likely to stay with a company if it is, in fact, inclusive. In this subcommittee, we have discussed ways that a business can improve retention and develop a more inclusive workplace. Those best practices include transparency regarding salaries and promotion opportunities, mentoring and sponsorship programs, employee research groups, and flexible work hours, especially for our working moms.

Cultural barriers or attitudes within a workplace cannot be removed through regulation or legislation. Results that benefit both the employee and the employer will come from within the company and require buy-in and active engagement from the top down. These results, while slow, are moving in the right direction with the help of organizations such as the U.S. Chamber of Commerce, through their Equality of Opportunity Initiative, and countless others.

We must remember that diversity data can be an important measure in understanding diversity in the financial services sector and industry, however, this data may not provide a complete picture of the company's commitment to diversity and inclusion. In addition to data, we should continue to understand the unique obstacles each company faces in recruiting and retaining a diverse workforce and learn from their creative solutions in overcoming those challenges.

If this subcommittee is going to consider new policies that are data-driven, then we must ensure that the data collected allows companies to tell their own stories and highlight key areas of concern and success. I want to thank all of our witnesses for testifying today, and I look forward to our discussion. Thank you, Madam Chairwoman, and I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Waters, for one minute.

Chairwoman WATERS. Thank you very much, Chairwoman Beatty, for holding this hearing today. Today, we are continuing to hold the financial services industry accountable for diversity and inclusion. I am pleased to partner with you, Chairwoman Beatty, in requesting diversity data and policies from America's largest investment firms. In addition to having an abysmal record of diversity within their investment firms, they have also not made it a priority to do business with diverse-owned asset managers and other businesses. Their excuses are not new and are laden with long-standing, unfounded biases against diverse-owned asset managers who perform as well or better than their White-owned counterparts.

Investment firms and others in the industry have also been reticent to share this data, but the data are needed to not only show the failing record but to document their improvement. So, I look forward to discussing solutions to increase disclosure of diversity data, which is indeed material to investors, and information to which Congress and the public should have access.

I yield back the balance of my time. Thank you, Chairwoman Beatty.

Chairwoman BEATTY. Thank you, Madam Chairwoman.

Today, we welcome the testimony of five witnesses: Thomas DiNapoli is the Comptroller of New York State, and is testifying on behalf of the New York State Common Retirement Fund; Daniel Garcia-Diaz is the Managing Director of Financial Markets and Community Investment at the U.S. Government Accountability Office; Carolyn Johnson is the chief executive officer at DiversityInc; Anne Simpson is the managing investment director of board governance and sustainability at CalPERS; and Rick Wade is the senior vice president of strategic alliances and outreach at the United States Chamber of Commerce.

Witnesses are reminded that your oral testimony will be limited to 5 minutes. A chime will go off at the end of your time, and I would ask that you respect the members' and other witnesses' time by wrapping up your oral testimony. And without objection, your written statements will be made a part of the record.

Mr. DiNapoli, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF THOMAS P. DINAPOLI, COMPTROLLER, NEW YORK STATE, ON BEHALF OF THE NEW YORK STATE COMMON RETIREMENT FUND

Mr. DINAPOLI. Good morning, Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the subcommittee. Thank you for the opportunity to testify today. I commend the members of this committee for your collective focus on diversity, equity, and inclusion in corporate America.

Following last spring's murder of George Floyd, which spurred an overdue national reckoning on systemic generational racial injustice, many publicly-traded corporations made commitments to address racial inequities. Those inequities are certainly stark. The boards of the 3,000 largest publicly-traded companies remain overwhelmingly White. According to Institutional Shareholder Services, underrepresented minority groups make up 40 percent of the U.S. population, but just 12.5 percent of board directors. Black directors represent just 4 percent, and Black women, just 1.5 percent.

Now, finally, we need more than talk. We need tangible actions in the form of increased numbers of Black and Brown directors on corporate boards and throughout workforces to more accurately reflect what America looks like. Research has shown that companies face risks when their policies, practices, products, or services are or are perceived to be discriminatory. By contrast, companies that foster diversity and develop a culture of inclusion, equity, and belonging are better-positioned to drive long-term value for shareholders.

More than ever before, it is imperative for investors to encourage their portfolio companies to address diversity, equity, and inclusion (DEI) issues. To do so, investors must have timely access to accurate DEI information, disclosed in a standardized manner to enhance the consistency and comparability of the information for investors to use.

Here at the State Comptroller's office, our DEI policies, practices, and strategies start in-house. They are reflected at every level, including the senior level. As trustee of the State's pension fund, I have hired 3 women to serve as chief investment officers, including 2 Black women over the past 14 years. We also have set a high standard in investing in minority- and women-owned business enterprises (MWBEs) and emerging managers. We are very proud of the fact that we have more than $6.7 billion managed by emerging managers, approximately $20 billion in total MWBE investments and commitments representing a quarter of our externally-managed capital,

As long-term shareholders, we invest across the entire economy. Our fund works to promote environmental, social, and governance (ESG) practices that are sound at our portfolio companies. From board and workforce diversity to pay equity, the fund has been advocating for better corporate policies, disclosure, and reporting that can lead to sustainable long-term value for shareholders. Recently, the fund has prioritized questioning companies on how they are addressing potential and actual inequalities, including racial equity.

An example is a shareholder proposal that the fund filed at Amazon asking for an independent audit to assess the company's policies and practices on civil rights, equity, diversity, and inclusion, and how they affect the company's business. Encouraging board diversity has also been an important part of our engagement. During the 2021 proxy season, the fund will vote against all incumbent directors at S&P 500 companies with zero directors identifying as an underrepresented minority on their boards.

I believe investors currently lack standardized disclosure around DEI, and in particular board diversity, due to an action by critical market participants, including the SEC. The SEC's inaction has led to some companies taking the position that diversity information is not material, resulting in data often being nonexistent, inconsistent, or unusable by investors. As a result, investors, including our fund, must rely on third-party research and data, or directly engage with individual companies to gather information.

It is time for the SEC to mandate the disclosure of DEI information. More broadly, the subcommittee and the SEC should consider requirements for public disclosure and discussion of DEI issues such as disclosure of workforce diversity, disclosure of internal pay equity, and disclosure of policies, plans, and strategies to promote inclusion and diversity. Additionally, I support the Improving Corporate Governance Through Diversity Act of 2019, sponsored by my fellow New Yorker, Congressman Meeks.

As State Comptroller, we are certainly focused on these issues. We look forward to working with this committee to provide more opportunities for underrepresented, particularly Black and Brown asset managers and firms, to manage fund assets. I believe that these efforts will have a positive impact for the fund's returns across the economy, leading to wealth creation, new investments, jobs, and opportunities in minority communities. Thank you very much.

[The prepared statement of Mr. DiNapoli can be found on page 36 of the appendix.]

Chairwoman BEATTY. Thank you, Mr. DiNapoli.

Mr. Garcia-Diaz, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF DANIEL GARCIA-DIAZ, MANAGING DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

Mr. GARCIA-DIAZ. Thank you. Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee, thank you for the opportunity to discuss GAO's work on diversity in the financial services industry. We have long reported that financial firms have struggled to increase the diversity of their senior leadership. After over a decade of limited growth and representation, Federal data for 2018 shows that women accounted for only 31 percent of senior and executive positions, and minorities accounted for 14 percent.

My remarks today are drawn from multiple GAO reports examining diversity practices in the financial services industry, as well as in the government-sponsored housing finance institutions: the Federal Home Loan Banks; and the two Government-Sponsored Enterprises, Fannie Mae and Freddie Mac. Specifically, I will focus on how financial services firms, including the Federal Home Loan Banks and the Enterprises, use data to assess workforce diversity, and how the Federal Housing Finance Agency (FHFA) oversees diversity efforts of the Federal Home Loan Banks and the Enterprises.

Our prior work has found general agreement among financial services representatives and other stakeholders on the importance of collecting and analyzing employee data to assess diversity and inclusion efforts. Representatives from large banks have noted that analyzing workforce data can help identify leaks in their internal pipeline and help them better understand why women and minorities are leaving before progressing into management positions. Other stakeholders recognize that knowing your employee demographics is helpful because a firm's workforce should reflect and relate to its customers. One investment firm noted that more than half of the firm's customers were women, and thus its workforce should understand and relate to its client base.

In addition, we have highlighted that qualitative data, such as information from surveys of employee viewpoints, can provide important perspectives on the status of these efforts. In response to requests from this committee, we conducted targeted reviews of the Federal Home Loan Banks and the Enterprises in 2019 and 2020.

Our reviews of these institutions provide additional insights into how diversity data can be used. For example, Federal Home Loan Banks and Enterprises track workforce composition data to compare to benchmarks such as prior year metrics or peer institutions. They monitor recruitment and hiring data to set targets, assess progress, and prioritize outreach and engagement efforts. They set diversity goals for management and leadership as part of their incentive and compensation goals or performance competencies. These institutions also use qualitative data to assess achievement of diversity goals.

Nine Federal Home Loan Banks conducted employee surveys, for example, to obtain feedback. Similarly, the Enterprises use employee surveys to monitor engagement among women and minority employees.

We also reported on FHFA's oversight of workforce diversity of the Federal Home Loan Banks and of the Enterprises. FHFA reviewed quarterly and annual diversity data and developed forums and instructions for its regulated institutions on periodic and consistent diversity reporting.

More notably, in 2017 FHFA began conducting annual examinations of diversity and inclusion efforts of its regulated institutions. FHFA reviewed strategic planning goals and organizational structures of programs and workforce and supplier demographics. In addition, FHFA has examined Federal Home Loan Banks' processes for selecting board members and related data reporting. It analyzed information on the Banks' outreach efforts and added two reporting requirements for gender and race ethnicity data for board directors.

While the additional requirements to report on board director race are useful, our 2019 report found that race information was not available for about 8 percent of the board directors. Further, we noted that individual banks used varying collection methods to obtain required information. As a result, we could not determine whether directors intentionally chose not to self-report their race and ethnicity or inadvertently did not respond due to data collection issues. So for this reason, we recommended that FHFA review data collection processes for board demographics to help ensure more complete reporting.

We also recommended that FHFA communicate effective practices with the individual banks. FHFA implemented this recommendation this past year.

In closing, our work points to the importance of collecting and analyzing employee data, and data analysis allows firms to better understand their workforce so that they can tailor their diversity and inclusion efforts to better serve their employees, and ultimately, their clients. This concludes my opening remarks. Thank you again for the opportunity to speak.

[The prepared statement of Mr. Garcia-Diaz can be found on page 47 of the appendix.]

Chairwoman BEATTY. Thank you so much, Mr. Garcia-Diaz.

Ms. Johnson, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF CAROLYN JOHNSON, CHIEF EXECUTIVE OFFICER, DIVERSITYINC

Ms. JOHNSON. Thank you. Chairwoman Waters, Ranking Member McHenry, Chairwoman Beatty, Ranking Member Wagner, and members of the subcommittee, thank you for the opportunity to participate in today's hearing. It is an honor to testify before you on the importance of making workforce data disclosures mandatory. This topic is my life's work. I am the chief executive officer of DiversityInc, a business publication dedicated to transparency and the business benefits of diversity, and a warehouse of workforce data for major employers.

We have built this data warehouse over 20 years as part of the annual DiversityInc Top 50 Competition. This effort is an editorial, empirically data-driven ranking, which focuses on U.S. operations for employers with at least 750 employees. The survey consists of 276 questions that yield more than 1,400 data points and measures human capital diversity metrics, leadership accountability, talent development, workplace practices, supplier diversity, and philanthropy.

As a Black woman, the wife of a civil servant, the daughter of a veteran who proudly served to protect all of us, and the mother of 2 children under the age of 10, I am uniquely positioned for such a time as this. As this committee is now considering legislation that would close some of the gaps in how regulated entities disclose their workforce data, let us focus on three crucial areas.

First, let us look at the lack of data on diversity, equity, and inclusion. Ironically, one year and one day ago, on March 19, 2020, the U.S. Securities and Exchange Commission's Office of Minority and Women Inclusion hosted a webinar that included an overview of the 2018 Diversity Assessment Report. The self-assessment, sent to 1,300 registrants, investment advisors, broker-dealers, municipal advisors, and self-regulatory organizations, received only 38 responses, covering only 5 percent of firms asked to submit a company self-assessment report.

Second, and this is the good news, other industries have been openly talking about and disclosing their efforts and showing how they are necessary to achieve ethical corporate governance, profitability, and return on equity. Examples of these companies that completed the DiversityInc survey and that rank highly are Johnson & Johnson, AT&T, Kaiser Permanente Novartis Pharmaceuticals Corporation, Marriot International, Hilton, Eli Lilly and Company, EDP, Accenture, TD Bank, Capital One, Moody's Corporation, and more. All other ranked companies can be seen by visiting Diversity.com.

Third, is the proof we already have of the benefits of how diversity data can exact change. Let us take a closer look at affirmative action. Here is the history and the facts. In 1961, President John F. Kennedy's Executive Order 10925 used affirmative action for the first time by instructing Federal contractors to, "take affirmative action to ensure that applicants are treated equally without regard to race, color, religion, sex, or national origin."

However, it was not until October 1967, following pressure from the surging Women's Movement, that President Lyndon B. Johnson amended the order to include gender provisions. That gender provision, the collection and required disclosure of gender diversity data, made all the difference. The numbers, the presence of women in management named as CEOs and directors of boards of publicly-traded companies prove it. After 2 decades of affirmative action and the data being collected and analyzed without bias, it was White women who held the majority of managerial jobs compared to African-American, Latino, and Asian-American women, the supposed beneficiaries of these policies, according to a 1995 report by the California Senate Governmental Organization Committee.

Today, women are more educated, and are thriving in the workforce more than ever before, and according to a Washington Post article from 2019, for the first time earn more Bachelor's and Master's degrees and Ph.D.s than men, yet we would not know that without the data. Thank you again for the opportunity to appear before you today.

[The prepared statement of Ms. Johnson can be found on page 62 of the appendix.]

Chairwoman BEATTY. Thank you, Ms. Johnson.

Ms. Simpson, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF ANNE SIMPSON, MANAGING INVESTMENT DIRECTOR, BOARD GOVERNANCE AND SUSTAINABILTY, CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

Ms. SIMPSON. Thank you. Committee Chairwoman Waters and Ranking Member McHenry, and Subcommittee Chairwoman Beatty and Ranking Member Wagner, and members of the subcommittee, thank you for the opportunity to testify at today's important hearing. My name is Anne Simpson, and I serve as CalPERS managing investment director for board governance and sustainability.

CalPERS has a long-standing concern with diversity, equity, and inclusion. As a fiduciary investor, guided by our duties of loyalty, prudence, and care, we reference this in our investment beliefs, our principles, and our sustainable investment strategy, backed by extensive research through our multi-year sustainable investment research initiative. Just yesterday, our board adopted a new diversity, equity, and inclusion framework to strengthen our approach across the organization.

CalPERS is the largest defined benefit pension fund in the United States, with approximately $450 billion in global assets invested across public and private markets. Delivering investment returns for our beneficiaries over the long term is vital not just to our 2 million members, but also to their employers in the community. For every dollar that we pay in benefits, 55 cents comes from investment returns. That is why these issues about performance are so important.

CalPERS' investment beliefs state that long-term value creation comes from the effective management of three forms of capital: financial; physical; and human. We regard diversity, equity, and inclusion as an integral part of human capital management. And as with all corporate reporting, be it on financial or human capital management, investors need data which is material, reliable, timely, and integrated. Without that data, we simply do not have the full information set for capital allocation, price discovery, litigation, or stewardship through engagement and proxy voting.

And on the latter, I would note that we have engaged over 800 companies since 2017, and over 500 of those companies have appointed diverse board members partly drawn from our initiative, the Diverse Director Data Source (3D), which is a database of diverse candidates housed by our Equilar.

Information is the lifeblood of the capital markets, and when the data set is incomplete, investors are missing vital signals on risk and return. This reminds us to go back to the requirement for material information to be disclosed in full. Incoming SEC Chair Gensler made reference to this vital issue of materiality during a recent hearing of the Senate Committee on Banking, Housing, and Urban Affairs. He commented that fundamental securities law requires that material information be provided for investors and in the public interest. And he commented, referencing the relevant Supreme Court cases that, "Materiality is defined as what reasonable investors are seeking to have in order to make their decisions either to invest or not to invest, or to vote yes or vote no."

As a fiduciary focused on long-term sustainable value creation for our members, CalPERS believes, and a growing body of research increasingly demonstrates, that diversity, equity, and inclusion impact both risk and return. Our principles state that diversity should be viewed as multifaceted and, alongside independence and competence, offer the hallmark of a high quality board of directors.

And as has been said earlier, companies with a diverse board inclusive of gender and race ethnicity are better-positioned to execute good governance, effective risk management, and optimal decisionmaking, as well as enhanced customer alignment, employee engagement, and transparency.

Voluntary disclosures quite simply are not enough. Many companies choose not to disclose, and others comment that, "I am really not too clear what it is that investors are looking for." For that reason, CalPERS has worked as a founder of the Human Capital Management Coalition, and with the SEC's Investor Advisory Committee, to help build a disclosure framework, which would begin to fill the gap and provide companies with a cost-effective format for offering this material information to their share owners. The framework covers issues such as employment status, health and safety, workforce pay and benefits, diversity on both race and gender, and more, all backed by research demonstrating the relevance to corporate performance. Of course, one simple, immediate step would be for companies to be required to disclose their EEO–1 reports, which will bring one missing element.

In conclusion, CalPERS recognizes that investors, companies, policymakers, and civil society all play a role in moving towards diversity, equity, and inclusion. For investors, however, this is not just a moral imperative; it is an economic necessity.

We look forward to working with the committee and the subcommittee to further these important issues, which are so important to the public interest and for investors. Thank you.

[The prepared statement of Ms. Simpson can be found on page 65 of the appendix.]

Chairwoman BEATTY. Thank you, Ms. Simpson.

And Mr. Wade, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF RICK WADE, SENIOR VICE PRESIDENT, STRATEGIC ALLIANCES AND OUTREACH, UNITED STATES CHAMBER OF COMMERCE

Mr. WADE. Chairwoman Beatty, Chairwoman Waters, Ranking Member Wagner, and members of the House Financial Services Subcommittee on Diversity and Inclusion, thank you for the opportunity to testify. I grew up in a very small town in South Carolina where the textile industry was once the mainstay of our local economy. And connected to that economy was a vibrant district of Black business owners that we affectionately called, "The Hill." It was our version of Black Wall Street over in Tulsa, Oklahoma, or Harlem, or perhaps in New York City. It was where one could find doctors and lawyers, retail stores and restaurants, fresh food, seafood markets, and other services. These businesses were key anchors in our community and the owners were our role models.

The Hill doesn't exist today. I have seen firsthand how entrepreneurship plays an important role in building wealth in families, communities, and economies, but the opportunity to start and grow a business is not equal for White and Black Americans. Black Americans represent only 9.4 percent of our country's business owners. Black-owned businesses have lower revenues, fewer employees, and are less than half as likely to get financing as White-owned firms. More concerning is the study from the National Bureau of Economic Research which reports that 41 percent of Black-owned businesses have already closed as a result of the pandemic and the downturned economy.

Last year, the United States Chamber of Commerce launched an historic Equality of Opportunity Initiative to help close race-based opportunity gaps in education, employment, entrepreneurship, criminal justice, health, and wealth. Driven by data and informed by conversations with businesses, governments, academics, and civic leaders, the equality of opportunity agenda is about advancing private-sector solutions and sound public policies that address inequalities in America.

We are proud of our progress thus far. We have hosted over 100 events and meetings with companies and business organizations, endorsed 14 bills on Capitol Hill, released important research and data to help inform our work, and stood up nearly a dozen Chamber-wide partnerships and programs. In addition, over 500 State and local Chambers of Commerce and other groups have signed on to this initiative and are engaging in equality work across their communities. I am particularly proud of our efforts to help save and grow Black-owned businesses, to enhance the flow of capital, and to connect them to corporate supply chains.

Our Chamber foundation has distributed 600 grants to Black-owned businesses disproportionately impacted by the pandemic in partnership with our coalition to back Black businesses. The coalition will provide $13 million in grants, mentorship opportunities, and resources to these businesses over the next 3 years.

Through our alliances with skysthelimit.org and Historically Black Colleges and Universities (HBCUs), we are also inspiring and developing the next generation of diverse entrepreneurs and business leaders. The Chambers' data-driven approach is foundational to this equality-of-opportunity agenda. We believe in data. We support efforts by the Consumer Financial Protection Bureau (CFPB) to implement Section 1071, which amends the Equal Credit Opportunity Act (ECOA) to require the financial institutions to collect and report information concerning credit applications made by women, or minority-owned businesses, and small businesses.

We repeatedly support the efforts by Representatives Meeks and Maloney to champion corporate board diversity and have already endorsed H.R. 1277, the Improving Corporate Governance Through Diversity Act. Diverse reputation representation, especially Black representation in board rooms, is still distressingly low, and the Chamber is helping to address this disparity. Through a partnership with the National Association of Corporate Directors, we have committed to help identify, prepare, and connect at least 250 Black executives to private and public boards by the end of 2022.

We need to address diversity urgently and through intentional action, but policymakers should be careful to structure diversity policies in a flexible and durable way. An initiative that may make sense in a highly-populated metropolitan area may not work in a rural one. Policies that incorporate flexibility, such as comply or explain model, can shed light on why an internal diversity goal has not been achieved and can help a company think through their shortcomings and plot a new course that can take hold long term.

Last year, many companies pledged to address diversity within their organizations and many are following up with immediate action. However, we do need data to truly identify where the system is broken so that we can analyze, diagnose, and fix it. The Chamber was pleased to see the commitment of 34 major firms to voluntarily disclosing government workforce data and publicly sharing their diversity reports by this year. This issue is not just a moral issue. It is about our economic competitiveness. But the reality is that the economic impact and full potential of Black ingenuity and talent has yet to be fully realized in America.

The U.S. Chamber looks forward to what we can do to fight the good fight to ensure that all Americans have a fair chance to earn their success and to live out their own American Dream. Thank you.

[The prepared statement of Mr. Wade can be found on page 75 of the appendix.]

Chairwoman BEATTY. Thank you, Mr. Wade. I now recognize myself for 5 minutes for questions. And please bear with me; I am going to try to get a question in to everyone.

Ms. Johnson, am I correct that hundreds of companies voluntarily share their diversity data with your firm seeking recognition in DiversityInc's Top 50?

Ms. JOHNSON. Yes, that is correct.

Chairwoman BEATTY. Do you believe that the firms who share their diversity data with DiversityInc each year face increased litigation, or reputation, or risk by doing so?

Ms. JOHNSON. I do not.

Chairwoman BEATTY. One might think that there is hypocrisy in financial services firms who are sharing their data in pursuit of recognition or awards, but not wanting to or refusing to share their data with investors, stakeholders, Congress, or regulators. What do you make of this?

Ms. JOHNSON. I believe that the firms that are sharing their data have found an understanding that this is not about public relations or marketing, but this is about profitability. This is about return on equity. And they understand that they are losing because they don't understand the challenges of their workforce, they are losing people because they are not collecting, analyzing, and studying the right data. So, they have found a way to understand how this is profitable, and not just about the right thing to do or morals only.

Chairwoman BEATTY. Thank you.

The next question is for Mr. DiNapoli. The New York State Common Retirement Fund recently launched an initiative to hold publicly-traded corporations and their top executives accountable for their diversity, equity, and inclusion policies and practices. Why is diversity, equity, and inclusion performance so critical to the interests of New York employees and retirees?

Mr. DINAPOLI. Thank you, Madam Chairwoman, for that question. We really look at the bottom line, and we believe strongly that the research, that the evidence shows that companies that have success with the DEI metric are more likely to present a sustainable, profitable investment opportunity for us. So, this is very much tied to the bottom line for us.

Chairwoman BEATTY. Thank you.

Mr. Wade, I have here the U.S. Chamber of Commerce's June of 2019 letter endorsing legislation that would mandate disclosure of board diversity data of public companies to the SEC. The Chamber supports mandatory disclosure of board diversity data but does not support mandatory disclosure of workforce data. Is that true? Can you address that for me, please?

Mr. WADE. Yes, Madam Chairwoman. What we are supporting and what we have endorsed is the idea of having the flexibility to allow companies, and organizations, and financial institutions to develop the plans and policies, because there is not one size that fits all. And we see tremendous progress even in the area of board diversity.

Chairwoman BEATTY. But don't you think data is data? If you are collecting it, and I recognize, because in our letter, we also allowed them to share other things that might be helpful. So, I recognize that, but as we have heard from some of our other experts, it is important to have the information or the data. And in keeping with your statement that it may be different for a rural area, I agree with that, but you still have to report what you have, wouldn't you agree with that?

Mr. WADE. I think you are right. I think that there are companies that are voluntarily reporting this data, and giving them the flexibility to put plans in place to execute their diversity plans is extremely important. And we are seeing great successes across the continuum of diversity companies that are at a different level. And I think it is important that we have plans and give them the flexibility to be able to develop plans that meet them where they are.

Chairwoman BEATTY. But at the end of the day, we need the data. Would you agree that it is important to have it, based on your statement about the value of it? And that would be a yes or no, so I could move on, please.

Mr. WADE. Yes, ma'am. Data is important in all decision-making, even in our equality of opportunities. Data is important.

Chairwoman BEATTY. Thank you so much.

The next question is for Ms. Simpson. CalPERS has called for publicly-traded companies to conduct racial equity audits. What are the goals of these audits, and what do they tell us about a company's vows?

Ms. SIMPSON. Thank you, Chairwoman Beatty, for the question. The importance of a racial equity audit is the ability to actually understand simply where racism shows up in your portfolio as an investor. And right now, if we are asked that question, we can't answer it. We can't answer the question of where our capital is deployed, how to exercise stewardship effectively, so we are really just fumbling in the dark. So the purpose of calling for not just the data, but also the standards, this is how we [inaudible] the SEC, we need to get that information.

Chairwoman BEATTY. Thank you.

Sorry, I am out of time. We will get you the next time, Mr. Garcia-Diaz.

The Chair now recognizes the distinguished ranking member of the subcommittee, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman, and I ask those to mute, please, who are not muted, even our witnesses. Thank you.

Mr. Wade, it is really great to see you again, sir. What are some practical challenges that your members have faced while trying to increase their diversity recruitment and retention efforts?

Mr. WADE. One of the biggest challenges which we are seeking to solve for—thank you, Ranking Member Wagner—is creating the types of pipelines and partnerships and the relationships that companies need. And we have to look at this, we believe, and that is why we have advanced this Equality of Opportunity agenda, the totality of our society, we have to invest in education. We have to deal with the issues of science, technology, engineering, and mathematics (STEM) curriculum, and skills training and retraining, and creating an expansive pipeline of talent. And I think that is the area where we are finding that we are adding real value in working with companies across America to be able to identify and share and develop best practices that can be shared with the—

Chairwoman BEATTY. Would the gentleman yield? Could we please mute? We are getting a lot of feedback from someone or something. Thank you. Could we add time back to Ranking Member Wagner?

You may proceed.

Mrs. WAGNER. I guess that is me who is proceeding. Thank you, Madam Chairwoman.

And Mr. Wade, thank you. As I have stated before, and I firmly believe, sir, the cultural barriers and attitudes within a workplace cannot be removed through legislation or regulations. You have to get these results for employees and employers with buy-in and active engagement, from, I think, the top down. And while diversity data can be a very important measure, this data may not provide a complete picture of the company's commitment.

So can you tell me, Mr. Wade, are financial services firms able to tell the full story of their successes and failures just with the reporting of workplace data? And if not, how can they supplement the data to better inform the community of the work that they do?

Mr. WADE. Yes, I think data is just one component. You are right. There are qualitative and quantitative factors that depict and paint the complete picture of a diverse and inclusive environment. We talked earlier about the importance of board diversity, workers, and management level position. Is there a culture of inclusion? Has there been sufficient bias training? Is it a welcoming environment?

And I measure and think about diversity not just in terms of numbers of employees, but diversity in terms of your impact in the community, diversity in terms of your connectivity to minority and Black businesses. So there is a totality, I believe, as we think about diversion inclusion that we have to consider, both quantitative and qualitative.

Mrs. WAGNER. Thank you. Does success in diversity and inclusion have the same meaning in all regions of the United States? We have touched on this, and knowing that, how can a one-size-fits-all approach to disclosing data allow a company to fully tell their story and show the strides that they are actually making? Give us some of the regional issues and the one-size-fits-all answer here. Thank you.

Mr. WADE. You are right. There is not a one-size-fits-all, and I think we have to take that into consideration when it comes to geography and demographics across our country. Again, I grew up in rural South Carolina, and the challenges there are vastly different than those in New York City. I took a delegation of our Historically Black College students to Silicon Valley to meet with tech executives, and I was struck that some did not want to live in that part of the world. And we have to conclude this in the totality of our conversation as we think about diversity and inclusion.

I am really thrilled about the consciousness now around diversity, equity, and inclusion, and that companies are responding. Again, private-sector strategies that have been led by business and industry can yield longer-term results and certainly—and the flexibility of policies coming from government are extremely important in giving them that flexibility so we can sustain this work for the long haul.

Mrs. WAGNER. Absolutely right, Mr. Wade. What we have done to increase education and awareness in this area, and so much of the private sector work that is being done is so important. And I think all of your points are important, because the data that tells the whole story can better guide the individual companies. So, that whole story has to be there as well as making more effective D&I solutions.

Can you talk a little bit about how the quality of data has an impact on a company's efforts?

Mr. WADE. The quality of data is extremely important, and here is the deal: I think companies are able to see this data from where they exist. They understand the workforce needs of the future. They understand the automation challenges that we are confronted with, and then can invest in communities and invest in HBCUs and in public education. I am thrilled about an interesting partnership that Howard University has with Google, where Google is sort of teaching from the standards of business and industry. And so, I think the quality of the data is extremely important, but the source of the data is also extremely important. And data that is volunteered, seen from the lens and experiences of business and industry, is extremely important.

Mrs. WAGNER. Thank you, Mr. Wade, for all of your great work.

I have more questions, Madam Chairwoman, but we will have to find time to do this again. So, thank you very much.

Chairwoman BEATTY. And I will so note that we can do this again.

It is my honor now to recognize the Chair of the full Financial Services Committee, the gentlelady from California, Chairwoman Waters.

Chairwoman WATERS. Thank you so very much. I would like to direct some questions to Ms. Anne Simpson, with CalPERS. I started diversity and inclusion in CalPERS some 30 years ago when I created the emerging fund for minority firms to get an opportunity to get their foot in the door. Out of that, some of the most successful firms, minority firms, in the country really did get in and were able to grow and progress. Victor McFarlane, who became one of the greatest real estate developers; and John Rogers; they both came out of this firm.

Now, I am looking at your testimony, and I failed to hear it all. But I am looking at how you are saying that the SEC needs to do more in enforcing diversity, et cetera, et cetera. What have you done?

Ms. SIMPSON. Thank you, Madam Chairwoman. Yesterday, CalPERS' board adopted a new diversity, equity, and inclusion framework. This covers the dimensions of our efforts on DEI as an organization, so it includes culture, which has been discussed, and it is so important; talent management; supplier—we, CalPERS, spend an enormous amount of money, so the supply piece is important—

Chairwoman WATERS. I am going to interrupt you for a minute. This was done yesterday. I have been gone for over 30 years, and—

Ms. SIMPSON. Oh, I apologize.

Chairwoman WATERS. —back to my emerging fund, why was it given up, or now excluded from what you do? What have you actually done to replace that and to make sure that the largest personnel employee fund in the country is absolutely exercising real diversity and inclusion? What have you done all these years?

Ms. SIMPSON. Thank you. On the Emerging Manager Program, as you rightly say, Chairwoman Waters, this is a very long-standing program. This was reviewed and restructured, as you know, last year. And the drivers for that were looking at costs and performance and the fit with each of our asset classes. We have—

Chairwoman WATERS. Okay. Excuse me. I only have a few minutes. So, you discarded that. What have you replaced it with? How many minority firms do you have now absolutely managing asset managers, et cetera, dealing with that huge public employees' fund and the State teachers' employment fund? What do you have?

Ms. SIMPSON. Thank you. We have an emerging manager program in private equity. We have an emerging manager program for our real assets asset class.

Chairwoman WATERS. How many Black firms do you have?

Ms. SIMPSON. And in our global equity portfolio, we have four external managers following the restructuring. One of them is an emerging manager, Victor Hymes' Legato, whom I am sure you know, and the other is a graduate of our emerging manager program. The restructuring—

Chairwoman WATERS. How many Black programs do you have?

Ms. SIMPSON. We don't have the ability, due to Proposition 209, to categorize investments by demographics. We have to use our emerging manager formula by size and vintage.

Chairwoman WATERS. That is not what my emerging legislation did. Can you name one Black firm that you have?

Ms. SIMPSON. I just did. It is Legato, which is managed by Victor Hymes in our global equity portfolio.

Chairwoman WATERS. How do you spell that?

Ms. SIMPSON. Hymes, H-y-m-e-s, and Legato, L-e-g-a-t-o.

Chairwoman WATERS. Thank you.

Ms. SIMPSON. I do want to also say that the other element of our work in this area is to extend our understanding of diversity, equity, and inclusion across all of our external managers, not just the new emerging manager programs, which are so important to CalPERS. They have not been closed down. They have been restructured, and we are refreshing the strategy. That is the work that is going on now.

We also monitor diversity through all of our external managers. We also, through our own work, through our internal management of the fund, and Lennox Park, excuse me, is the consultant that does that monitoring work for us so that we are gathering diversity, equity, and inclusion data right across our external manager portfolio, not just for the emerging manager part.

Chairwoman WATERS. Thank you very much. And I am not just interested in the emerging fund that I created 30 years ago. That should have been improved. It should have grown. You should be able to rattle off any number of firms that are not only diversity firms, such as ones with women, but Blacks, Latinos, et cetera, et cetera.

And I am going to follow up. I haven't had the opportunity to really deal with this, but I have not been happy about what I have learned over the years about what has not happened. As I understand it, you had one some years ago. So, thank you very much. I have to yield back the balance of my time, but I will follow up with you.

Thank you, Chairwoman Beatty.

Ms. SIMPSON. Thank you. There is more. Thank you.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentleman from Tennessee, Mr. Rose, for 5 minutes

Mr. ROSE. Thank you, Chairwoman Beatty and Ranking Member Wagner, for holding this subcommittee hearing. And also, thank you to our witnesses for testifying today. I am new to the subcommittee, but I look forward to getting up-to-speed on the important issues in the diversity and inclusion space.

The purpose of this hearing is to discuss how data can measure a company's commitment to a diverse workplace. But I think it is important to make sure that the data collected allows companies to tell their own individual stories. There are obvious benefits of a diverse workforce, and each and every company faces unique obstacles in recruiting and retaining one. Several bills attached to this hearing would impose mandatory reporting requirements on companies. And this one-size-fits-all approach concerns me, because there are companies of all shapes and sizes in different regions of the country, and I believe these reporting requirements would not put their D&I stories in full context.

Mr. Wade, could you explain how one-size-fits-all mandatory reporting requirements could hurt or hinder small businesses across the country?

Mr. WADE. Thank you, Congressman Rose. We actually believe that there is not one size that fits all, as you aptly stated, in terms of business and industry. And one of the areas that we are deeply concerned about are the sector and growing emerging parts of our economy that we need to focus on, and investing in STEM, and education, and science, and technology so that we can have a pipeline of talent and enhance that pipeline for the industries and jobs of the future. So, there is not one size that fits all.

And quite honestly, I think even as investors are interested in this data, they are also interested in how we are forward-leaning and forward-thinking about the workforce of the future. We believe that would be prohibitive to the growth and expansion of our economy, thinking about mandates that require an approach that is one-size-fits-all. We think comply or explain, where a company can develop programs and policies and initiatives, is a more appropriate approach as we think about diversity, equity, and inclusion in business.

Mr. ROSE. Thank you. And I do think that forward-thinking effort is so important in making sure that there is a pipeline of diverse applicants and individuals who are interested in the jobs across the full spectrum of economic activity. And I have seen that in the rural communities that are a major portion of my district. So, it is so important that we be creating role models, and setting examples, and equipping diverse young men and women for the careers that may lie ahead of them and inspiring interest in them, so that businesses, at least in my part of the country, have a ready pool of diverse qualified individuals to choose from as they try to improve diversity and inclusion in their workforces.

Mr. Wade, in your testimony you referenced the Chambers' Equality of Opportunity agenda. I agree that we need to work to achieve equality of opportunity. And I was glad to see that closing the digital education divide was included in that agenda, because over half-a-million Tennesseans only have access to one internet service provider, and 274,000 people still have no access at their place of residence. Can you explain why broadband is a necessity for learning in today's digitized world, especially in the financial services sector?

Mr. WADE. It is an extraordinarily important part of our infrastructure. And I think we have seen this play out during this tragic pandemic, where we have kids in certain parts of our country who don't have access to the internet, because of lack of broadband infrastructure. And that is the focus of our Equality of Opportunity initiative, to deal with the structural issues that hinder us from creating opportunities for all people to benefit from the economies of our society including workforce diversity.

And so again, I think that we have to also deal with the structural challenges, whether it is broadband, investing in education, investing in skills. It is particularly STEM at the K–12 level, and these are some of the proposals that we are advancing on the policy level, many of which we have already endorsed, as well as private-sector solutions. So, looking at this from a public-private partnership approach is extremely important if we are going to deal with these issues for the long term and not just the short term.

Mr. ROSE. Thank you.

Chairwoman Beatty, I see that my time has expired, and I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentlelady from Massachusetts, Ms. Pressley, for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman, and thank you to our witnesses for being here today.

Following the devastating 2008 financial crisis, which had a disproportionate and harmful economic impact on Black and Brown women and communities, the Dodd-Frank Wall Street Reform and Consumer Protection Act established the Offices of Minority and Women Inclusion across many Federal agencies and tasked these offices with collecting and reviewing the diversity and inclusion data of the banks, lenders, insurance agencies, and other entities which they regulate.

Now, despite this explicit authority, the Federal Reserve, the FDIC, the OCC, and the SEC jointly issued guidance that made reporting of diversity and inclusion data voluntary, thus weakening the oversight and enforcement intended to prevent and address predatory, discriminatory, and exclusionary actions. Ultimately, collecting this diversity data is certainly not extra credit. This is about holding institutions accountable.

So, Ms. Johnson, if you were to fulfill the intent of Dodd-Frank and require regulated entities to disclose diversity data, how would that increase accountability and transparency in the financial services sector?

Ms. JOHNSON. Thank you for that question. I would be remiss if I did not, in this moment, acknowledge the loss of the CEO, the late Arne Sorenson, of Marriott International. And what I want to say here is that there is this idea that those of us who understand the power of diversity think that people are inherently bad. And I will tell you that the conversations that I was fortunate enough to have with Arne Sorenson usually led to, "I didn't know this was happening until I saw the data."

And so, the opportunity here is for us to learn what has happened, whether it was done intentionally or not, so that we can fix it so that it doesn't happen again. This is not about shaming any industry or any one company. This is about the tide rising, and us all rising together.

Ms. PRESSLEY. True. I am certainly a believer in, that which gets measured, gets done. And that is certainly the importance of data. So, how might requiring disclosure of this data ultimately benefit everyday Black and Brown and other marginalized consumers whom the institutions serve? Could you speak to that component?

Ms. JOHNSON. Absolutely. I think the first step is standardizing and making sure that the definitions are all on the same level. For a very long time, diversity has meant gender diversity. If you look at the methodologies of a lot of the research reports, when you really dig in, it really focuses on gender diversity, hence my testimony. So, we have to make sure that we are looking at all dimensions of diversity, not just the ones that give us lift in the news cycle. That is the first thing.

The second thing is that consumers, investors, are looking for transparency. And you will soon find yourself, if you are not transparent, having people look at products and services that you did not develop or create.

Ms. PRESSLEY. Yes. I really do commend those entities that have committed to hiring more employees who have been historically underrepresented. But it is also important that we pay attention to the experiences that those employees have who do gain employment in the financial services sector to make sure that these are not environments that feel hostile or where there are microaggressions, but that we are retaining that talent, that folks have the opportunity to move up, because it is an environment where they feel safe and where they can thrive.

Mr. Garcia-Diaz, do the Offices of Minority and Women Inclusion collect and review data that can demonstrate whether employees are hired into an atmosphere where they feel included? If not, how could we collect more qualitative information to ensure that financial institutions aren't only reaching diversity benchmarks, but also are ensuring that marginalized workers aren't leaving their jobs or being prevented from fully participating based on some of the things I already enumerated?

Mr. GARCIA-DIAZ. Thank you for that question. And, yes, our more recent work has looked at one of the regulators, the Federal Housing Finance Agency (FHFA), and their work with the government-sponsored housing finance institutions. And there, they are embedding in their processes a collection of information directly from these institutions, workforce information, board information, and analyzing it and incorporating it into their regular examination process. And so, while that information isn't made public, there is a back-and-forth with the regulators to understand the status of diversity and inclusion efforts at those firms.

But I have to emphasize that in the case of FHFA, they are dealing with a limited number of regulated institutions.

Ms. PRESSLEY. My time is up. Thank you.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentleman from Ohio, Mr. Gonzalez, for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Madam Chairwoman, and thank you to our witnesses for being here today.

I am going to start with Comptroller DiNapoli, and I am going to try to stick, given the context of this hearing, to data. So, you have $247 billion in assets under management according to your testimony, and I am trying to piece together what percentage of those funds are, or those assets are managed by diverse asset managers. In your testimony, when you say $6.7 billion in the emerging manager commitments, and then $20 billion in total MWBE investments, is that $26.7 billion on $247 billion?

Mr. DINAPOLI. Yes. Keep in mind much of our investment portfolio is managed internally by our own staff, so of our externally managed, we are about 25 percent by diverse firms. That is part of why I am proud that we have a very diverse team internally as well as working with many diverse managers.

Mr. GONZALEZ OF OHIO. Okay. So, 25 percent of the external capital is managed by diverse managers. Great. And then what do you see, because that is obviously not fully representative, and I acknowledge the progress, because I know it is hard and this is where I am going with the question. What do you see as the biggest barriers to increasing that percentage to having a financial services asset management sector that is more representative of the population at large?

Mr. DINAPOLI. The challenge that we faced over many years is how to access the opportunities. And that, in many ways, is a two-way street. How do we make sure the doors are wide open, but also how can we explain to potential investment partners how it is that they can develop a relationship with us?

Part of what we have done is to have a dedicated staff that works on emerging manager and MWBE investment opportunities. We have grown that staff out. And what we have found to be very successful is that we do an annual emerging manager MWBE conference at least once a year. This year we had to do it virtually, given COVID, but we had about 800 investment professionals sign up. That provided an opportunity for our team to explain what it is we are looking for in terms of our bottom line, an opportunity to get to know staff—relationships are very important, building relationships—and also to get to know our external managers, those firms who we deploy capital to let them know how they can pitch them on an opportunity.

We are pleased with the progress we have made, but we feel we are not finished. We have more work to do. It is about communication. It is about opening the doors. It is about having a pipeline to be developed and that is what we are always working to improve upon.

Mr. GONZALEZ OF OHIO. Thank you. Thank you for that answer. And then from a performance standpoint, how have the MWBE funds performed relative to their peers?

Mr. DINAPOLI. Similar, although in many cases we have seen a number of instances where they have actually outperformed the traditional relationships. Especially with emerging managers, which tend to be newer, younger, hungrier firms, if you will, exposure to niche markets that some of the more traditional relationships haven't given us exposure to. That has also created great opportunities. So from our perspective, it certainly hasn't hurt our bottom line. These firms have done as well, if not better, than the traditional relationships.

Mr. GONZALEZ OF OHIO. Okay. Ms. Simpson, with my minute, what percentage of your assets are managed by diverse asset managers, external not internal? What percent?

Ms. SIMPSON. Thank you. Our emerging manager program of our external managers is $1.5 billion. And as I was just explaining earlier, we have restructured, and we are in the middle of refreshing our strategy for our emerging manager program.

Mr. GONZALEZ OF OHIO. Thank you. And then what—

Ms. SIMPSON. We also—

Mr. GONZALEZ OF OHIO. I'm sorry, $1.5 billion on what total?

Ms. SIMPSON. Approximately 20 percent of our assets are invested by external managers.

Mr. GONZALEZ OF OHIO. So, 20 percent of the $450 billion. So, $1.5 billion on $90 billion. Is that right?

Ms. SIMPSON. I apologize. I don't want to improvise on the arithmetic. I would be very happy to come back to you afterwards with—

Mr. GONZALEZ OF OHIO. Thank you.

Ms. SIMPSON. —those numbers.

Mr. GONZALEZ OF OHIO. I only have 30 seconds left, so I guess I will just finish with a comment.

When I look at the asset management world, it is clear that we have a ton of work to do. It is primarily dominated by non-diverse, and specifically White men, if we are just being honest. And so, I think that the faster that we can get to work there in the pipeline and creating the programs that allow diverse asset management, the better we will be as a country and a profession. Thank you. I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch, for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman. And I want to thank the witnesses for participating. This is a very important issue. One of the other hats I wear, is I am the Chair of the FinTech Task Force here on the Financial Services Committee. And most, well, I think all of the FinTech firms, their whole model and their success is derived from the data that they gather and the data that they utilize. Many times, quite often, it is alternative data that actually gives a much more granular and detailed picture of the consumer or the investor, and yet there is really not much data out there for us to know whether or not a truly diverse picture is being gathered with respect to the business community. We don't know.

So, let me just say this. Algorithm bias continues to be a problem. We have identified it in a few instances and we have been able to try to correct that. But because there are so few diverse members of the teams that are putting together these algorithms, it is very difficult to tell whether or not we are not making the same mistakes over and over again, and putting minority consumers and minority investors at a disadvantage because of the algorithms that are being used.

I would like to ask the witnesses, is there any policy that we can inject here to make sure that policies are adopted to make sure that FinTechs, in particular, are not—well, let's put it this way, are considering the likelihood or the danger of adopting biased algorithms? Is there a way to prevent those from being adopted? And is there a way to make it systemic so that each and every firm knows when they are putting together these algorithms, that danger is out there? Because I have looked, and there are a half dozen studies out there and they all say that there is not enough data for us to conclusively determine that the algorithm bias has been rooted out.

Let me see, I am not sure whom on the panel—Mr. DiNapoli, or Ms. Johnson, you might be able to answer that question?

Mr. DINAPOLI. If I understood the question, I would just offer that it really underscores the importance of having diverse leadership at the board level, certainly for the kind of companies we invest in, and certainly at the senior management level for any business. That is how you will get that diversity of opinion; you will get a sensitivity on those kinds of issues. So, I think from—

Mr. LYNCH. Reclaiming my time, what I am trying to get at is that the bias is baked into the algorithm. I am very supportive of diversifying the board of directors, but where the rubber meets the road is when these algorithms are actually being put together. And so, obviously, we need a more intimate involvement at that stage.

Mr. Garcia-Diaz, you have some background in this. What are your thoughts?

Mr. GARCIA-DIAZ. We haven't looked at the question in exactly the way you framed, but I can address it a little bit with some related work that we have done in the past looking at, for instance, facial recognition technology where we talk about how bias can actually intrude in the making of the programming. And particularly, when all of the programmers are of one group. Without the inclusion of other perspectives, people of different backgrounds, to, in a sense, provide feedback or input into that programming, you can run into the potential risk of bias that becomes systematic because it gets repeated over and over and over again by the different users.

And if you apply that more broadly, to the extent that it has consequences, say, for lending, there are going to be fair lending considerations. And that will raise concerns. But I think this is an area that with the technology, it is so new, and we are still trying to figure out the impact of these biases.

Mr. LYNCH. Thank you, Madam Chairwoman. I yield back.

Chairwoman BEATTY. Thank you, Mr. Lynch.

Ranking Member Wagner, or other Members at this time?

If there are no other witnesses on the other side, the Chair now recognizes the gentlelady from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you so much, Chairwoman Beatty. I really do appreciate your continued commitment and passion on diversity. I also, as a person who has valued the importance of inclusion of people like us in various spaces who are making decisions that impact our communities, I know that we have to go beyond just diversity in a sense, in the lens of people thinking that just putting our bodies into the room is enough. And we also should be accepting the lived experiences that we bring into that space are critically important.

I have seen firsthand in my district, which is the third-poorest in the nation, how the lack of diversity among corporate leadership and within the financial services industry primarily has directly impacted and harmed my residents. In Wayne County, Michigan, the unemployment rate for Black residents is more than double the unemployment rate for our White neighbors. According to the Brookings Institution, homes in Black neighborhoods are, on average, undervalued by $48,000.

Black drivers in my district pay significantly more money for auto insurance, keeping them in the cycle of poverty, more than the White drivers for reasons that have nothing to do with their driving history. These are non-driving factors like marital status, education level, credit scores, and so forth. So, when it comes to addressing racial disparities in our country and in my district, what we measure does matter.

Ms. Johnson, I want to give you an opportunity to really talk about how the lack of not just putting us into the space, but the lack of really truly allowing us to bring in that lived experience into the corporate leadership room, perpetuates these racist structures that are harming many of my neighbors in the 13th District?

Ms. JOHNSON. Thank you for that question. And I think that if we think about gathering data, however that data is gathered—I think about the shock and awe that some of my peers went through in watching videos of people being killed by police officers who are supposed to protect them. And so I think that the opportunity to hear from and hear about the experiences of other people so that we can program and look for the bias, to the earlier question, that is clearly part of most every system that everyday Americans are having to deal with in some shape or form. I think that the opportunity to hear from people to see and have proof of what is actually happening is why the diversity data disclosures should be mandatory.

If I can just say one more thing? PricewaterhouseCoopers, Ernst & Young, and KPMG have done outstanding work in standardizing how we report out on our financial performance. These three organizations have developed and disclosed a diversity report, and most of them are advising, or doing tax prep work, or consulting for most of the companies that we are talking about. Surely, if they have found a way to do this, the companies that they are advising can.

Ms. TLAIB. And I appreciate that. Thank you so much.

One of the things I want to stress to the chairwoman and many of us, many of my colleagues, is that due to a lot of regulatory exemptions, companies held by private equity firms don't have to disclose data on climate risk, labor standards, and yes, diversity and inclusion in the workforce. As many people here testify, one of the companies, CalPERS Investment, believes that, "long-term value creation requires effective management of financial, physical, and human capital."

So, Ms. Simpson, would requiring private equity firms to make mandatory disclosures on diversity and racial equity impair the performance of these investments?

Ms. SIMPSON. Thank you for the question. In our experience, diversity, equity, and inclusion are good for performance. It is good for risk management, and it is good for returns. And so, what CalPERS has done is, as part of being a member of the Institutional Limited Partners Association (ILPA), which we helped to found, is to support them in developing a template of what are called the the due diligence questions (DDQs), which go through private equity, capital allocation, and selection of managers, so that we can start to drive this agenda, drive this conversation through the private markets where this is just as important as it is in the public markets.

Now, you have also seen some innovation in the response. One of our private equity managers quite recently set up a $4 billion credit facility, which will lend at a cheaper rate of interest to those companies which achieve diversity progress on their boards. And I think that is a perfect example where the combination of disclosure and incentives can set the stage for improvement.

Ms. TLAIB. Absolutely. Thank you so much.

But one of the things that I think is really important for us to really be effective in this committee—the private equity industry controls more than 8,000 companies in the United States. That is more than double the number of publicly-traded companies. So, I hope that we do take an effort and require them to disclose.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentlewoman from Pennsylvania, Ms. Dean, for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman, and thank you to our witnesses for sharing your expertise and your experience on this important issue.

We all believe that we have to remain committed to ensuring that all our workplaces, from Congress to the classroom to the C-Suites, reflect diversity across our country. We talk about and believe that diversity is our strength. But asking these questions also poses the question that Ms. Simpson just said, "Where does racism show up in your portfolio?" Those are important questions to ask.

And so, what I wanted to start with was, Ms. Simpson, you explained in your testimony the importance of the benefits of corporations disclosing their diversity metrics. If companies were mandated to do so, what positive effects would you see for your investors and members in the short term and in the long term?

Ms. SIMPSON. Thank you for the question. We expect two things. First of all, this disclosure means that companies will be paying attention to what matters to their risks and to their returns. And as investors providing the capital into those companies, this means we are able to be more effective fiduciaries. Without understanding, not just what is happening at the top, and diversity is one issue, I do want to say that the framework for human capital management and reporting needs to touch on other issues like health and safety, like employment status, like wages, health, and benefits, because this is the picture that gives us the equity and inclusion dimension when cross-referenced with diversity. And we have argued for that at the SEC. So, the benefit is all around the companies and to investors and, of course, to workers and communities.

Ms. DEAN. Let me ask you another question about that. You mentioned that there would be major problems if the company began to selectively disclose diversity information, choosing what items and what data points they want to share. Explain the danger of that?

Ms. SIMPSON. Right. This is exactly the same as with financial reporting, in our opinion. If companies can choose how to calculate profit or what matters for return on capital investment, we would just have merry chaos. Even if we are buying food in the supermarket, we expect to see on the label for a tin to understand what is in there, what is good for us, what the standards are. So in every walk of life, we need standards, we need disclosure, and we need it to be regulated. It is no different on this, because it really matters to performance.

Ms. DEAN. Thank you.

Mr. Garcia-Diaz, what steps should be taken to convince companies that disclosing diversity data can be a benefit? And I would also like you to talk about, if you can, diversity in other areas, not just gender or ethnicity. But I am particularly interested in diversity around people with disabilities.

Mr. GARCIA-DIAZ. While GAO doesn't have a specific position on public disclosure of information, we do have a position on the importance of having good data about your employees and using that to make important management decisions that ultimately affect the business and their outcomes. And so, accurate data and also an intentional effort by management to analyze the data is foundational for the company's own well-being in many ways. That would be a couple of things I would highlight in response to your question.

Ms. DEAN. And when you say, "analyze the data," is it also, "analyze and then act upon that data?"

Mr. GARCIA-DIAZ. Yes. The data, the analysis of the data, will take you up to a certain point, but it should be used to define what your response will be and inform where problems may be in your organizations in terms of either recruiting or retaining diverse staff regardless of what dimension we are looking at whether it is race, gender, or disability status, veteran status. All of it begins with good data collection, analysis, and then acting on it.

Ms. DEAN. And could you speak to disability? And if not, maybe Mr. DiNapoli? You could touch on disability in terms of your data collection and your hiring?

Mr. GARCIA-DIAZ. Yes. I would go ahead and defer. Go ahead.

Mr. DINAPOLI. Yes. I am just going to say a couple of things. We just added disability as one of the measurements on the diversity. We are working with advocacy groups in this regard. We certainly stepped up our engagement with companies to be sure that they are including supportive workplaces, and hiring policies to promote opportunities for people with disabilities who are severely underrepresented in the workforce across the country.

Ms. DEAN. They are severely underrepresented. They add value to the workplace, to the workforce, to any enterprises or endeavors. So, I just would encourage everybody at this important hearing to make sure we are analyzing, looking at, and hiring those with different abilities. They bring a lot to the table.

With that, I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentlelady from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman, and thank you to all of the witnesses today. I have reviewed the testimony, but I have not been able to be here for most of the hearing because I am also attending a Judiciary Committee hearing on hate crimes against the Asian-American community. And it has struck me, Madam Chairwoman, that in this subcommittee, we often talk about the hidden barriers to diversity in the financial services sector, or the historic routes of redlining that perpetuate the racial wealth gap, or other forms of soft, even unconscious bias.

But the recent attacks against our Asian-American brothers and sisters, and the hearing of the Judiciary Committee today, highlights that there still remains direct, hard racism in this country. And even in boardrooms and places of business, there is a temptation to think of such hatred as in the past, but we must be mindful that it is still here, and it still lives on. I just think we all need to recognize and remember as we have this conversation to be mindful about how much more work still needs to be done.

I want to move on to some questions, and I want to start with Mr. DiNapoli. Can you talk some more about the New York State Common Retirement Fund shareholder proposal to Amazon for racial equity audits and explain what that might entail?

Mr. DINAPOLI. Yes. Thank you, Congresswoman. Thank you for those opening comments as well. Obviously, Amazon looms large in all of our lives, especially as a consequence of the COVID-19 pandemic. We have been following very closely media reports that seem to indicate disparate treatment of workers in a number of situations. Take the warehouse workforce at Amazon, largely Black and Latinx employees, in terms of safety and working conditions, some of it related to COVID-19, but not all of it: issues related to the fulfillment and distribution facilities; pollution that has caused many of those facilities to be disproportionately located in non-White neighborhoods; and firing of certain workers who are involved with some union activities. This was the first effort on our part to say to an important investment in our portfolio, we would like Amazon to look inward. We filed a shareholder resolution for the company to have a racial equity audit done by an external authority who has the credibility to accomplish that.

Unfortunately, Amazon has challenged that shareholder resolution with the SEC. They have not made a determination yet as to whether or not our resolution will proceed. We hope it will, but we are looking at other companies as well to take this approach. Again, given the size of Amazon not only in our portfolio, but in all of our lives, their verbiage and their public pronouncements have been very pro-diversity and inclusion and equity, especially after the George Floyd murder. But the reality of what we are hearing on the ground is that there is not a connection between what is being said and what is happening in their facilities.

Ms. GARCIA OF TEXAS. I hope you continue in your efforts because I think it would be very, very helpful and, of course, transparency does matter.

Now, I want to move on to Mr. Garcia-Diaz. In GAO's 2019 report on the Federal Home Loan Bank board diversity study, GAO recommended that the Federal Housing Finance Agency, which oversees the Federal Home Loan Banks, should conduct a review of each Bank's processes for collecting gender and race ethnicity data. Can you go into more detail about this recommendation and how this data collection process would be effective in diversifying boards?

Mr. GARCIA-DIAZ. Absolutely. The recommendations stemmed from the fact that complete information on board demographics was not available. For about 8 percent or so, we didn't have any information on them, and so FHFA did require their regulated entities to submit, or to collect that kind of information. But what we found was that the individual Federal Home Loan Banks collected the information in different ways. And it was unclear if the board member intentionally decided not to self-identify, or whether it was something about the data collection methods themselves that may have led to a non-response. And so, we recommended that they review the processes that the Federal Home Loan Banks had in place to collect that information.

Fortunately, I can report that the FHFA has taken action. They have reviewed the process, and they are sharing information on effective practices across the Federal Home Loan Bank system.

Ms. GARCIA OF TEXAS. Thank you. My time has expired.

I yield back, Madam Chairwoman.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentlelady from Georgia, Ms. Williams, for 5 minutes. And before we start the clock, let me just say that all of us share in lifting our hearts up for the tragedy in your great State. The Chair recognizes Ms. Williams.

Ms. WILLIAMS OF GEORGIA. Thank you, Madam Chairwoman, and that tragedy makes this conversation and others that we are having here in Congress all the more timely, because two of the spa shootings happened in my district, not far from my home. So, thank you.

And thank you for convening the hearing this morning. As we all know, it is well understood that companies should increase diversity because it is the right thing to do. But diversity is also good for the bottom line, and today, I want to explore further why diversity isn't just a social benefit, but also a financial benefit for companies and their potential investors.

Mr. DiNapoli, in your testimony you talked about how diverse companies can outperform their competitors. How are diverse companies better positioned to attract and retain talent in their workforce? And what can retention of top talent mean for a company's bottom line?

Mr. DiNAPOLI. Thank you. Thank you for that question, and I'm sorry for what your community is going through in your district. There is no doubt that the markets are changing and evolving, and diverse companies, from our experience, have been better-positioned to take advantage of new market opportunities, to take advantage of untapped consumer interest in products and in services. We are obviously, increasingly, a services-oriented economy. So, companies that reflect the diversity of the community where they are operating can take advantage of market opportunities.

And certainly, if you have employees who are diverse and as importantly in your point in your question, the ability of retention is very key as well. Obviously, when you integrate someone into a workplace and train them, they become part of the team you want to have as long-term relationship as possible. A high turnover of an employee base at any level, especially the leadership level, means you have to start over again.

One of the points that we always try to make is that hiring is certainly an important aspect of it, but retention becomes just as important. So, it is the hiring practices, and it is also what is happening in the workplace. How is the workplace being supportive? How are you identifying talent, and then, providing opportunities for a career ladder as well? All of these are important considerations.

And we also put a priority on that when we look internally. If we are asking companies to do things, I have said to my staff, let's make sure that our own agency, the work that we are doing, we are modeling those best practices in those areas.

Ms. WILLIAMS OF GEORGIA. Are there other key factors that you would like to mention that explain why diverse and inclusive companies may see greater productivity, revenue, and market share?

Mr. DiNAPOLI. I just think, from our experience, we have seen that they have been—very often, they are newer companies, but not always. So, there is a certain energy that comes with that. There is an ability to source out niche market opportunities that some of the traditional companies that we may be invested in or our investment relationships just overlook. So again, we are living in a dynamic time where there are many entrepreneurs just starting out, new businesses.

A lot of what we talk about is some of the bigger investment allocations, but we are also trying to expand upon the opportunities to support small business lending where you see incredible entrepreneurship opportunities, especially with diverse entrepreneurs. Again, all are ways for us to maximize return.

As a pension fund, that has to be our bottom line, but we have found promoting diversity, inclusion, and equity in how we invest very much comes back to a strong benefit. I think it is one of the reasons why our pension fund is actually one of the best-funded in the country because of these investment opportunities that we have been sourcing.

Ms. WILLIAMS OF GEORGIA. Thank you, and just one further question. How important is the disclosure of diversity data to helping investors understand the future financial success of a company as well as its commitment to eradicating systemic racism?

Mr. DiNAPOLI. As others have said, the data is very important for us to make our judgments. And I think it is important to point out that if there isn't a standard that is being set that is required across-the-board, then we end up having to go, in effect, company by company or pay for third-party information. It is a cost to us as an investor. So to have standardized comparable data, we think required by the SEC in terms of what we would be interested in, will inform us as we do our corporate engagements. And it is so important to keep the discussion going. It is not about shaming or pointing a finger. It is saying, we all need to look inward. Public entities need to do that, and certainly, corporations do as well. And especially if you are falling short, don't be afraid and hide the information. Let us have a discussion about, how we can make those numbers become better. But it all starts with data that is consistent, comparable, and timely; that is what we need.

Ms. WILLIAMS OF GEORGIA. Thank you to all of the witnesses today.

And, Madam Chairwoman, I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentleman from Massachusetts Mr. Auchincloss.

Mr. AUCHINCLOSS. Thank you, Madam Chairwoman, and to our witnesses today. I would like to address these questions to Ms. Simpson, and they are about ESG policies. I know that ESG has gone in the last decade from being a relatively marginal consideration to one that is now increasingly driving investment decisions and is driving corporate practices. Even though it remains, in the grand scheme of things, a relatively small amount of assets under management (AUM), can you talk about the effect that you think your ESG policies are having, not just on the companies directly being invested in, but on companies who are updating their own policies with the expectation that ESG will become a new standard?

Ms. SIMPSON. Thank you very much for the question. CalPERS, 5 years ago, understood that this was a driving force not just on return, as Tom DiNapoli was explaining and we fully agree with his comments, but it is also about risk management. So, some of the biggest risks in our portfolio are very difficult to manage because we don't have the data.

Climate change is a great example. When we looked at our total portfolio, we found about 20 of our assets are exposed to climate risk. We have also found big opportunities, particularly in the private markets where almost 20 percent of our private market opportunities are in what you might call climate solutions. So, this risk and return balance plays out all the way through the ESG agenda.

We like to think of it as sustainable investment with these three forms of capital, because we know that producing those financial returns to produce pensions means that we need to be stewards of human capital and of physical capital. So, this is good for the returns on the balance sheet, but it is also very important to risk management.

Mr. AUCHINCLOSS. I know that former Vice President Al Gore has been a leading investor on this front with Generation in London, and he has really made environmental investing a touchstone of how he does it, and he has done very well for his fund and for himself and for the companies he invests in, to his credit.

Can you talk specifically about whether your criteria and your investments have started to change diversity practices in the firms that you are investing in, or in firms, sort of, on the frontier that might have to watch what you are doing and react accordingly?

Ms. SIMPSON. Yes. Thank you. In our public holdings, which is about half of the portfolio, we have close to 10,000 companies. We also have big exposure in private markets and that was rightly recognized earlier. What we are finding is that we can have an influence directly through engagement, not just through the dialogue, as our sister fund in New York State has said, but it is also the use of the votes. And what CalPERS has been doing over a period of years is, if we are not seeing progress on board diversity, we are actually voting against the chairs of the nominating committee and saying, look, you are falling down on the job. You are not looking at the full range of talent this company needs, because we need boards that are independent, competent, and diverse in order to drive the returns that we need as an investor.

Over 500 companies that we have engaged have responded positively and improved—brought diverse directors into the boardroom. And I do want to say this is not just a question of investors creating demand. We have also worked with our sister funds like CalSTRS New York City, New York State to create 3D, the Diverse Director DataSource, which is an extraordinary pool of talent, so that if any companies really believes it is not easy to find the right mix of independence, competence, and diversity, you can go to this resource and find really wonderful candidates, and it has been a great success. We have over a thousand diverse candidates that have been sourced through that facility and the associated suite run by Equilar.

Mr. AUCHINCLOSS. Have you seen evidence that greater diversity at the board level induces more diversity in the senior management and then mid-management level as well?

Ms. SIMPSON. This is an area where the research isn't very good, and here is why: We don't have the data. It is a classic catch-22 where we are sort of getting handcrafted solutions by trying to gather this data directly from individual companies or paying third parties to give us their opinion on what the status is. So, this is tricky. However, CalPERS is very committed to improving the research in this field, and we actually have a project underway at the moment to commission new research specifically on human capital management, which would enable us to start looking at the impact of having diverse leadership. Until we get the full reporting that we need, it is going to be a case of estimates and guesstimates, which really isn't good enough from a financial perspective.

Mr. AUCHINCLOSS. Thank you, Ms. Simpson.

I yield back.

Chairwoman BEATTY. Thank you.

The Chair now recognizes the gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. This is an excellent hearing. I would like to thank the staff as well, because the staff has shared some information with me just this morning that is exceedingly important. I have, in my hands, a document that is titled, "'Racial bias runs deep' at America's largest banks, study says." Madam Chairwoman, with your consent and permission, and without objection, I would like to have this admitted into the record.

Chairwoman BEATTY. Without objection, it is so ordered.

Mr. GREEN. Thank you, Madam Chairwoman. Madam Chairwoman, this document indicates, and this, by the way, is from CNN Business dated March 18, 2021, that the banking industry has a race problem and a new study is putting a spotlight on the inequities within the nation's largest financial institutions. It goes on to say that for people of color, the chances of getting promoted to the highest levels of management or senior and executive leadership at some of the nation's most powerful consumer banks are much lower compared to their White peers, according to this report. And the report was compiled by the Committee for Better Banks.

One of the things that I would just like to highlight is what has been highlighted here, and it is this notion that accountability begins with transparency. And I would like to thank all of the Members and the witnesses who have made the case for accountability. I need not make that case, as you have made a proper predicate for what I would like to go to, which is legislation that I am proposing with other Members of Congress, H.R. 8160, the Promoting Diversity and Inclusion in Banking Act of 2021.

On the existing laws, federally-regulated depository institutions are scored by financial regulators under the CAMEL Rating System, an internationally recognized standard that has evolved since its creation in 1979 to categorize banks' conditions. Specifically, CAMELS measures an institution's overall condition with respect to capital adequacy, asset quality, management, earnings, liquidity, and sensitivity. This legislation would add diversity and inclusion to the list of measurements. If we do so, by objectively doing so D&I efforts would give an additional focus, and cause resources to be brought to bear on diversity and inclusion as an essential corporate priority.

So, I would like to move to Ms. Johnson. Ms. Johnson, I have a question for you. How can public access to bank diversity data create more accountability for genuine diversity results, similar to the ones you measure in your annual surveys?

Ms. JOHNSON. Thank you for that question, Mr. Green. According to the Center for American Progress, in the 2019 report, corporations lost an estimated $64 billion because of discrimination lawsuits based on orientation, gender, and ethnic discrimination. And a lot of those organizations were not collecting the same types of data that, by the way, every organization that completes the DiversityInc Top 50 survey is completing the same assessment. It is not industry-specific; it is not region-specific. It is standard, across-the-board, and we are collecting data not just around total workforce, which depending on the type of company it is, may look very good.

We are collecting data based on board diversity. We look at gender, ethnicity, veteran status, the trust and disclosure of whether individuals in your leadership team, your workforce are talking with you about a disability, whether it is seen or unseen. And so, we look at all of this information and we know, based on the human resource information systems, that it is something corporations can collect.

These disclosures, this transparency is not just about consumers. It is also about what you are telling your workforce. Are you being honest with them about the opportunity for them to grow in the organization and one day be a leader in an area which they choose? This transparency, these disclosures are for external purposes as well as internal treatment and development of your workforce.

Mr. GREEN. Have you had an opportunity to peruse the legislation that I have called to your attention, H.R. 8160?

Ms. JOHNSON. Yes, I have.

Mr. GREEN. A quick assessment: Do you find it to be valuable?

Ms. JOHNSON. Yes, I do.

Mr. GREEN. My hope is that we can pass it in this Congress, and hopefully, it will help you with what you do.

Madam Chairwoman, with my last 5 seconds, let me thank you, and use some of your language. I thank the Honorable Maxine Waters for putting this Diversity and Inclusion Subcommittee together, and I thank you for your leadership of it. I yield back.

Chairwoman BEATTY. Thank you, Mr. Green.

I would like to thank all of our witnesses for their testimony, and certainly I join Mr. Green in not only thanking Chairwoman Waters, but acknowledging her presence for the entire hearing.

Without objection, I would like to submit statements for the record from: The Alliance for Board Diversity; Ariel Investments; the Association of Asian American Investment Managers; Garcia Hamilton & Associates; the Knight Foundation; National LGBT; U.S. Chamber of Commerce; New America Alliance; and the D&I Diversity Data Request Letter, which asks for data and allows for flexibilities for all of the companies to share any additional information they have.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

The hearing is now adjourned.

[Whereupon, at 11:53 a.m., the hearing was adjourned.]

A P P E N D I X

March 18, 2021

Written Testimony of the Honorable Thomas P. DiNapoli
New York State Comptroller
Office of the New York State Comptroller

Before the Committee on Financial Services Subcommittee on Diversity and Inclusion
United States House of Representatives

Virtual Hearing entitled "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion"

March 18, 2021

Chairwoman Beatty, Ranking Member Wagner, Chairwoman Waters, Ranking Member McHenry and distinguished members of the Subcommittee, thank you for the opportunity to testify today on behalf of the New York State Common Retirement Fund ("CRF" or "Fund"). I commend the members of this Committee for your collective focus on diversity, equity and inclusion (DEI) at U.S. financial institutions, and corporate America more broadly.

Today's hearing comes as America is experiencing a widespread and long-overdue reckoning with systemic racial injustices and inequalities. Following the murder of George Floyd in 2020, and the public outcry over the killings of Black men and women, many publicly traded corporations spoke out against racial injustice and made commitments to address racial inequities.

This reckoning affects every aspect of our society including our markets and financial institutions. Research has shown that companies face risks when their corporate policies, practices, products, or services are, or are perceived to be, discriminatory or compounding inequities. By contrast, companies that foster diversity are more likely to outperform their less diverse peers, and companies that develop a culture of inclusion, equity, and belonging are better positioned to drive long-term value for shareholders. We also know that a company's ability to draw on a wide range of viewpoints, backgrounds, skills, and experience is increasingly critical to its long-term success in the global marketplace.

As a result, I believe it's imperative for investors to encourage their portfolio companies to address DEI-related issues. To do so, investors must have timely access to accurate DEI information disclosed in a standardized manner to enhance the consistency and comparability of the information for investors to use.

Background

As New York State Comptroller, I am the Trustee of the New York State Common Retirement Fund. The Fund is the third largest public pension fund in the United States, with an estimated value of $247.7 billion as of December 31, 2020. The Fund holds and invests the assets of the New York State and Local Retirement System (System) on behalf of 1.1 million state and local government employees, retirees and their beneficiaries.

Last fiscal year, the Fund paid out $13.25 billion in benefits with the average pension of approximately $39,893. Additionally, the Fund has consistently been ranked as one of the best managed[1] and best funded[2] plans in the nation.

As of December 31, 2020, the Fund had 54.8 percent of its assets invested in publicly traded equities. The remaining Fund assets by allocation are invested in cash, bonds, and mortgages (22.2 percent); private equity (9.8 percent); real estate and real assets (8.0 percent); and credit, absolute return strategies, and opportunistic alternatives (5.2 percent).

We pride ourselves on our DEI policies, practices and strategies. Diversity is reflected in our own internal staffing and our manager and portfolio company engagement encourages best DEI practices as well as in our commitment to our MWBE and Emerging Managers Program. The Fund's work on DEI is grounded in a large body of research showing the relationship between DEI and shareholder value, and its importance to sustainable business practices and the economy as a whole. While I will not list the entire body of research, I would like to highlight a few findings:[3]

- Boston Consulting Group found that companies with higher-than-average diversity on management teams report higher revenue from new products and services.[4]

- The Carlyle Group found that its portfolio companies with two or more diverse directors had average earnings growth of 12.3 percent over the previous three years, compared to 0.5 percent among portfolio companies with no diverse directors. They defined diverse directors as female, Black, Hispanic or Asian.[5]

- McKinsey & Company found "a positive, statistically significant correlation between company financial outperformance and [board] diversity, on the dimensions of both gender and ethnicity," with companies in the top quartile for board gender diversity "28 percent more likely than their peers to outperform financially," and a statistically significant correlation between board gender diversity and outperformance on earnings before interest

[1] Every three years the Fund is required to undergo an independent Fiduciary and Conflict of Interest Review. The Review examines the Fund to ensure it is well-governed and ethically and efficiently managed for the sole benefit of its members and beneficiaries. Consistent with the conclusion of prior fiduciary reviews, the latest Review found that the Fund "has a strong governance framework with sound internal controls and is managed efficiently and effectively."
[2] In June 2020, the Fund was ranked by Pew Charitable Trusts as the second best-funded pension fund in the nation with a funding ratio of 98 percent, based on 2018 data. An excellent funding ratio means the System has the funds on hand to provide retirement security to its more than one million active state and local government employees, retirees and their beneficiaries.
[3] The large body of academic research has recently been compiled by The Nasdaq Stock Market LLC in its recent board diversity proposal to the Securities and Exchange Commission. The Council of Institutional Investors has also compiled empirical research on Environmental, Social, and Governance (ESG) Factors, including diversity and inclusion.
[4] https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation
[5] https://www.carlyle.com/sites/default/files/2020-02/From%20Impact%20Investing%20to%20Investing%20for%20Impact_022420.pdf

and taxation margin.[6] Also, companies with the greatest ethnic diversity on executive teams outperformed those with the least by 36 percent in profitability.

- Another McKinsey & Company study found that employee perceptions about their employer's commitment to diversity strengthens their own commitment to the companies where they work. For example, when employees understand that their companies are committed to gender diversity, they plan to stay with those companies longer.[7]

- Moody's found that greater board gender diversity is associated with higher credit ratings, with women accounting for an average of 28 percent of board seats at Aaa-rated companies but less than 5 percent of board seats at Ca-rated companies.[8]

- Companies that promote workforce diversity and inclusion through transparent hiring, promotion and wage practices have seen improved productivity,[9] revenues[10] and market share.[11]

- W.K. Kellogg Foundation has concluded that "By 2050, our country stands to realize an $8 trillion gain in GDP by closing the U.S. racial equity gap. 'Closing the gap means lessening, and ultimately eliminating, disparities and opportunity differentials that limit the human potential and the economic contributions of people of color."[12]

- Citigroup research found if four key racial gaps for Blacks — wages, education, housing, and investment — were closed 20 years ago, $16 trillion could have been added to the U.S. economy. And if the gaps are closed today, $5 trillion can be added to U.S. GDP over the next five years.[13]

The lack of racial and ethnic diversity and inclusion poses risks to companies that senior managements and boards must understand and remedy. By not addressing diversity and inclusion, companies are more likely to underperform their peers, face reputational risks, and jeopardize shareholder value.[14]

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[6] https://www mckinsey.com/~/media/McKinsey/Featured%20Insights/Diversity%20and%20Inclusion/Diversity%20wins%20How%20inclusion%20matters/Diversity-wins-How-inclusion-matters-vF.pdf

[7] https://www mckinsey.com/~/media/McKinsey/Featured%20Insights/Gender%20Equality/Women%20in%20the%20Workplace%202019/Women-in-the-workplace-2019.pdf

[8] https://www.moodys.com/research/Moodys-Corporate-board-gender-diversity-associated-with-higher-credit-ratings--PBC_1193768

[9] http://www.cepremap fr/depot/docweb/docweb1304.pdf

[10] http://images.forbes.com/forbesinsights/StudyPDFs/Innovation_Through_Diversity.pdf

[11] https://www.crainsdetroit.com/article/20131103/NEWS/311039959/kelly-services-diversity-must-help-bottom-line-to-be-sustainable

[12] http://ww2.wkkf.org/2018/bcfre/BCRE-National-Report.pdf

[13] https://www.citivelocity.com/citigps/closing-the-racial-inequality-gaps/

[14] https://www.pwc.co.uk/human-resource-services/assets/documents/diversity-and-inclusion-reputation-2017.pdf

Diversity Internally at the CRF

At the Fund, we are committed to inclusive hiring. A diverse staff of investment professionals means better and more thoughtful investment decisions leading to better outcomes. When I became New York State Comptroller, I made diversity one of my office's key strategic priorities, including as to management of pension fund assets.

My commitment to promote diversity started in-house, at the Fund's senior level positions. As New York State Comptroller, I have hired three women—including two Black women—to serve as Chief Investment Officer to manage the Fund. Their leadership was vital to the Fund's recovery from the Great Recession, helping us weather the storm and rapidly turn the page from a historically challenging period for all investors, and solidifying the Fund's position as one of nation's strongest large state pension funds.

In addition, diversity of gender, race, and ethnicity is reflected at every level, including senior levels, throughout the Fund. We track diversity internally so that we can measure our performance and make progress toward increased diversity. Currently, women comprise 47 percent of our investment staff, African Americans 19 percent, Asian Americans 10 percent and Hispanic Americans 6 percent. I strongly believe that the diversity of our staff has resulted in a stronger team which has undoubtedly contributed to the success of the Fund.

Diversity Among the CRF's External Asset Managers

From the success of our own staff, I know firsthand the positive impact of having diversity in executive management — how a broader range of thought and experience can lead to better assessments of investment opportunities and produce higher returns. That's why when I became New York State Comptroller in 2007, I set out to work to increase diversity in the Fund's manager pool. I knew that increasing the talent pool of minority and/or women-owned business enterprises (MWBE) and emerging managers could help build significant, long-term gains for our Fund. I also made a commitment to launch an Emerging Managers Program in each of our major asset classes.

Today, the Fund is the gold standard in MWBE and Emerging Managers programs in the nation, with more than $6.7 billion in emerging manager commitments and approximately $20 billion in total MWBE investments and commitments through our Emerging Manager Program and direct allocations.[15] We currently have 128 MWBE relationships and 47 emerging manager relationships (non MWBE). This is the highest level of MWBE and emerging manger partnership in the Fund's history and it continues to grow each year. These relationships represent over 20 percent of the Fund's externally managed assets. We strongly believe that these firms provide top-tier service to the Fund and that our relationships with them have opened new opportunities to improve the Fund's returns.

Additionally, we hold an annual Emerging Managers/MWBE Conference to bring these managers together to improve the pipeline and open lines of communication between the Fund and potential

[15] https://www.osc.state.ny.us/files/reports/special-topics/pdf/mwbe-fiscal-2019-20.pdf

MWBE managers. I am proud of this conference, and in February, our 14th annual conference attracted 800 attendees, and 520 independent firms.[16]

These investments aren't about making a statement or gesture, but about the results, and the numbers tell the story. As I expected, the firms in our Emerging Managers Program have delivered solid returns and have strengthened our bottom line.

A recent study from Bella Research Group and the John S. and James L. Knight Foundation found that while firms owned by women and minorities manage just 1.3 percent of assets in the $69 trillion asset management industry, their performance is not statistically different from the industry as a whole.

As part of the Fund's rigorous investment process, Fund staff conducts due diligence on every prospective investment with external investment managers, enquiring about, among other things, each firm's DEI policies and practices. Additionally, the Fund asks its managers to agree to consider adopting and or reviewing and improving any existing DEI policies. Finally, the Fund reviews its investment managers and has begun to engage with them on their progress towards creating conditions that promote full inclusion of underrepresented racial minorities and women in all facets of their organization. While the Fund cannot make investment decisions solely based on this information, it can continue to encourage managers to continue to improve their DEI performance as a means to fully realize the financial benefits of diversity.

For example, in August 2020, I sent a letter to all of our external managers to reinforce the Fund's views on the importance of encouraging DEI policies throughout their organizations. My letter also asked for a response on a number of important issues, including:

- What policies, plans, or strategies does your firm have in place or plan to implement that promote inclusion and diversity, including racial, ethnic, gender, age, disability, sexual orientation and gender identity diversity, among its management and workforce? We are particularly interested in efforts to address these issues in the firm's recruitment, hiring, retention and engagement policies.
- Does your firm have specific internship programs and recruitment initiatives to increase representation of diverse talent? Please provide the number of minority and women interns and new hires that currently are employed by your firm as a result of these internship programs or recruitment initiatives.
- How has your firm made sure the importance of diversity was understood and acted upon when employing management-level professionals, including operations leadership, managing directors or managing partners, and partners/principals/vice presidents? Has your firm done so with respect to third-party consultants, advisors and professional service providers?
- If your firm is public, does the board have minority and women members? Please provide the number of minority and women executives that are managing directors or partners at your firm, and the number of minority and women executives that are members of the firm's executive committee, management committee or equivalent leadership group.

[16] https://www.osc.state.ny.us/common-retirement-fund/emerging-manager/conference

- Does your firm track and report on the self-identified race, ethnicity and gender of its management and workforce? If so, please share your findings.
- Does your firm consider diversity issues, including diversity in a company's management and workforce, and policies and practices to promote diversity, when considering a prospective investment? If your firm invests in private companies, what percentage of the members of the boards of those companies are minorities and women?
- Has your firm adopted policies and practices to engage with its portfolio companies on diversity and inclusion issues? If so, what are those policies and practices, how have they improved diversity and inclusion among portfolio companies, and how is company improvement monitored? If not, will your firm adopt policies and practices to encourage portfolio companies to improve on these issues?

The information and data collected from those responses will be used for future tracking and monitoring, and will allow us to assess our managers' improvement on DEI to inform further engagement.

The Fund is also working with an external vendor to help standardize a metric that could assess diversity, equity and inclusion efforts in a comparable format across a wide range of firms. This will provide us with an assessment that goes beyond ownership percentages to incorporate firm leadership and total workforce data. Our broad goal is to promote and encourage a more advanced and sustainable approach to measuring the impact of dollars allocated across the asset management industry and across asset classes.

Diversity Among Companies in the CRF's Public Equity Portfolio

As a long-term shareowner that invests across all sectors of the economy, the Fund works to promote sound environmental, social, and governance (ESG) practices at the companies in its public equity portfolio through active ownership. ESG factors can have a profound impact on both risks and returns, so it is vital to evaluate the long-term impact that such factors may have on the performance of the Fund's investments. A key tenet of the Fund's ESG Strategy is the belief that high–performing, diverse boards of directors, good governance, and prudent management of environmental and social factors provide the foundation for sustainable long-term company success.[17]

As a result of being a long-term shareowner with a majority of its public equity investment through passive index strategies, the Fund is committed to engaging with its portfolio companies through active ownership, because using the Fund's voice and votes to mitigate risks can support the long-term success of its portfolio investments.

The Fund's robust public company engagement activities take various forms, including proxy voting, shareholder proposals, written correspondence, investor statements, press strategies and direct dialogue. These efforts have resulted in many important company actions, commitments and disclosures, which can protect the long-term value of the Fund's investments.

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[17] https://www.osc.state.ny.us/files/common-retirement-fund/2020/pdf/ESG-strategy-report-2020.pdf

Since I have been New York State Comptroller, the Fund's Corporate Governance team has been active on DEI. From board diversity to workforce diversity to pay equity, the Fund has been advocating for better corporate policies, disclosure, and reporting related to DEI that can lead to sustainable, long-term value for shareholders.

Encouraging board diversity has been an important part of our engagement with portfolio companies for many years, and we continue to increase our focus on racial and ethnic diversity at companies in our investment portfolio. This includes asking our portfolio companies to publicly commit to a policy of board inclusiveness to ensure that minority and women candidates are routinely sought as part of every board search the company undertakes. Since 2010, the Fund has filed 37 shareholder proposals calling on public companies in its portfolio to increase board diversity. Through those proposals, the Fund has secured 19 agreements with companies to promote diversity on their respective boards, and engagement successes have added 29 diverse members to boards of directors.

While great progress has been made on board diversity over recent years, the boards of the 3,000 largest publicly traded companies remain overwhelmingly white. Underrepresented ethnic and racial groups make up 40% of the U.S. population but just 12.5% of board directors, according to Institutional Shareholder Services.[18] Black directors make up just 4% of the total, while Black women make up just 1.5% of the more than 20,000 directors.

Recently, the Fund has asked its portfolio companies to publicly disclose their filed Equal Employment Opportunity reports detailing the race, ethnicity and gender of their workforce, including senior management. Disclosure of EEO-1 data helps investors assess their portfolio companies' commitments to greater racial inclusion not just in a given year, but over time, by comparing how representation of Black women, for example, has changed in a given job category from one year to another.

In August 2020, I wrote to 74 S&P 500 companies from different sectors that share a common trait: they appeared to have no racially or ethnically diverse board members. The letter asked these portfolio companies to provide answers to these questions:

- Does the company have a plan to nominate at least one person of color as a director at its 2021 Annual Meeting?
- Has the company adopted a Rooney Rule or other policies to ensure the consideration of diverse directors?
- How has the company established a commitment to consider diverse candidates, including people of color, for nomination as directors in its governing documents and policies?
- Does the company report to shareholders the number of diverse candidates in every pool of director nominees? If it does not already, will the company annually disclose, beginning with its 2021 proxy materials, the self-identified race, ethnicity and gender of its director nominees?
- Does the company leverage succession planning to increase diversity at the board and management levels?

[18] https://www.nytimes.com/2020/09/15/business/economy/corporate-boards-black-hispanic-directors.html

- Will the company annually disclose its policies, plans, and strategies to promote inclusion and diversity, including racial, ethnic, gender, age, disability, sexual orientation and gender identity diversity, among its board of directors, executive officers, management and workforce? We are particularly interested in efforts to address these issues in company recruitment, hiring, retention, promotion and workforce engagement policies.
- Does the company track and report on the self-identified race, ethnicity and gender of its management and workforce? If so, please share your findings.
- If it is not doing so already, will the company disclose, beginning with its 2021 proxy materials, the last three years of workforce diversity data on the EEO-1 report that it is required to file with the U.S. Equal Employment Opportunity Commission?

The company responses, or lack of responses, will be incorporated into the Fund's proxy voting decisions during the 2021 season. We recently announced that companies that failed to respond to the letter or provided inadequate responses will face adverse votes against incumbent board of director nominees at 2021 annual meetings.

During 2021, the Fund has also been prioritizing engagement with portfolio companies regarding how they are addressing potential and actual inequalities, including racial equity and equity in opportunity, pay, and benefits for all employees and stakeholders. Higher levels of inequality can negatively impact the economy as a whole, and therefore negatively impact the companies in which the Fund invests. A key example of the importance of this work is a shareholder proposal that the Fund filed at Amazon.com, Inc. asking for an independent audit to assess the company's policies and practices on civil rights, equity, diversity and inclusion, and how they affect the company's business.[19] Broadly speaking, many companies would benefit from assessing the risks of products, services and overall corporate practices that are or are perceived to be discriminatory, racist, or increasing inequalities, and the Fund believes that Amazon in particular could benefit from just such an audit.[20]

The Fund views proxy voting at its portfolio company meetings as an effective means of engaging and communicating with boards of directors and management about the Fund's ESG priorities. The Fund's independent proxy voting is a powerful tool for protecting long-term value.

To this end, the Fund uses diversity-related data when making proxy voting decisions. Since 2018, the Fund has voted against all incumbent board directors standing for re-election at companies that have no women on their boards.[21] In situations where a company has just one woman on its board, the Fund has withheld support from all incumbent members of the board's nominating committee. In 2020, the Fund withheld support from 879 incumbent directors at 193 public companies with

[19] https://www.osc.state.ny.us/press/releases/2020/12/nys-comptroller-dinapoli-amazon-must-ensure-its-business-not-adding-racial-inequality

[20] Amazon has requested no-action relief from the Securities and Exchange Commission to exclude the shareholder proposal from its 2021 proxy materials. At the time of submission, the Securities and Exchange Commission has not responded to Amazon's request.

[21] https://www.osc.state.ny.us/press/releases/2018/03/dinapoli-state-pension-fund-will-vote-against-board-members-corporations-no-women-directors

no women on their boards. The Fund also withheld support from 1,574 incumbent nominating committee members at 673 public companies with only one woman on their boards.

Additionally, in 2020, the Fund updated its Proxy Voting Guidelines to formalize the Fund's opposition to boards that are not sufficiently diverse, including diverse attributes based on age, race, gender, ethnicity, sexual orientation and gender identity, geography, and disability.[22] Last year, the Fund withheld support from 227 incumbent directors at 55 companies that did not include underrepresented racial minorities among their nominees. During the 2021 proxy season, the Fund will expand its voting position at S&P 500 companies and will vote against:

- All incumbent directors at companies with zero directors identifying as an underrepresented minority on their board (as defined by the U.S. Equal Employment Opportunity Commission, this includes one or more of the following: Black or African American, Hispanic or Latino, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander, or Two or More Races or Ethnicities).
- All incumbent nominating committee directors at companies with just one director identifying as an underrepresented minority. Nominating committees are responsible for nominating new board directors.
- Board chairs and incumbent audit committee members at S&P 500 companies that do not disclose the individual racial/ethnic diversity of their board directors.
- All incumbent nominating committee members at companies that have not made both gender and racial/ethnic diversity explicit considerations in their search for directors.[23]

The Fund also encourages its portfolio companies to disclose whether directors identify themselves as LGBTQ+ or a person with a disability, with the goal of further expanding the Fund's DEI voting policies in coming years.

Recommendations for the Subcommittee

Over the last year, the renewed focus on DEI has been paired with strong investor interest in reliable and comparable data. This fact is evident based on Nasdaq's recent proposed rule change to adopt listing rules related to board diversity, which I have supported.[24]

I believe investors currently face a lack of standardized disclosure around DEI, and in particular, board diversity, due to inaction by critical market participants, including the Securities and Exchange Commission (SEC) and self-regulatory organizations.[25]

[22] https://www.osc.state.ny.us/files/common-retirement-fund/corporate-governance/pdf/proxy-voting-guidelines-2020.pdf
[23] https://www.osc.state.ny.us/press/releases/2021/02/ny-state-comptroller-dinapoli-calls-corporate-america-address-lack-diversity-equity-inclusion
[24] https://www.sec.gov/comments/sr-nasdaq-2020-081/srnasdaq2020081-8259868-227940.pdf
[25] The SEC has largely declined to require diversity-related disclosure. In 2009, the SEC adopted a requirement for companies to disclose if and how diversity is considered as a factor in the process for considering candidates for board positions, including any policies related to the consideration of diversity. In 2018, the SEC issued guidance encouraging the disclosure of self-identified characteristics of board candidates.

I have long advocated for SEC action on the topic of board[26] and workforce diversity disclosure,[27] including supporting a 2015 petition for rulemaking.[28]

However, in recent years, there has been a focus on broad, principles-based disclosures at the SEC. As a result, some companies have taken the position that diversity information is not material, and therefore not disclosed this information to shareholders. I could not disagree more. This position has led to DEI and board diversity data often being non-existent, inconsistent or, because of compatibility issues, unusable by investors who need this information for engagement, proxy voting decisions, and in the case of some investors, for investment decisions. The SEC's broad, principles-based disclosure regime which allows companies to decide if or what to disclose in this area, has certainly exacerbated that problem.

For example, while companies in the United States are required by regulators to track racial diversity data, only 4% of Russell 1000 companies publicly share detailed data on their employees' gender and ethnicity.[29] Furthermore, less than half of all Fortune 100 companies disclose data on the ethnic and gender compositions of their boards.[30]

As a result, investors, including the Fund, must rely on third-party research and data or directly engage with individual companies to gather information on DEI. Both lead to additional costs for investors and may lead to inconsistent data throughout the marketplace.

I believe it's time for the SEC to mandate the disclosure of decision-useful DEI information in a standardized manner, thereby enhancing the consistency and comparability of the information. For example, the SEC could do this by reviewing Regulation S-K to require disclosure of workforce diversity data for all levels of a company. Likewise, the SEC could strengthen their 2018 guidance on disclosure of board candidate diversity characteristics.

More broadly, the subcommittee and the SEC should consider requirements for public disclosure and discussion of the following DEI-related issues:

- Disclosure of the voluntary, self-identified race, ethnicity, gender, age, disability, and sexual orientation of each director, director nominee, and executive officer.
- Whether each company has established a commitment to consider diverse candidates for nomination as directors and executives in its governing documents and policies, description of such commitment, how this policy is implemented, as well as how the nominating committee (or the board) assesses the effectiveness of its policy.
- Disclosure of how the board executes its oversight role on DEI-related issues.
- Disclosure of the role DEI plays in a company's broader human capital management practices and long-term strategy.

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[26] https://www.sec.gov/comments/sr-nasdaq-2020-081/srnasdaq2020081-8259868-227940.pdf
[27] https://www.sec.gov/comments/s7-11-19/s71119-6323154-194594.pdf
[28] https://www.sec.gov/rules/petitions/2015/petn4-682.pdf
[29] https://www.bloomberg.com/news/articles/2020-07-27/big-companies-track-workforce-diversity-but-won-t-share-the-results?sref=cYdQRSp4
[30] https://cooleypubco.com/2020/07/15/calls-for-actions-racial-ethnic-diversity/

- Disclosure of workforce diversity broken down by industry-relevant employment categories or levels of seniority, for all full-time employees. Companies should, at a minimum, use the disclosure framework set forth by the United States Equal Employment Opportunity Commission's EEO-1 Report.[31]
- Disclosure of internal pay equity, specifically what women/underrepresented minorities are paid versus their direct male/non-minority peers, statistically adjusted for factors such as job, seniority, and geography.
- Disclosure of the company's policies, plans, and strategies to promote inclusion and diversity, including racial, ethnic, gender, age, disability, and sexual orientation, among its board of directors, executive officers, management and workforce. This should include efforts to address these issues in company recruitment, hiring, retention, promotion and workforce engagement policies.
- Disclosure of how DEI goals contribute to the company's overall strategy, how the goals are managed, what key performance indicators are assessed to measure progress, and the actual outcomes of those key performance indicators.

Additionally, I have publicly supported the "Improving Corporate Governance Through Diversity Act of 2019," which would provide investors with information critical to assessing the diversity of boards and senior executives at public companies and would improve the management of investment capital.[32] Support of this legislation has also come from the U.S. Chamber of Commerce,[33] American Bankers Association, the Real Estate Roundtable, Bank Policy Institute, International Council of Shopping Centers, National Association of Investment Companies, Retail Industry Leaders Association, National Black Chamber of Commerce and TechNet.[34] I would like to thank Congressman Meeks for his work on this important piece of legislation. Additionally, I would like to thank Congresswoman Maloney for her years of advocacy in support of diversity disclosure.

Again, I commend the work of this subcommittee and am committed to working with you on these issues. Thank you, and I look forward to taking your questions.

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31 The Fund would recommend companies disclose three years of reporting so investors can assess progress on diversity over time.
32 https://www.osc.state.ny.us/files/reports/special-topics/pdf/2019-corporate-governance-stewardship-report.pdf
33 https://www.uschamber.com/letters-congress/improving-corporate-governance-through-diversity-act-of-2019
34 https://thehill.com/business-a-lobbying/business-a-lobbying/509157-chamber-of-commerce-banking-industry-groups-call-on

United States Government Accountability Office

Testimony

Before Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives

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FINANCIAL SERVICES INDUSTRY

Using Data to Promote Greater Diversity and Inclusion

Statement of Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment

A Century of Non-Partisan Fact-Based Work

GAO-21-448T

GAO@100 Highlights

Highlights of GAO-21-448T, a testimony before the Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives.

Why GAO Did This Study

The financial services industry provides services that help families build wealth and is essential to the economic growth of the country. For instance, the FHLBanks, Fannie Mae, and Freddie Mac play important roles in supporting the U.S. housing market. The FHLBanks include 11 federally chartered banks that provide liquidity for member institutions, such as commercial and community banks, to use in support of housing finance and community lending. Fannie Mae and Freddie Mac purchase single-family and multifamily mortgage loans that lenders already made to borrowers.

Congressional members and others have highlighted the need for the financial services industry to create opportunities for all Americans, including supporting a diverse workforce.

This statement discusses (1) how financial service firms use data to assess workforce diversity efforts; (2) how the FHLBanks and the enterprises use data to assess their diversity efforts; and (3) how FHFA oversees diversity efforts at the FHLBanks and the enterprises.

This statement is primarily based on three GAO reports (GAO-18-64, GAO-19-589, and GAO-20-637) on diversity efforts in the financial services industry and at FHLBanks and the enterprises.

For the reports, GAO reviewed relevant literature and data, and interviewed representatives of financial services firms and industry and diversity advocacy organizations. GAO also reviewed documents and interviewed officials from the FHLBanks, enterprises, and FHFA.

View GAO-21-448T. For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

March 2021

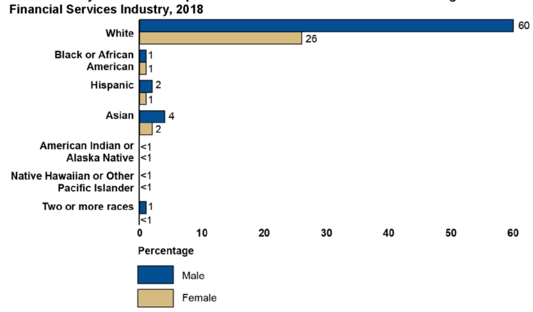
FINANCIAL SERVICES INDUSTRY

Using Data to Promote Greater Diversity and Inclusion

What GAO Found

GAO's prior work has shown that the financial services industry has made little or no progress in increasing diversity at the senior management level. The figure below shows the latest available data on diversity at senior levels.

Race/Ethnicity and Gender Representation of Executive/Senior-Level Management in the Financial Services Industry, 2018



Source: GAO analysis of Equal Employment Opportunity Commission data. | GAO-21-448T

One common theme of GAO's recent reports on diversity in the financial services industry is the importance of using data to assess diversity and inclusion efforts.

- In 2017, GAO reported that financial services firms said it is important for firms to collect and analyze data to assess workforce diversity. Notably, all the financial services firms with which GAO spoke agreed on the importance of analyzing employee data. Some firm representatives noted that with such data, they can analyze the gender and racial/ethnic diversity of new hires, employees leaving the organization, and newly promoted staff and managers.
- In 2019 and 2020, GAO reported that the Federal Home Loan Banks (FHLBanks) and Fannie Mae and Freddie Mac (the enterprises) track diversity composition data on their workforce, recruitment, and hiring. The FHLBanks and the enterprises use these data to compare their performance against benchmarks, such as prior-year metrics and peer institutions, and set goals for future performance. They also incorporate diversity targets into their incentive compensation goals or performance competencies for management.
- The Federal Housing Finance Agency (FHFA) uses data to oversee the workforce diversity and inclusion efforts of the FHLBanks and the enterprises. As GAO reported in 2019 and 2020, FHFA collects and reviews quarterly and annual workforce diversity data from the FHLBanks and enterprises. For example, FHFA assesses each FHLBank's performance in workforce diversity using the quarterly data. In 2017, FHFA also began reviewing diversity and inclusion efforts as part of its annual examinations of the FHLBanks and the enterprises.

Chairwoman Beatty, Ranking Member Wagner, and Members of the Subcommittee:

I am pleased to be here today to discuss our prior work on diversity in the financial services industry and the importance of using data to assess workforce diversity and measure the progress of diversity and inclusion efforts. The financial services industry has an important role in our society providing services that help families build wealth and is essential to the continued economic growth of the country. In particular, the Federal Home Loan Banks (FHLBanks) and Fannie Mae and Freddie Mac (enterprises) play important roles in supporting the U.S. housing market. Congressional members and others have highlighted the need for the financial services industry to create opportunities for all Americans, including supporting a diverse workforce. However, our prior work shows the industry has generally made little or no progress in increasing workforce diversity, particularly at the management level. Our prior work on diversity has emphasized the importance of using quantitative and qualitative measures to evaluate the effectiveness of an organization's diversity and inclusion efforts.

My remarks today are primarily based on our November 2017 report on trends in representation of minorities and women and diversity practices in the financial services industry, and our 2019 and 2020 reports on diversity efforts at the FHLBanks and the enterprises, respectively.[1]

Specifically, I will discuss (1) how financial service firms use data to assess workforce diversity efforts; (2) how FHLBanks and the enterprises use data to assess their diversity efforts; and (3) how the Federal Housing Finance Agency (FHFA) oversees diversity efforts at the FHLBanks and the enterprises and uses data to assess its own diversity efforts.

For our November 2017 report, we analyzed 2007–2015 workforce data from the Equal Employment Opportunity Commission (EEOC). Data for 2015 were the most current available at the time of our review. We also

[1]GAO, *Financial Services Industry: Trends in Management Representation of Minorities and Women and Diversity Practices, 2007–2015,* GAO-18-64 (Washington, D.C.: Nov. 8, 2017); *Federal Home Loan Banks: Steps Have Been Taken to Promote Board Diversity, but Challenges Remain,* GAO-19-252 (Washington, D.C.: Feb. 14, 2019); *Federal Home Loan Banks: Efforts to Promote Workforce, Supplier, and Broker-Dealer Diversity,* GAO-19-589 (Washington, D.C.: Aug. 16, 2019); and *Fannie Mae and Freddie Mac: Efforts to Promote Diversity and Inclusion,* GAO-20-637 (Washington, D.C.: Sept. 8, 2020).

reviewed relevant literature and interviewed representatives from 13 financial services firms and 11 advocacy organizations to summarize challenges the financial services industry faced in increasing workforce diversity and practices for improving workforce diversity.[2] For this statement, we analyzed 2018 EEOC data on workforce race, ethnicity, and gender in the financial services industry. These were the most recent data available. We conducted electronic testing of the data and reviewed relevant EEOC documentation. We found the EEOC data sufficiently reliable for our description of workforce diversity in the financial services industry in 2018.

For our 2019 and 2020 reports, we reviewed FHFA's guidelines and templates for FHLBanks and the enterprises to report quarterly and annual workforce diversity data. We also reviewed FHFA's examination manual (including the module on diversity and inclusion) and documentation related to FHFA's 2017 and 2018 examinations of the FHLBanks and enterprises. We interviewed officials from the FHLBanks, enterprises, and FHFA. To describe how FHFA uses data to assess its own diversity efforts, we reviewed FHFA's 2019 annual report to Congress.[3] More detailed information on our scope and methodology can be found in our published reports.

The work on which this statement is based was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The FHLBank System comprises 11 federally chartered banks, which represent 11 districts and are headquartered in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York City, Pittsburgh, San Francisco, and Topeka. The FHLBanks provide liquidity for member institutions—such as commercial and community banks, thrifts, credit

[2]The views expressed by firms and trade organizations may not be representative of all entities involved in workforce diversity efforts. We used certain qualifiers when collectively describing responses from financial services firms and trade groups, such as "several" (which we defined as at least five but less than half of the total number).

[3]Federal Housing Finance Agency, *2019 OMWI Annual Report to Congress* (Washington, D.C.: Mar. 31, 2020).

unions, and insurance companies—to use in support of housing finance and community lending.

Fannie Mae and Freddie Mac were created by Congress to provide stability and liquidity in the secondary market for home mortgages. The enterprises purchase single-family and multifamily mortgage loans that lenders already made to borrowers.

The Housing and Economic Recovery Act of 2008 (HERA) and its implementing regulations require FHLBanks and the enterprises to promote diversity and ensure the inclusion of minorities and women in employment.[4] HERA also created FHFA and designated it as the regulator of the FHLBanks and the enterprises. To implement requirements in HERA, in December 2010 FHFA issued the Minority and Women Inclusion rule to set forth minimum requirements for diversity programs and reporting for the FHLBanks and the enterprises.[5] The 2010 rule also requires FHLBanks and the enterprises to submit an annual report to FHFA on their diversity efforts, including the gender and racial/ethnic composition of their workforce.

Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act required certain federal financial agencies, including FHFA, to establish an Office of Minority and Women Inclusion (OMWI), responsible for matters relating to diversity in management, employment, and business activities.[6] The act requires the agencies to submit to Congress an annual report detailing the actions taken by the agency to comply with the provisions in section 342. The annual report must include any challenges in hiring qualified minority and women employees.

[4]Pub. L. No. 110-289, § 1116(4), 122 Stat. 2654, 2682 (2008) (codified at 12 U.S.C. § 4520); 12 C.F.R. § 1223.2.

[5]75 Fed. Reg. 81,395 (Dec. 28, 2010).

[6]Pub. L. No. 111-203. § 342, 124 Stat. 1376, 1541-44 (2010) (codified 12 U.S.C. § 5452). The included agencies are the Bureau of Consumer Financial Protection, Federal Deposit Insurance Corporation, FHFA, Board of Governors of the Federal Reserve System, National Credit Union Administration, Office of the Comptroller of the Currency, Securities and Exchange Commission, departmental offices of the Department of the Treasury, and each of the Federal Reserve Banks.

Financial Services Firms and Stakeholders Generally Agree on the Value of Assessing Workforce Diversity and Inclusion, but Differ on Benefits of Making Data Public

In our 2017 report, representatives of financial services firms told us that it is important for financial services firms to collect and analyze data to assess workforce diversity, although they differed on the benefits of making the data public. Notably, all the financial services firms agreed on the importance of analyzing employee data. Some firm representatives noted that with such data, they can analyze the gender and racial/ethnic diversity of new hires, employees leaving the organization, and newly promoted staff and managers.

Several financial firm representatives cited usage of the data to identify and address problems, such as retention issues. For example, an investment bank told us that they analyze employee data over time to determine whether certain demographic groups tend to leave the firm after a certain number of years. With this information, the organization can proactively take steps to help retain these staff, such as providing them with mentors. Additionally, representatives from a large bank explained that by analyzing demographic data of employees, the organization can identify "leaks" in its internal pipeline (that is, determine when and potentially why women and racial/ethnic minorities leave before progressing into management positions).

Several financial firm representatives cited the value of knowing employee demographics because firms should look like their customers and be able to relate to them. For instance, a representative of an investment banking institution told us that over half of the firm's customers were women and thus it was a priority for the firm to know how to serve them and other diverse groups. Other representatives added that clients are interested in receiving advice and information from advisors to whom they can relate and workforce diversity helps firms better understand diverse customers.

Representatives also said that qualitative data, particularly employee viewpoints, were important. For example, a financial services firm representative noted that while quantitative data on employees' demographic characteristics may indicate the workforce has become more diverse, employees may not feel that was the case. We also met with organizations that advocate for the financial services industry for diversity and they agreed on the importance of surveying employees about diversity and inclusion.

But, firms and advocacy organizations varied in their views on whether firms should publicly share employee demographic data, such as through diversity indexes or on the company's website.[7] Specifically, representatives from two financial services firms indicated that diversity indexes are of limited value because they do not indicate whether a firm has made progress on diversity. One representative noted the reputation of firms that are not diverse could be damaged, which could make improving workforce diversity more difficult.

In contrast, representatives of organizations that advocate for diversity in the workplace cited the benefits of diversity indexes and the publication of workforce diversity information on specific financial services companies. For example, a representative from an organization that advocates for women noted that diversity indexes or other public information can be helpful for investors. This representative stated that institutional investors have led the charge for more transparency and diversity among companies. We previously reported on large investors' interest in having more public disclosure about the diversity of corporate board directors, such as information on the directors' gender, race, and ethnicity.[8] Additionally, several of the firms with whom we met post data on their websites indicating demographic information about their employees, such as the proportion of women in management and employees' country of origin.

Most financial services firms already report demographic data (on the racial/ethnic and gender characteristics of employees by occupations) to EEOC.[9] Employers must submit these data to EEOC using the Employer Information Report. EEOC notes that the data from these reports can also be used for self-assessment by employers. Although aggregated data are available to the public, firm-level EEOC data are confidential. In our 2017 report, we used aggregated data from EEOC to produce analyses of trends in management and workforce representation of women and minorities in the financial services industry. As noted earlier, our prior work shows that the financial services industry has made little or no progress in increasing diversity, particularly at the senior management

[7]Diversity indexes or rankings are third-party assessments of an organization's diversity-related policies and efforts.

[8]GAO, *Corporate Boards: Strategies to Address Representation of Women Include Federal Disclosure Requirements*, GAO-16-30 (Washington, D.C.: Dec. 3, 2015).

[9]Most private employers subject to Title VII of the Civil Rights Act of 1964 with 100 or more employees, and all federal contractors with 50 or more employees and that meet certain other requirements, must submit data to EEOC on the racial/ethnic and gender characteristics of employees by occupations for a range of industries, including financial services.

level. For this statement, we analyzed 2018 data firms provided in the Employer Information Report, which show that female representation at the executive and senior management level is about 31 percent and minority representation is less than 5 percent across racial/ethnic groups (see app. I).

FHLBanks and the Enterprises Track Diversity Composition Data on Workforce, Recruitment, and Hiring

In our 2019 report on the FHLBanks' diversity efforts and our 2020 report on the enterprises' efforts, we found the FHLBanks and the enterprises use both quantitative and qualitative data to maintain and increase diversity in their workforce. For example, the FHLBanks and the enterprises use quantitative data to

- **Track workforce composition data.** They then use the data to compare workforce composition against benchmarks, such as prior year metrics or peer institutions, and measure progress towards diversity and inclusion goals. Additionally, tracking these data allows the FHLBanks and the enterprises to set targets for diversity goals, such as the percentage of female representation in the workforce or percentage of diverse applicants considered for new positions.
- **Track recruitment and hiring data.** These data allow FHLBanks and the enterprises to set targets, monitor progress, and prioritize outreach and engagement efforts accordingly. For example, Freddie Mac officials told us if after reviewing their employment diversity goals, they find that a particular group is underrepresented, they conduct additional outreach.
- **Set diversity goals for management and leadership.** More specifically, the FHLBanks set diversity and inclusion goals as part of their incentive compensation goals or performance competencies. For example, Freddie Mac's Corporate Diversity and Inclusion Committee monitors and reviews diversity and inclusion results against established goals and performance measures for divisions. Whether divisions achieve these goals partly determines their respective manager's annual performance assessments and corresponding compensation, according to Freddie Mac officials.

The FHLBanks and the enterprises also collect qualitative data to help them assess achievement of diversity and inclusion goals. For example, in 2019, nine FHLBanks reported they conducted employee surveys or meetings to obtain feedback on diversity and inclusion efforts. Similarly, Fannie Mae and Freddie Mac conduct a survey to monitor engagement among female and minority employees and assess engagement scores for these groups relative to overall employee scores. Additionally, staff from one FHLBank told us they ask departing employees about diversity and inclusion to inform potential employee retention practices.

Finally, the FHLBanks and the enterprises also use data to monitor and assess progress towards supplier (vendors of goods and services) diversity goals. They track use of diverse suppliers, including broker-dealers, and establish quantitative goals, such as the percentage of total expenditures with diverse suppliers. However, in our 2019 and 2020 reports, we found supplier data were not comparable across banks or enterprises or across years. Before 2018, FHFA did not issue a standardized data reporting template for such data. Even after creating the standardized data template and data definitions, FHFA identified inconsistencies in some data submissions, highlighting the challenges associated with collecting and tracking these data. FHFA officials said they planned to continue working with the banks to help them better understand the data definitions and the enterprises to identify reasons for and recommendations to address the data inconsistencies.

FHFA Uses Data to Oversee Diversity and Inclusion Efforts of FHLBanks and Enterprises and Assess Its Own Workforce

FHFA Uses Data and Examinations to Oversee Workforce Diversity and Inclusion Efforts at FHLBanks and Enterprises

As we reported in 2019 and 2020, FHFA collects and reviews workforce diversity data from the FHLBanks and the enterprises as part of its oversight of their diversity efforts. The data-related oversight efforts include the following:

- **Reviews of quarterly and annual diversity data.** FHFA staff told us that in 2018, they began to use quarterly diversity data from the FHLBanks and the enterprises to monitor their workforce diversity and inclusion efforts. For instance, the FHFA OMWI assesses each FHLBank's performance in workforce diversity using the quarterly data, and was considering developing benchmarks.
- **Forms and instructions on periodic diversity data reporting.** FHFA developed instructions, templates, and a data reporting manual

to help FHLBanks and the enterprises submit more consistent diversity data. In 2019, FHFA modified the data templates to allow the banks and the enterprises to more efficiently report diversity data (for example, by consolidating data fields).

- **Annual examination of diversity and inclusion efforts.** In 2017, FHFA began reviewing diversity and inclusion efforts during annual examinations of FHLBanks and the enterprises. FHFA also developed a separate examination module in 2016 for reviewing the diversity and inclusion efforts.[10] As part of the examination, FHFA reviews the data reporting systems at the FHLBanks and the enterprises to help ensure they have appropriate controls for data reporting.
- **Analysis of FHLBank board size and composition.** In May 2015, FHFA added two reporting requirements for FHLBank annual reports: (1) data on gender and race/ethnicity of board directors and (2) information on FHLBanks' outreach efforts to promote diversity when nominating and soliciting director candidates.[11] FHFA said it intended to use the director data to analyze trends in board diversity and the effectiveness of FHLBanks' policies and procedures to encourage board diversity. For example, based on FHFA's 2016 annual FHLBank board analysis, the FHFA Director approved requests from three FHLBanks to add an independent director seat to their 2017 boards to help maintain or increase board diversity.
- **Annual reports on enterprises' diversity and inclusion.** As conservator of the enterprises, FHFA publishes annual reports describing the enterprises' activities that promoted diversity and inclusion in support of FHFA's strategic goals.

FHFA Tracks and Reports Data on Its Own Workforce Diversity

FHFA reported its workforce diversity efforts in its 2019 annual OMWI report to Congress (the most recently published). In the report, FHFA described the race, ethnicity, and gender composition of its workforce, including management positions, as well as of employees who were hired, promoted, or left the agency in 2019. FHFA compared its workforce demographic composition to that of the civilian and federal workforces. FHFA also reported that it reviews data from hiring, promotions, and

[10]FHFA issued an examination manual on diversity and inclusion, which became effective in December 2020.

[11]Minority and Women Inclusion Amendments, 80 Fed. Reg. 25,209 (May 4, 2015) (codified as amended at 12 C.F.R. § 1223.23(b)(10)). The rule became effective on July 6, 2015. While not required by FHFA's regulations, the enterprises have voluntarily maintained board diversity data internally. In 2017, FHFA began collecting board diversity data from the enterprises.

separations to gain insight for recruitment strategies, career mobility, and retention.

FHFA reported using qualitative tools to gather information about the progress of its workforce diversity practices, including retention practices. For example, FHFA reported that it conducted a second Diversity and Inclusion Climate Survey and was comparing the 2019 survey results with 2017 results, and designing solutions to specific issues that adversely affect employee engagement.

Chairwoman Beatty, Ranking Member Wagner, and Members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Kay Kuhlman (Assistant Director), Anna Chung (Analyst in Charge), Kaitlan Doying, Jill Lacey, Moon Parks, Barbara Roesmann, Jena Sinkfield, and Tyler Spunaugle.

Appendix I: Workforce Demographic Composition of Financial Services Industry, by Race/Ethnicity and Gender

Table 1 summarizes the percentage of men and women working in financial services firms, based on data these firms provided in their 2018 Employer Information Report to the Equal Employment Opportunity Commission.

Table 1: Percentage of Workforce Demographic Composition of Financial Services Industry in 2018, from Employer Information (EEO-1) Reports, by Race/Ethnicity and Gender

	White	Black or African American	Hispanic	Asian	American Indian or Alaska Native	Native Hawaiian or Other Pacific Islander	Two or more races	Total
Senior and Executive Management								
Male	60	1	2	4	<1	<1	1	**69**
Female	26	1	1	2	<1	<1	<1	**31**
First and Mid-level Management								
Male	40	2	3	6	<1	<1	1	**52**
Female	35	4	4	4	<1	<1	1	**48**
Professionals								
Male	34	3	3	7	<1	<1	1	**48**
Female	35	6	4	6	<1	<1	1	**52**
Technicians								
Male	35	4	4	12	<1	<1	1	**56**
Female	25	7	4	7	<1	<1	1	**44**
Sales Workers								
Male	46	4	6	3	<1	<1	1	**60**
Female	25	5	7	2	<1	<1	1	**40**
Office and Clerical Workers								
Male	15	4	4	1	<1	<1	1	**25**
Female	42	17	10	3	<1	<1	2	**75**
Craft Workers								
Male	Not available	24	30	9	2	Not available	6	**71**
Female	Not available	15	10	1	<1	Not available	3	**29**
Operatives								
Male	38	9	7	6	<1	<1	2	**62**
Female	21	8	4	5	<1	<1	1	**38**
Laborers								
Male	Not available	21	45	5	3	Not available	5	**79**
Female	Not available	8	9	2	1	Not available	1	**21**
Service Workers								

	White	Black or African American	Hispanic	Asian	American Indian or Alaska Native	Native Hawaiian or Other Pacific Islander	Two or more races	Total
Male	34	9	8	1	<1	<1	1	**54**
Female	26	9	8	1	<1	<1	1	**46**
Total								
Male	**30**	**3**	**4**	**5**	**<1**	**<1**	**1**	**42**
Female	**36**	**9**	**6**	**4**	**<1**	**<1**	**1**	**58**

Source: GAO analysis of data from the Equal Employment Opportunity Commission. | GAO-21-448T

Note: We downloaded the data from the Equal Employment Opportunity Commission's website on March 3, 2021 (see https://www.eeoc.gov/statistics/employment/jobpatterns/eeo1) and calculated the percentages. The information indicated as "not available" results from data disclosure limitations in the EEO-1 public use file; hence, we excluded these data from our calculations.

DiversityInc CEO Carolynn Johnson's Oral Statement
House Financial Services Committee Diversity & Inclusion Subcommittee Hearing
Thursday, March 18, 2021 at 10:00 AM EST

Chair Waters, Ranking Member McHenry, and members of the Committee – thank you for the opportunity to participate in today's hearing. It is an honor to testify before you on the importance of making workforce data disclosures mandatory. This topic is my life's work.

As the Chief Executive Officer of DiversityInc – which is a business publication dedicated to transparency and the business benefits of diversity and a warehouse of workforce data for major employers. We have built this data warehouse over 20 years as part of the annual DiversityInc Top 50 competition. This effort is an editorial, empirically data-driven ranking which focuses on US operations for employers with at least 750 employees. The survey consists of 276 questions that yield more than 1400 data points and measures:

1. Human Capital Diversity Metrics
2. Leadership Accountability
3. Talent Development
4. Workplace Practices
5. Supplier Diversity
6. Philanthropy

As a Black woman, wife of a civil servant, daughter of a veteran who proudly served to protect all of us, and mother of two children under the age of 10 – I am uniquely positioned for such a time as this.

As this Committee is now considering legislation that would close some of the gaps in how regulated entities disclose their workforce data, let us focus on three crucial areas.

First, looking at the lack of data on diversity, equity, and inclusion. Ironically, one year and one day ago, on March 19, 2020, the US Securities and Exchange Commission Office of Minority and Women Inclusion hosted a webinar[1] that included an overview of the 2018 Diversity Assessment Report. The self-assessment–sent to 1300 registrants–investment advisers, broker-dealers, municipal advisors, and self-regulatory organizations–received only 38 responses–covering only 5% of firms asked to submit a company self-assessment report[2].

Second–and this is the good news– other industries have been openly talking about their efforts and showing how they are necessary to achieve ethical corporate governance, profitability, and return on equity. Examples of these companies that complete the DiversityInc survey and rank highly are Johnson & Johnson, AT&T, Kaiser Permanente, Novartis Pharmaceuticals Corporation, Marriott International, Inc., Hilton, Eli Lilly and Company, ADP, Accenture, TD Bank, CapitalOne, and more. All other ranked companies can be seen by visiting DiversityInc.com.

The third is the proof that we already have of the benefits of how diversity data can exact change. Let us take a closer look at affirmative action. Here are the history and the facts. In 1961, President John F. Kennedy's Executive Order 10925 used affirmative action for the first time by instructing federal contractors to take – quote – "affirmative action to ensure that applicants are treated equally without regard to race, color, religion, sex, or national origin" – end quote[3].

However, it was not until October 1967–following pressure from the surging Women's Movement–that President Lyndon B. Johnson amended the order to include gender provisions[4].

That gender provision – the collection and required disclosure of gender diversity data – made all the difference.

The numbers, presence of women in management, named as CEOs and Directors of Boards of publicly traded companies, prove it:

After two decades of affirmative action and the data being collected and analyzed without bias, it was white women who held the majority of managerial jobs, compared to African American, Latino, and Asian American women – the supposed beneficiaries of these policies–according to a 1995 report by the California Senate Government Organization Committee[5].

Today, women are more educated and thriving in the workforce than ever before, and according to a Washington Post article from 2019, for the first time earned more bachelor's, master's, and PhDs than men.

Yet–we would not know that without the data.

Thank you again for the opportunity to appear before you today.

I can answer any questions you might have.

[1] https://www.sec.gov/video/webcast-archive-player.shtml?document_id=031920-diversity-assessment-report
[2] https://www.sec.gov/files/DAR_Webinar_March_2020.pdf
US Securities and Exchange Commission | Office of Minority and Women Inclusion
Diversity Assessment Report Collection 2018
Sent to 1300 registrants (investment advisers, broker-dealers, municipal advisors, and self-regulatory organizations)
38 responses received, covering 5% of firms asked to submit a report

[3] https://www.aaaed.org/aaaed/history_of_affirmative_action.asp
[4] https://books.google.com/books?id=7Ae2BvGX4jQC&lpg=PA143&dq=women%20affirmative%20action%201967%20women's%20movement%20pressure%20johnson&pg=PA143#v=onepage&q=women%20affirmative%20action%201967%20women's%20movement%20pressure%20johnson&f=false
[5] https://www.sfgate.com/news/article/State-Study-Tracks-Diversity-Affirmative-action-3040217.php

Testimony of

Anne Simpson
Managing Investment Director, Board Governance and Sustainability
California Public Employees' Retirement System

Before the
United States House of Representatives
Committee on Financial Services
Subcommittee on Diversity and Inclusion

Hearing on
"By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity, and Inclusion"

March 18, 2021

Chair Beatty, Ranking Member Wagner, and other Members of the Subcommittee:

Thank you for the opportunity to testify at today's hearing. My name is Anne Simpson, and I am the Managing Investment Director for the Board Governance and Sustainability program for the California Public Employees' Retirement System ("CalPERS"). I am pleased to appear before you today on behalf of CalPERS. We applaud and support the Subcommittee's focus on the importance of diversity and inclusion in our capital markets and the need for mandatory disclosures about diversity and inclusion metrics so that investors can make informed decisions.

I will provide an overview of CalPERS, discuss our governing principles, and discuss the importance of corporate diversity and inclusion to the long-term success of fiduciaries like CalPERS. I also will discuss the necessity of standardized, decision-useful diversity disclosure as transparency into corporations' commitment to diversity is critical to capital formation with the objective of achieving the best returns and value for shareowners over the long-term. Ultimately, CalPERS' primary responsibility is to our beneficiaries, so our long-term investment returns are central to our views on what information we need to make the right investment choices.

CalPERS

CalPERS is the largest public pension fund in the United States ("U.S."), with approximately $450 billion in global assets and equity holdings in over 10,000 public companies globally. CalPERS is a fiduciary that provides nearly $25.8 billion annually in retirement benefits to more than 2 million members. Delivering investment returns is our investment office's number one job. Nearly 55 cents of every dollar paid in those benefits come from investment returns. Moreover, achieving good investment returns helps us avoid increasing the contributions required from California's communities. Increasing contributions takes away budget resources otherwise available for those communities to provide public services. This means that our members depend upon safety and soundness in the capital markets as well as long-term value for their retirement security. For these reasons, we are focused on our portfolio companies' commitments to diversity and inclusion.

CalPERS' Investment Beliefs and Diversity Principles

CalPERS is guided by its fiduciary duties of prudence, care and loyalty, and we ensure full compliance with all laws and regulations. To promote long-term returns, our Board has adopted Investment Beliefs,[1] which recognize the importance of today's hearing for long-term fiduciaries, especially Investment Beliefs Two, Four, and Ten:

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[1] https://www.calpers.ca.gov/docs/board-agendas/201702/pension/item7-01.pdf.

- Investment Belief Two: "A long time investment horizon is a responsibility and an advantage";

- Investment Belief Four: "Long-term value creation requires effective management of three forms of capital: financial, physical and *human*" and CalPERS "engage[s] investee companies and external managers on their…Human capital practices, including but not limited to…diversity" (emphasis added); and

- Investment Belief Ten: "Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives," in particular "[d]iversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important."

Therefore, CalPERS engages companies and managers on their human capital management practices, including their commitment to attracting talent from all available resources, as demonstrated by their commitment to diversity.

CalPERS has developed and implemented a set of Governance and Sustainability Principles ("Principles").[2] These Principles are a statement of our views on best practices to guide the internal and external managers of CalPERS when making investment decisions and provide the framework by which we advocate with policy-makers, execute our shareowner proxy voting responsibilities, and engage portfolio companies to achieve long-term returns. In Section B of our Principles, we emphasize the importance of board quality, including the need for board diversity. Specifically, we state that "The board should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management's execution of a long-term business strategy" and a "robust process for how diversity is considered when assessing board talent and diversity should be adequately disclosed."

In August of 2016, the CalPERS Board of Administration adopted a five-year Sustainable Investment Strategic Plan ("Strategic Plan") for the purpose of minimizing risk, maximizing returns, and ensuring accountability from all those involved. Together, our Investment Beliefs, Principles, and Strategic Plan support advocating for a robust reporting regime for publicly traded companies that would address issues that impact shareowner value over the long-term, including board and workforce diversity. Together, they have guided us to work with partners and advocate for policies that address improvements to board diversity. I applaud this Subcommittee for focusing on certain matters that we consider critical to long-term value.

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[2] https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf.

Diversity is Important to Long-term Value

As a fiduciary that must pay benefits long into the future, we are focused on corporate practices that drive long-term value. We believe, and research increasingly demonstrates, that companies with a diverse board, inclusive of gender and race/ethnicity, are better positioned to execute good governance, effective risk management, and optimal decision-making, as well as enhanced customer alignment, employee engagement, and transparency. For instance, the Office of the Illinois State Treasurer published a white paper titled "The Investment Case for Board Diversity" which provides an extensive and comprehensive review of academic and practitioner research on the value of gender and racial/ethnic board diversity for investors.[3] The examination finds that "the gender and racial/ethnic composition of corporate boards does indeed have a material and relevant impact on company performance and investors."

ISS has found similar results. To help measure the benefits of diversity on performance, ISS launched the ISS ESG U.S. Diversity Index in 2020. The index integrates ethnic and gender representation for directors and named executive officers of 300 large-, mid-, and small-cap U.S. companies. Since its inception, the index has outperformed the S&P 500 and the Russell 1000.[4] Moreover, ISS has found that "companies with greater gender diversity exhibit better market performance and higher financial quality than those companies that do not prioritize gender diversity."[5]

On a more granular level, ISS has found that "boards with at least two women outperform the average Russell 3000 returns over three-, four-, and five-year periods, while male-dominated boards underperform against the index over the same periods"[6] and that "board compositions with ethnically diverse directors (defined as three or more directors that belong to a minority ethnicity) outperformed boards without such individuals."[7] Conversely, "[o]ver four- and five-year holding periods, the less-diverse boards underperformed the Russell 3000 by about 0.25%."[8] As a result, "investors with holdings concentrated in companies without ethnic diversity would have lost out on 1.27% average additional returns annually over a four-year period."[9]

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[3] THE INVESTMENT CASE FOR BOARD DIVERSITY: A Review of the Academic and Practitioner Research on the Value of Gender and Racial/Ethnic Board Diversity for Investors, Office of the Illinois State Treasurer (October 2020),
https://illinoistreasurergovprod.blob.core.usgovcloudapi.net/twocms/media/doc/il%20treasurer%20white%20paper%20-%20the%20investment%20case%20for%20board%20diversity%20(oct%202020).pdf.
[4] *Volatile Transitions: Navigating ESG in 2021*, at 13, White Paper Series, ESG Themes & Trends 2021, ISS-ESG (herein after "ISS-ESG").
[5] Id.
[6] Id. at 14.
[7] Id.
[8] Id.
[9] Id.

As an investor with a long-time horizon, CalPERS must take into consideration these performance differentials.

Diversity is Material and Must be Disclosed

The federal securities laws were designed to "close [] the channels of…commerce to security issuers unless and until full disclosure of the character of such securities has been made."[10] These disclosures are not solely for the "protection of investors," as some have argued, but are also intended to provide investors and the public with important information about the securities so as to promote the efficient allocation of capital and the public interest.

A corporation's diversity metrics are material because they influence investment decisions; they are also in the public's strong interest.

Unfortunately, for too long, issuers have declined to provide this information, despite the plain language of the federal securities laws, and the Securities and Exchange Commission ("SEC") has failed to compel its disclosure. The SEC should quickly work to ensure that this information is provided in a clear, reliable, and comparable format.

The materiality standard, as established by the Supreme Court in *Northway, Inc. v. TSC Industries, Inc.*, is whether information would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available:

> The general standard of materiality that we think best comports with the policies of Rule 14a-9 is as follows: An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote. (emphasis added) This standard is fully consistent with Mills' general description of materiality as a requirement that "the defect have a significant propensity to affect the voting process." The standard does not require proof of a substantial likelihood that disclosure of the omitted fact would have caused the reasonable investor to change his vote. What the standard does contemplate is a showing of a substantial likelihood that, under all the circumstances, the omitted fact would have assumed actual significance in the deliberations of the reasonable shareholder. Put another way, there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.[11]

Moreover, in *Basic Inc. et al. v Levinson*, the Court stated that:

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[10] H. Rep. 73-85 (1933), at 2-3.
[11] 426 U.S. 438 (1976).

> The Court also explicitly has defined a standard of materiality under the securities laws, see TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 96 S.Ct. 2126, 48 L.Ed.2d 757 (1976), concluding in the proxy solicitation context that "an omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote." Id., at 449, 96 S.Ct., at 2132...The court further explained that to fulfill the materiality requirement "there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." Id., at 449, 96 S.Ct., at 2132. We now expressly adopt the TSC Industries standard of materiality for the § 10(b) and Rule 10b-5 context.[12]

Thus, materiality is in the eye of the reasonable investor. As discussed in this testimony, there is significant research demonstrating that a corporation's approach to diversity, at the board level and within its workforce, meaningfully affects its performance. Investors, particularly investors who have a long-term horizon, such as CalPERS, find this information to be material, as a result.

Incoming SEC Chairman Gary Gensler recently testified before the Senate Committee on Banking, Housing and Urban Affairs about the meaning of materiality. During the hearing, he alluded to these cases, stating that "materiality is defined, [as] what reasonable investors are seeking to have to make their decisions either to invest or not to invest or to vote yes or vote no" and materiality is "about investors making a choice as to what's significant, or what's material, to be more accurate, what's material for those investors."[13]

To Mr. Gensler's point, shareholders like CalPERS have actively engaged with corporations about diversity, which evinces the materiality of such information to these investors. Back in March 2015, CalPERS along with other public fund fiduciaries representing over $1.12 trillion in assets submitted a petition[14] to the SEC for a rulemaking requiring new disclosures related to nominees for corporate board seats in order to provide investors with necessary information to evaluate the nominees' gender, racial, and ethnic diversity, as well as their mix of skills, experiences, and attributes needed to fulfill the corporation's mission.

In July 2020, BlackRock issued a note to clients entitled "Our Approach to Sustainability. The note stated that its "stewardship also includes topics that have been central to many companies' license to operate, particularly over the past few months, such as human capital management and diversity and inclusion."[15] Moreover, the note stated that "We also will continue to emphasize the importance of diversity in the board room and will consider race, ethnicity, and gender as we

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[12] 485 U.S. 224 (1988).
[13] Nominations Hearing, Senate Committee on Banking, Housing and Urban Affairs (Mar. 2, 2021).
[14] https://www.sec.gov/rules/petitions/2015/petn4-682.pdf (dated March 31, 2015)
[15] Our Approach to Sustainability, BlackRock Investment Stewardship, https://www.blackrock.com/corporate/literature/publication/our-commitment-to-sustainability-full-report.pdf.

review a company's directors" and as part of that focus, they supported at least one shareholder proposal for "greater disclosure around" a company's diversity and inclusion efforts."[16] Vanguard too has emphasized that diversity is part of a board's responsibility to overseeing long-term value.[17]

Additionally, CalPERS has developed a three-part strategy for investment based on research into the positive correlation of human capital to value creation. This involves:

- advocating for public policies and reporting sustainability disclosures in a consistent, comparable and reliable manner;
- engaging companies and our external managers; and
- integrating human capital management across the portfolio to better identify, measure and assess long-term risk and opportunity.

This strategy ensures that we capture diverse talent and counter unconscious bias in our investment decisions. It is founded on partnerships with initiatives such as the Human Capital Management Coalition, which we co-founded to provide a platform for research, knowledge sharing and co-operation in company engagement and regulatory advocacy. The results are notable as we have seen a significant increase in companies appointing diverse candidates to their boards, although progress is still too slow and diversity too often viewed in only one dimension – typically gender.[18]

Mandatory Diversity Disclosures are Necessary to Help Investors Allocate Capital Efficiently

Investors need more transparency into board diversity so they can make more informed decisions and allocate our capital to the investments that will provide the most long-term value. In Section B of our Principles, we emphasize the importance of board quality, including the need for board diversity:

> The board [of directors] should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management's execution of a long-term business strategy. Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, disability, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a broader range of experience,

[16] Id.
[17] Vanguard 2020 Investment Stewardship Annual Report (2020), https://about.vanguard.com/investment-stewardship/perspectives-and-commentary/2020_investment_stewardship_annual_report.pdf.
[18] Tamara Sells and Anne Simpson, *Investment for Sustainable Value Creation*, Official Monetary and Financial Institutions Forum.

thoughts, perspectives, and competencies to help enable effective board leadership.

Moreover, our Principles state that board should play an active role in "efforts to promote diversity, inclusion and innovation" and the board itself should "disclose a diverse mix of director attributes" so that the board has "a range of skills and experience which provide a diverse and dynamic team."

Unfortunately, there is a substantial lack of diversity at U.S. companies, especially outside of the S&P 500. ISS estimates that underrepresented ethnic groups constitute only 12.5 percent of board directors" whereas 90 percent of "director positions with the most influence over the direction of the company and the board are white."[19] Furthermore, only 29 percent of the 3000 largest U.S. companies have two or more ethnically diverse directors and 84 percent of these companies have no ethnically or racially diverse employees among their top five executives.[20] Nasdaq has stated that the U.S. currently ranks 53rd in board gender diversity, according to the World Economic Forum.[21] Given the lack of disclosures about board diversity, it is hard to get very good data on racial diversity on boards, but third party analysis appears to show that as many as 70 percent of Nasdaq companies' boards are not diverse at all.[22]

According to ISS, there are many challenges to obtaining decision-useful information on corporations' diversity metrics, among other metrics. These include the lack of standardized of disclosures, and inadequate and/or inaccurate information disclosed, among others.[23] Without more comprehensive disclosures of board diversity, we and other investors are less able to evaluate the competitive advantages between companies.

Voluntary disclosures, quite simply, are insufficient to enable investors to obtain the information necessary to evaluate diversity data. There is a need for comparability and consistency of disclosures, which help manage expectations and evaluate management. There would be major problems if a company began to selectively disclose particular information. Investors would have to use the only means available to address the problem which would be through votes in board of directors' elections or through litigation. Mandatory disclosures would bypass these issues. We appreciate the need to balance a variety of considerations in determining the scope of disclosures,

[19] ISS-ESG at 12.
[20] Id.
[21] Self-regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Adopt Listing Rules Related to Board Diversity [Release No. 34-90574; File No. SR-NASDAQ-2020-081].
[22] Andrew Ross Sorkin, Jason Karaian, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni, *Nasdaq Pushes for Diversity in the Boardroom*. https://www.nytimes.com/2020/12/01/business/dealbook/nasdaq-diversity-boards.html.
[23] Maura Sauders, *Survey Analysis: ESG Investing Pre- and Post-Pandemic*, at 12, ISS ESG.

particularly ESG disclosures, and we are glad that the SEC is focusing on these issues in this context.[24]

Accordingly, to remedy this information asymmetry and the inadequacy of voluntary disclosures, boards should annually disclose their demographic information including race, ethnicity, and gender, as advocated in our Principles. Ideally, companies should disclose their Employer Information Report, known as the EEO-1 report, or similar workforce demographic data to enable shareowners to assess the board's diversity relative to its workforce and compare companies in similar industries.

Fundamentally, mandatory disclosures will improve transparency, accountability, and efficient capital allocation by enabling investors to make informed decisions based on material information. Such disclosures will help investors monitor their portfolio companies' progress and commitment to a diverse workforce. Investors need to be able to compare between companies' efforts to draw talent from as wide a pool as possible and to invest in the company whose efforts will promote the best long-term value for their portfolio. CalPERS has long taken the view that companies need to adopt progressive human capital management practices, including with respect diversity, accompanied by fair, accurate, timely, and integrated reporting on how they mitigate human capital risks and generate sustainable returns.

Conclusion

CalPERS is a fiduciary whose primary goal is making good investments to fulfill our responsibility to our members. We believe companies' long-term value creation requires a real commitment to diversity and inclusion. In other words, we have a long history of focusing on diversity and inclusion within our portfolio companies because of the potential effects on our returns. It is investors like CalPERS who ultimately bear the costs when companies do not seek talent from the widest available pools and thus reduce their long-term value.

Policy-makers have an important role to play in creating a regulatory framework that incentivizes the companies we invest in to take diversity seriously while generating returns that meet public pension funds' needs. Policies that encourage businesses to be diverse and inclusive and require disclosures demonstrating their commitment help investors identify companies that are able to both deliver the returns we need and have measurable positive human capital impacts. Such policies are useful in strengthening investor confidence and encouraging capital to flow toward a more sustainable economy.

[24] John Coates, ESG Disclosure - Keeping Pace with Developments Affecting Investors, Public Companies and the Capital Markets (Mar. 11, 2021), https://www.sec.gov/news/public-statement/coates-esg-disclosure-keeping-pace-031121?utm_medium=email&utm_source=govdelivery.

We look forward to working with the Subcommittee and Committee to discuss these issues, as well as the policy proposals set forth in today's hearing, and hopefully more proposals in the future. Thank you, Chair Beatty and Ranking Member Wagner for inviting me to participate in this hearing, and I look forward to your questions.

Testimony of Rick Wade, Senior Vice President of Strategic Alliances and Outreach at the U.S. Chamber of Commerce

House Financial Services Subcommittee on Diversity Inclusion

By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion

March 18, 2021

Chairwoman Beatty, Ranking Member Wagner, and members of the House Financial Services Subcommittee on Diversity and Inclusion, thank you for the opportunity to testify before the subcommittee today and for holding this important hearing.

I grew up in a small town in South Carolina, where the textile industry was once the mainstay of our local economy. Connected to that economy was a vibrant district of Black entrepreneurs and business owners called The Hill, and it was our version of Black Wall Street in Tulsa or Harlem in New York City. It was where one could find doctors, lawyers, retail stores, restaurants, fresh seafood markets, and other service businesses. These businesses were key anchors in our community, and the owners were our role models.

I've seen first-hand how entrepreneurship plays an important role in building wealth in families, communities, and economies, but the opportunity to start and grow a business is not equal for white and Black Americans. Black Americans are underrepresented among entrepreneurs, representing 12% of the U.S. labor force but only 9.4% of business owners.[1] They also are less likely than white Americans to launch businesses, and when they do, those businesses tend to have lower revenues and fewer employees.[2] They are less than half as likely to get financing as white-owned firms. Moreover, a study from the National Bureau of Economic Research reports that 41% of Black-owned businesses have already closed as a result of the pandemic and downturned economy.

Last year, the U.S. Chamber of Commerce launched the Equality of Opportunity Initiative to develop real, sustainable solutions to help close race-based opportunity gaps in six areas: education, employment, entrepreneurship, criminal justice, health, and wealth. Systemic inequalities in these six areas perpetuate broader inequalities in our society, hold back individual and business success, and hinder economic growth.

Driven by data and informed by conversations with business, government, academics, and civic leaders, we developed the Equality of Opportunity Agenda to advance private sector solutions and best practices, scale impactful programs, and drive policy action at the federal, state, and local level. In early 2021, we launched task forces around our six main pillars as well as access to capital and supplier diversity. These conversations are bringing together business, policy experts, and others to share and discuss strategies to advance progress on these issues and solutions in the years to come.

We are very proud of the progress we've already made since launching the Equality of Opportunity Initiative last June – hosting over 100 events, meetings and briefings with companies and other business organizations; endorsing 14 bills on Capitol Hill; releasing important research and data to help inform our work; and standing up nearly a dozen Chamber-wide partnerships and

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[1] M'Balou Camara, Khaing Zaw, Darrick Hamilton, and William Darity Jr., "Entering Entrepreneurship: Racial Disparities in the Pathways into Business Ownership." Duke University, 2019
[2] The Kaufman Foundation, Kauffman Compilation: Research on Race and Entrepreneurship, December 2016

programs. In addition, over 500 state and local chambers and other groups have signed on to the Initiative and are advancing this work across their organizations and communities.

I am particularly grateful that the Chamber is doing its part to help foster Black-owned business growth, create jobs, and develop thriving communities. We are working to connect Black-owned businesses to corporate supply chains, and we are helping to address critical issues like access to capital. Our partnerships with Sky's the Limit and Historically Black Colleges and Universities are inspiring the next generation of diverse entrepreneurs and business leaders.

In addition, since its launch in September 2020, our Foundation has distributed 600 grants to Black-owned small businesses in communities heavily impacted by the pandemic in partnership with our Coalition to Back Black Businesses (CBBB). The CBBB has committed to providing $13 million in grants, mentorship opportunities, and resources to support the long-term success and resilience of Black-owned small businesses over the next three years.

The Chamber's data-driven approach is foundational to our Equality of Opportunity Initiative. In partnership with MetLife, the Chamber produces a monthly small business index to track the impact of the pandemic on firms—including minority-owned small businesses. We also support efforts by the Consumer Financial Protection Bureau to implement Section 1071, which amends the Equal Credit Opportunity Act to require that financial institutions collect and report information concerning credit applications made by women- or minority owned businesses and by small businesses.

Further, we have repeatedly supported the outstanding efforts by Representatives Meeks and Maloney to champion corporate board diversity and have already endorsed H.R. 1277, The Improving Corporate Governance Through Diversity Act of 2019. Diversity has become increasingly important for good corporate governance and the Improving Corporate Governance Through Diversity Act will establish a model to organically boost diversity on boards through disclosure, rather than the counterproductive quota-driven strategies that some have attempted.

For decades, corporate boards and governance advocates have embraced the goal of diversity, but diverse representation—especially Black representation—in boardrooms is still distressingly low. We are encouraged by a recently released report from BoardProspects showing the number of Black board members among Russell 3000 companies is still small, but progress is beginning to emerge. Recently, the Chamber announced an exciting initiative to help address this disparity. Through a partnership with the National Association of Corporate Directors, we committed to help identify, prepare, and connect at least 250 Black business executives to public and private boards by the end of 2022.

We need to address diversity urgently and through intentional action, but policymakers should be careful to structure diversity policies in a flexible and durable way. An initiative that might make sense in a highly-populated metropolitan area might not make as much sense in a rural one. Further, it may take companies time to implement diversity policies and initiatives, even when they are internally prioritized within a company. Policies that incorporate flexibility, such as a "comply or explain" model in disclosure, can shed light on why an internal diversity goal has not been achieved and can help a company think through their shortcomings. Approaches like "comply or explain" provide important information to investors and the company's own employees. Moreover, allowing companies some flexibility in implementing diversity initiatives gives those policies a chance to take hold long term, as companies can strategize about their priorities and identify good candidates to fill open positions.

There is no question that the U.S. can do better when it comes to diversity, equity, and inclusion and like many of our members, we feel the sense of urgency. Last year, many U.S. firms pledged to address diversity within their company and followed up on those pledges with immediate action. However, we need data to truly identify where the system is broken so we can analyze, diagnose, and develop sustainable solutions to reverse trends of inequality. This is why the Chamber was pleased to see the commitment of 34 major firms to voluntarily disclose government workforce data and publicly share their diversity reports by this year.[3]

Please know that we understand the importance of this work and are in it for the long-haul. Diversity and Equality of Opportunity are not just moral imperatives, but matters of our economic competitiveness. According to a revealing study from our partner, the W.K. Kellogg Foundation, the American economy stands to gain $8 trillion by 2050 simply by closing the racial equity gap. Moreover, businesses that recognize and embrace the value of inclusion consistently perform better across multiple financial metrics.

On the other hand, the economic impact and full potential of Black ingenuity has yet to be fully embraced and realized in America. All Americans should have a fair chance to earn their success, rise on their merit, and live their own American Dream. Unfortunately, that is not the case today. The U.S. Chamber of Commerce looks forward to working with the House Financial Services Committee to reach that goal and ensure that all people have Equality of Opportunity

[3] McGregor, Jena. "Urged to back up pledges for racial justice, 34 major firms commit to disclose government workforce data," September, 29,2020, accessed 3/16/21: https://www.washingtonpost.com/business/2020/09/29/corporate-diversity-data-pledge/

Aleria

Statement of

Paolo Gaudiano, Chief Scientist
Lisa Magill, Chief Executive Officer
Aleria

before the
U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON DIVERSITY AND INCLUSION

March 18, 2021

Aleria submits this statement for the record concerning the virtual hearing titled *By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion*, before the U.S. House Committee on Financial Services, Subcommittee on Diversity and Inclusion, held on March 18, 2021.

As co-founders of Aleria, we strongly support the Subcommittee's efforts to establish meaningful metrics for corporate diversity and inclusion (D&I), and to consider legislation to require mandatory disclosure of D&I data. It should be clear to any government or corporate leader that it's impossible to control what is not being measured.

However, *we encourage the Subcommittee to consider expanding the required measurement beyond simple demographic representation, focusing also on measuring inclusion*.

While, superficially, this may seem challenging, and while the companies and federal agencies impacted by the proposed legislation may initially believe this to create an additional burden, we believe that measuring inclusion will actually be easier, it will provide much clearer guidance on what initiatives can really move the needle, and it will create a more actionable and granular set of metrics to measure progress.

To provide some context for our comments, Aleria[1] is a Public Benefit Corporation whose mission is to create a more inclusive and equitable world. We leverage science and technology to impact the way people think about diversity, equity and inclusion in the workplace, and more importantly, what they do about it. While Aleria's work is focused entirely on workplace D&I, our co-founders are also actively involved with ARC,[2] a nonprofit conducting charitable research activities on how D&I impacts other aspects of

[1] https://aleria.tech
[2] https://aleriaresearch.org

society, and with New York University's Stern School of Business[3] and the NYU Office of Global Inclusion, Diversity and Strategic Innovation.[4]

Our combined work is rooted in two decades of academic and applied research that combines behavioral science and computer simulations to explore and quantify the link between individuals and their societal context. In particular, our approach elucidates how a particular societal context—be it a company, a school, a city, a country or an entire society—influences the lived experiences of individuals, and how, in turn, the individual behaviors and interactions ultimately give shape to the *emergent* behaviors that we observe at the macroscopic level.

This approach is invaluable in the study of diversity and inclusion because, on the one hand it helps us to understand how systemic biases and discrimination translate into differential experiences at the individual level, while on the other hand it helps us understand how individual attitudes and behaviors lead to the genesis of systemic biases. In other words, our approach has the potential to identify and replicate the causal links that create and sustain systemic biases in the workplace, or, for that matter, in any aspect of society. Furthermore, being able to identify the causal links between workplace biases and individual behaviors can also guide the design of interventions and forecast their impact at the macroscopic level.

For example, our team has been able to show that a simple bias that favors the promotion of men over women leads to the kind of gender imbalance that is so common in corporate America, with decreasing representation of women in more senior levels of the company[5]. More importantly, our research revealed the limited impact of a general intervention such as conducting unconscious bias training: even under the assumption that such training could completely remove all promotion biases, our simulations show that the gender imbalances caused in just five years by promotion biases, can take three decades to unravel after the bias is completely removed.

Through our research, we have identified a significant gap in the collective approach to D&I, which we call *the D&I Disconnect*[6]: while the terms "diversity" and "inclusion" have become nearly inseparable, the vast majority of studies and initiatives focus largely—if not entirely—on diversity alone. The D&I Disconnect is evident even in today's hearing and in the report published by the House Financial Services Committee in 2020[7]: even the title of today's hearing speaks about *diversity* data, and although this hearing's Memorandum and the 2020 report refer extensively to "Diversity & Inclusion" or "Diversity, Equity and Inclusion," every reference to data requirements focus exclusively on diversity, with only qualitative statements about inclusion and equity.

[3] https://www.stern.nyu.edu/faculty/bio/paolo-gaudiano
[4] https://www.nyu.edu/about/leadership-university-administration/office-of-the-president/global-inclusion--diversity--and-strategic-innovation.html
[5] Zhang, C. and Gaudiano, Paolo (2020): An Agent-Based Simulation of How Promotion Biases Impact Corporate Gender Diversity. SAGE Advance Preprint, https://doi.org/10.31124/advance.12400691.v1
[6] P. Gaudiano (2020), Here Is Why Diversity And Inclusion Are Disconnected, And How To Fix That. Available from https://www.forbes.com/sites/paologaudiano/2020/05/04/here-is-why-diversity-and-inclusion-are-disconnected-and-how-to-fix-that/
[7] Majority Staff of the House Financial Services Committee, "Diversity and Inclusion: Holding America's Large Banks Accountable." February 2020, https://financialservices.house.gov/issues/diversity-and-inclusion-holding-america-s-large-banks-accountable.htm

The narrow focus on measuring diversity alone, in our opinion, is potentially harmful and can actually undermine efforts to support workplace diversity, equity and inclusion. First, diversity alone is an inadequate measure of progress because it is a lagging and indirect indicator of progress[8]: it is a lagging indicator because it can take a long time to implement sufficient staff changes to be able to see the measurable impact of D&I initiatives; it is an indirect indicator because changes in diversity depend on who leaves the company and who is hired, but both of these depend not only on our D&I initiatives, but on numerous other factors, many of which are outside our control.

Second, the focus on diversity as the sole measure of progress creates a number of undesirable side effects[9]. Among them, measuring diversity forces people to be bucketed, encouraging the creation of stereotypes; it emphasizes differences rather than highlighting similarities; and it encourages a "zero-sum-game" mindset, *e.g.*, giving a job to a member of an underprivileged group is taking away a job from a white man.

A primary reason for the nearly exclusive focus on diversity is that, at least superficially, diversity is relatively easy to define and measure. In reality, anyone who has tried to develop a survey or intake form asking for demographic information has grappled with the challenges of asking diversity questions in a way that does not alienate or offend specific affinity groups. The form EEO-1, which is required to be filed with the U.S. Equal Employment Opportunity Commission by any company with 100 or more employees (or 50 or more employees for companies receiving federal funds), was created by President Johnson as part of the Civil Rights Act, and has stood virtually unchanged since then.[10] Stephanie Lampkin, CEO of Blendoor,[11] a diversity, equity, and inclusion (DEI) analytics and hiring software company that specializes in mitigating unconscious bias, points out that, since its introduction more than five decades ago, the EEO-1 form "has not been updated for the evolution of job categories, nor have we been more nuanced in the ways in which we talk about race and ethnicity in this country."[12]

Through our research, we have demonstrated that inclusion is a crucial ingredient to the success of any organization, and it is a required ingredient to support the organization's diversity.[13] More importantly, we have developed a simple, intuitive way to measure inclusion.[14] To understand how we can measure inclusion, it is useful to consider an analogy with health. Just as we tend not to notice our health unless we are sick or injured, we don't actually notice inclusion, but rather, we notice experiences in which we feel excluded. Extending this analogy, when we go see a doctor, they don't simply ask how

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[8] L. Magill (2020). Diversity is a Lagging Measure of Inclusion. https://medium.com/aleria/diversity-is-a-lagging-measure-of-inclusion-b8dfa4d01059
[9] P. Gaudiano (2019). Eight Reasons Why We Need To Focus On Inclusion Rather Than Diversity. https://www.forbes.com/sites/paologaudiano/2019/01/22/eight-reasons-why-we-need-to-focus-on-inclusion
[10] S. Lampkin (2020). The Evolution of DEI Data Collection, Reporting and Analytics. Invited talk, *2020 Diversity & Inclusion Research Conference*, https://www.dirc.info/dirc20-talks/the-evolution-of-dei-data-collection-reporting-and-analytics
[11] https://blendoor.com
[12] Ibid.
[13] P. Gaudiano (2020). How Inclusion Improves Diversity And Company Performance. https://www.forbes.com/sites/paologaudiano/2020/07/13/how-inclusion-improves-diversity-and-company-performance
[14] P. Gaudiano (2019). Inclusion Is Invisible: How To Measure Inclusion. https://www.forbes.com/sites/paologaudiano/2019/04/23/inclusion-is-invisible-part-1

our health is in general; rather, we are asked about a myriad of symptoms, which allow the doctors to notice patterns that are indicative of a specific illness.

In a very similar fashion, through years of research and client projects, we have identified certain *Categories of Inclusion*, which represent clusters of experiences that make individuals feel excluded.[15] Examples of Categories of Inclusion are Compensation and Benefits, Respect, Work-Life Balance and Career Opportunities. In practice, to measure inclusion, one should ask their employees (ideally in a neutral and anonymous way) to share specific experiences that have made them feel excluded, and then to specify the Category in which their experience belongs. For example, someone may have experienced being passed over for promotion by a more junior colleague, and categorize this under "Career Opportunities," or a mother may share an experience in which her male manager refused to provide the flexibility she needed to manage her children during remote schooling ("Work-life balance"), or a Black employee may have been asked to serve as an advisor and resource to discuss issues of racial equity after the murder of George Floyed, but their manager did not account for the extra workload ("Recognition").

By collecting this kind of data across an organization, and combining it with demographic information, one immediately sees not only what sorts of experiences may cause employees to feel excluded, but also how these experiences vary across different groups.

The ability to identify and quantify inclusion in this fashion has an extremely important benefit: just as a very healthy individual may not be familiar with symptoms or remedies for specific diseases, a privileged individual will be unfamiliar with symptoms or remedies for exclusion. Put another way, *inclusion is invisible to those who enjoy it most*. Hence, while a cis-gender, heterosexual, fully abled, white, male CEO may be able to "see" diversity in his company, he will likely be completely blind to inclusion.

Aleria is not the only company that has realized the value and importance of measuring inclusion as well as diversity. We already mentioned Blendoor, whose CEO, Stephanie Lampkin, eloquently points out that "Capturing diversity statistics is necessary, but insufficient governance of corporate social accountability. Our equity and inclusion data shed a much brighter light on the actual behavior contributing to or inhibiting the benefits of diversity. Without a wider lens, sharing diversity data alone has the danger of reinforcing the status quo." Other firms that have realized the importance of measuring the experiences of individuals, rather than solely their demographic traits, include Kanarys,[16] Tequitable,[17] Eskalera[18] and Pluto.[19]

We want to conclude our statement by proposing a different way for corporate and government leaders to understand the strategic value of considering inclusion, along with diversity. Imagine a team of ten people that is performing at its absolute peak: each team member individually performs at their peak, and they collaborate perfectly with one another. If one of the team members becomes unable to perform at their peak, it is clear

[15] P. Gaudiano (2019). Inclusion Is Invisible: What You Should Measure. https://www.forbes.com/sites/paologaudiano/2019/04/29/inclusion-is-invisible-what-you-should-measure
[16] https://www.kanarys.com/
[17] https://www.tequitable.com/
[18] https://eskalera.com/
[19] https://pluto.life/

that the team's overall performance will decline. If a second team member also becomes unable to perform at their peak, we may start to see ripple effects as the other team members need to pick up the slack and may become frustrated. Hence, decreasing the performance of any team member can have a compounding, negative impact on the performance of the entire team. This simple thought experiment leads to an inevitable conclusion: *any organization that causes any of their employees to feel excluded and thus underperform because of their personal traits, will see a negative impact on the performance of the entire organization.*

Put in a more positive light, anything that an organization can do to make sure that all of their employees—regardless of race, ethnicity, gender identity, sexual orientation, visible or invisible disability, religious beliefs, age—always feel included, will see its performance increase, as well as seeing an increase in the satisfaction and loyalty of its employees.

These observations should also make it clear why, in addition to measuring diversity, it is of paramount importance that organizations also learn to measure inclusion, and use it as a guide to make superior decisions that will help them to sustain an increasingly diverse workforce, at the same time that they will be increasing their performance. We hope that the members of this Subcommittee will approve all of the legislation under consideration, and they will further consider expanding their focus to include measuring inclusion, and not just diversity.

Respectfully,

Paolo Gaudiano, Chief Scientist, and Lisa Magill, CEO

March 17, 2021

Honorable Joyce Beatty, Chairwoman
Honorable Ann Wagner, Ranking Member
U.S. House Committee on Financial Services
Subcommittee on Diversity and Inclusion

RE: Public Statement for Virtual Hearing – "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion"

Dear Chairwoman Joyce Beatty and Ranking Member Wagner,

On behalf of The Alliance for Board Diversity, I am pleased to submit this public statement for consideration as part of your virtual hearing "**By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion."**

Coming into 2021, business leaders have been forced to grapple with more unprecedented challenges than ever before. Leaders have had to face new obstacles, like the business implications of the COVID-19 outbreak, while simultaneously addressing organizational struggles that had existed well before the pandemic, such as the challenge of how to create greater diversity and inclusion throughout companies, among leadership, and in the boardroom. Last year's racial justice protests brought increased attention to the lack of diversity in corporate America and ushered in a wave of renewed vigor to create change from investor groups, legislative bodies, and the public.

For the Alliance for Board Diversity (ABD), a collaboration of four leadership organizations working together to increase the representation of women and people of color on corporate boards since 2004, the heightened awareness is a welcomed development. (The four partner members are Catalyst, The Executive Leadership Council (ELC), Hispanic Association on Corporate Responsibility (HACR) and LEAP (Leadership Education for Asian Pacifics) and together with our strategic advisor, Diversified Search Group, coalesce to combine our collective strengths and better address our common goal of increased board diversity).

A critical need for inclusive leadership, driven in part by changed expectations of Gen Y and Gen Z, shifting demographics, investor and public pressure has increased the focus on diversity especially on the representation of women and people of color in the C-suite and on public company boards.. Moving forward, companies must make diversity, equity and inclusion a priority or risk being left behind.

It is often said that the tone of an organization starts at the top. Corporate board members are ultimately responsible for directing companies and serving as a blueprint for the rest of the organization. Therefore, boards are best positioned to advance and model a diversity, equity and inclusion agenda. Boards can embody inclusive leadership traits among their own members, and by holding the C-suite accountable for advancing diverse leaders and developing the organization's talent—executives, managers, and front-line employees—into inclusive leaders.

What gets measured, gets done. In pursuit of our mission and for the Subcommittee's consideration, I offer the Alliance for Board Diversity's ***Missing Pieces Report: The Board Diversity Census of Women and Minorities on Fortune 500 Boards***, a multiyear study on diversity in Fortune 100 and Fortune 500 corporate boards tracking the progress or the lack of since 2004. Beginning in 2016, the ABD began partnering with Deloitte to publish the Missing Pieces Report biennially. In 2018, our report found slow, but encouraging progress: women and minorities made more progress in board representation for the Fortune 500 between 2016 and 2018 than between 2012 and 2016. Another promising development is the "recycle rate" or the rate at which individuals are serving on more than one board. Fortune 100 boards were better at seeking out "unique" directors versus "recycling" the same diverse director. At the current rate, we predict the number of women and minorities on corporate boards will increase to 40% by 2024.

While we still know there is significantly more work to be done, studies like Missing Pieces shines the spotlight on fact-based board census numbers to dispel misunderstandings and misconceptions that corporate boards will find diverse talent on their own volition. Since 2004, when the ABD began producing the Missing Pieces report, the shuffling of chairs, like in the game of musical chairs, among diverse directors continues as indicated by the incremental rate change. Yes, there has been some promising progress, however many corporate boards still do not reflect the diverse, qualified talent that is available in the United States and globally. Data has the power to make real and lasting change in long-standing institutions by compelling them to take action.

Representation for representation's sake is not the goal. Diversity and inclusion efforts often translate into positive financial results. As noted by Deloitte in the Inclusion Imperative for Boards, "when operating within an inclusive culture and inclusive talent practices, organizations generate up to 30% higher revenue per employee, are more profitable than their competitors, and become eight times more likely to achieve positive business outcomes."

At the Alliance for Board Diversity, we believe shareholder interests are best served by promoting the diversification of boardrooms within publicly traded U.S. companies. The members of the ABD are leading national advocates and referral sources for candidates who are women, Asian, Black, Hispanic, Pacific Islander, LGBTQ+ or a combination of any of these identities and are qualified to serve as public company directors. Creating and sustaining an inclusive culture may be one of the most difficult challenges an organization's board and C-suite can undertake. Prioritizing diversity to fill open board seats with diverse candidates takes work. To sustain and thrive for the long term, leaders must shift their practices and set the tone from the top.

When publicly traded corporations seek to diversify their boardrooms, the reward for finding these candidates is a board reflecting the diversity of their investors, customer base and community. That helps to increase the bottom line, drive shareholder benefit and grow customer satisfaction. That's good for everyone.

Sincerely,

Linda Akutagawa
Chair
The Alliance for Board Diversity

cc: Lorraine Hariton, President & CEO, Catalyst
Dale Jones, CEO, Diversified Search Group
Michael Hyter, President & CEO, The Executive Leadership Council (ELC)
Cid Wilson, President & CEO, Hispanic Association on Corporate Responsibility (HACR)

ARIEL
INVESTMENTS

March 17, 2021

RE: March 18, 2021, Subcommittee on Diversity and Inclusion Hearing entitled, "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion"

Dear Congresswoman Joyce Beatty and Congresswoman Maxine Waters,

I am writing to provide a statement on the March 18, 2021 Subcommittee Hearing on Diversity and Inclusion entitled, "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion."

Ariel Investments is the first Black-owned asset management firm in the United States. In our nearly 38-year history, we have seen overwhelming evidence that companies with strong diversity and inclusion practices are more likely to attract the best talent, draw customers, and broaden their markets in profitable ways. Diversity is a competitive advantage, and the benefits are measurable. A 2018 McKinsey study found that diverse teams are more likely to outperform on profitability.

As long-term investors we seek comprehensive data on material ESG issues, including workforce diversity and purchasing. We strongly encourage portfolio companies to not only represent diverse backgrounds at the board level, but to demonstrate a commitment to transparency by disaggregating reported employee demographic and purchasing data. We recommend that companies track all spending by specific category, including professional services, and measure the diversity of executives at these companies.

As diversity has increasingly become a material issue that many investors consider as fiduciaries, it is in the best interest of shareholders to require diversity disclosures. Additionally, it is impossible to measure progress on this important issue without data. Clear, uniform disclosures are critical in order to hold corporations accountable for diversity and inclusion results.

Sincerely,

John W. Rogers, Jr.
Chairman and Co-CEO
Ariel Investments, LLC

200 East Randolph Street, Suite 2900 | Chicago, Illinois 60601 | 312.726.0140 | 312.726.7473 fax | arielinvestments.com
Chicago • New York

aaaim | Association of Asian American Investment Managers

CORPORATE ADDRESS
AAAIM c/o LEIA
50 California Street, Suite 2320
San Francisco, CA 94111
www.aaaim.org

aaaim

March 17, 2021

Chairwoman Maxine Waters
House Financial Services Committee &
Chairwoman Joyce Beatty
Subcommittee on Diversity and Inclusion
United States Congress
Washington, DC

Dear Honorable Waters and Beatty,

The Association of Asian American Investment Managers (AAAIM) supports the committee's overall legislative effort to bring about greater transparency and accountability for D&I initiatives, including workforce diversity, board diversity and creating opportunities for more diverse owned firms. AAAIM applauds the committee's comprehensive approach to creating more opportunities for women and minority-owned investment firms and believe that these legislative proposals taken together will ensure that all regulated firms benefit from unique perspectives, improved decision making and stronger economic performance. Standardizing reasonable data reporting and seeking consistent transparency for all regulated institutions related to overall D&I efforts will serve to broaden opportunities for women and minority-owned investment managers in this country.

Founded in 2006, AAAIM is a national non-profit organization dedicated to promoting diversity and inclusion of Asian Americans & Pacific Islanders (AAPIs) in the field of investment management. Challenged with a lack of diverse executive leadership in our business at that time, AAAIM was originally established to provide a forum for diverse professionals in the investment field to meet, network and create business opportunities. We have seen firsthand the power of diversity in the work we do at AAAIM and the enormous benefit inclusive policies create for the investment industry at large.

Since year 2000, AAPI population in the US has grown faster than any major racial or ethnic group and has also seen the fastest growth in its purchasing power, which is projected to be $1.3 trillion by 2022. While representing about 6 percent of US population today, our community represents nearly 12 percent of the professional workforce. These attributes, combined with high educational attainment and household income that is above the national average, have led many to mistakenly assume that AAPIs must be doing well in all aspects of our society and economy, including in the boardrooms and executive suites of Corporate America.

Based on the 2020 KPMG and Ascend report "Asian representation on Fortune 1000 board," approximately 72 percent of Fortune 1000 companies did not have a single person of AAPI decent on their board of directors. As we have also seen in the recent surge of anti-Asian American hate crimes since the start of the pandemic, our community continues to face significant discrimination and social injustice in our own country.

Last year, AAAIM and Bella Private Markets released a study, which found that U.S. asset management firms with a majority AAPI ownership represent only 3.5% of the industry total. Further, these firms are typically much smaller than the industry average and manage just **0.7%** of asset under management (AUM), despite their performance meeting or exceeding industry benchmarks. These results are consistent with the earlier report by the Knight Foundation which found a dramatic underrepresentation of women and minority-owned firms in the investment field, as well as with respect to the AUM managed by these firms.

Our findings put a sharper focus on the challenges faced by the AAPI investment community in gaining access to capital. Our story in the investment field is made more difficult by the misperception that all Asian Americans are doing well across the board and face limited barriers and challenges. The "model minority myth" facing AAPIs hides the real challenges that our community faces in this industry in terms of capital access and upward mobility within firms. For instance, while AAPI-owned firms are not excluded from Emerging Managers Programs (EMPs) outright, there is often a false perception in the investment management industry that AAPIs do not face significant institutional obstacles, and as a result, are often overlooked for these programs. Since EMPs typically only make up a small percentage of institutional investors' total AUM commitments, AAPI-owned firms are often competing for a tiny fraction of the opportunities which may be available in the industry at large.

Additionally, the demographic diversity is significant within the AAPI community. From education levels to household incomes to language access, our community's experience can vary drastically based on subpopulation data. For instance, while the average household income among AAPIs is the highest in the US, certain AAPI subpopulations also face some of the highest poverty levels in the nation. Unfortunately, these "averages" have failed to tell the full story of the AAPI experience in America. This dichotomy within the community has prompted AAPI leaders to call for more subpopulation data and information. As the committee looks to consider making data collection a key pillar of your D&I effort, we encourage you to consider collecting more robust subpopulation information when it comes to the AAPI community.

aaaim

AAAIM has long advocated for diversity and inclusion at all levels within our business community and policy arena. We believe strongly that committee's legislative actions on D&I will help to address the lack of opportunity and growth potential for women and minorities.

On behalf of our network, we thank you for your leadership and appreciate the opportunity to provide feedback related to diversity and inclusion proposals being considered by the House Financial Services Committee.

Sincerely,

Brenda Chia	Jim Park	Ginger Lew
Co-Chair	CEO	Co-Founder

aaaim

MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

PATRICK MCHENRY, NC
RANKING MEMBER

March 18, 2020

[redacted]

Dear [redacted]

The Committee on Financial Services in the U.S. House of Representatives has made diversity and inclusion a core pillar of ensuring a financial services system that works for all Americans, evidenced by the creation of the first-ever Subcommittee on Diversity and Inclusion in the 116th Congress. Through this work, we have continued concerns regarding the lack of data available to effectively evaluate the diversity among America's largest investment management firms. We write to request your firm to complete the attached questionnaire regarding your firm's diversity and inclusion data and policies from 2016 through year end 2020.

Section 342 of the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) established the Offices of Minority and Women Inclusion (OMWI) in the nation's financial regulatory agencies, to be responsible for all matters relating to diversity in each agencies' management, employment, and business activities.[1] Section 342 also required the OMWI Director of each agency to develop standards for assessing the diversity policies and practices of entities regulated by the agency. Pursuant to statute, the lead prudential banking and consumer finance regulatory agencies adopted the Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated (Joint Standards) in June 2015.[2] Under the Joint Standards, regulated entities were encouraged, but not required, to share diversity data and policies with the OMWI offices.

The OMWI at the Securities and Exchange Commission (SEC) sends a self-assessment to collect diversity data from its regulated entities annually, but noted in its March 2019 report that the responses from regulated entities "was lower than expected." Although the OMWI report noted that the firms that did respond "employ nearly 47 percent of the employees in securities

[1] Pub. L. No. 111-203 (2010).
[2] Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Bureau of Consumer Financial Protection and Securities and Exchange Commission; Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Securities and Exchange Commission; OCC-2013-0014, OP-1465 and Release No. 34-75050 File No. S7-10-15 (June 2015).

and other financial investments," we assert that all regulated entities should make a good faith effort to share performance data in response to their regulators' self-assessment request. Without access to this data, it is not fully possible to gauge the extent to which regulated entities are meeting the spirit and intent of Section 342.

One way full economic inclusion for all Americans can be achieved is when investment management firms provide transparency regarding their use of diverse-owned asset managers (those with more than fifty percent ownership by a woman or racial/ethnic minority) and tracking of their spend with other diverse-owned businesses. According to estimates by Willis Towers Watson, America's 31 largest investment management firms (those with $400 billion in assets or more) have been entrusted to manage more than $47 trillion and serve as institutional investors for pension funds, endowments and other funds.[3] Diverse-owned asset managers and brokers face structural barriers to fair competition in the sector, though performance data demonstrates that they perform as well as or outperform their White-owned counterparts.[4] The February 2020 report on bank diversity data reflected some of America's 44 largest banks do not make investing with diverse firms a priority as evidenced by their lack of tracking or implementation of a strategic plan to leverage diverse firms. The 2020 report further noted:

> *Despite evidence that women and minority-owned firms perform as well as (and sometimes outperform) their industry counterparts, they are not consistently selected to manage institutional assets. Although women and minority-owned firms account for approximately 8.6 percent of the asset management industry, recent reports show that they only manage 1.1 percent of all assets under management or $785 billion out of $71.4 trillion and are underrepresented as managers in every asset class*.[5]

We are making progress to ensure a comprehensive understanding of diversity and inclusion performance in the financial services industry. However, this cannot be achieved until organizations, especially the largest investment managers, disclose their diversity data and policies with the OMWIs, Congress, and the public. That is why we write to request that your firm complete the attached questionnaire regarding your firm's diversity and inclusion data and policies from 2016 through year end 2020.[6] In addition, you may also include any recent policies and analysis that may further inform our review. Thank you for giving this matter the full and necessary attention to complete this request. All written responses must be received by April 30, 2021. You may contact [redacted],

[3] Willis Towers Watson, "The world's largest asset managers – 2020." Thinking Ahead Institute (2020) https://www.thinkingaheadinstitute.org/research-papers/the-worlds-largest-asset-managers-2020/.
[4] Josh Lerner, Ann Leamon, Meagan Madden, and Jake Ledbetter, Diverse Asset Management Project Firm Assessment, Bella Research Group (May 2017).
[5] House Committee on Financial Services Committee Staff, *Diversity and Inclusion: Holding America's Large Banks Accountable* (February 2020).
[6] Please note that this diversity data template was generally modeled after the "Diversity Assessment Report for Entities Regulated by the SEC"

[redacted] with any questions regarding this request.

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services

The Honorable Joyce Beatty
Chair
Committee on Financial Services
Subcommittee on Diversity and Inclusion

CC: The Honorable Patrick McHenry
Ranking Member, Committee on Financial Services

The Honorable Anne Wagner
Ranking Member, Subcommittee on Diversity and Inclusion

Enclosure: Diversity Data Collection Template

House Financial Services Committee, Subcommittee on Diversity & Inclusion
Request to Institutional Investors

INSTRUCTIONS

Please complete the corresponding Questionnaire and Diversity Data tabs for your firm's diversity and inclusion data and policies from 2016 through year end 2020. For each calendar year (January through December), this self-assessment includes a corresponding Questionaire and Diverity Data tab. Follow the instructions in each tab and answer the question to the best of your ability. Responses should include information regarding firm-wide diversity and inclusion data and policies, which includes the aggregage data of the firm's subsidiaries.

Information about each section:

Questionairre
These six sections allows the firm to evaluate itself against leading diversity practices. Select "Yes" or "No" from the drop-down tab. Note: a "Yes or No" response is only to describe whether the firm's corresponding diversity program is in place. Additional information can be submitted in the "Comment" box to clarify a response.

Diversity Data
This section requests six parts of the firm's data for the assessment period:

• WORKFORCE PROFILE: The numbers and percentages of minorities/non-minorities and self-identifying females/males in its workforce, excluding contract or agreement personnel.
• BOARD DIVERSITY: The numbers and percentages of minorities/non-minorities and self-identifying females/males on its Board of Directors.
• PROCUREMENT – SUPPLIER DIVERSITY: Total dollars and percentages paid to minority-owned and women-owned businesses.
• ASSET MANAGEMENT DIVERSITY: Total dollars and percentages paid to minority-owned and women-owned asset management firms.
• UNDERWRITING DIVERSITY: Total dollars and percentages paid to minority-owned and women-owned asset management firms.
• DATA RELIABILITY: This section addresses any inconsistencies or challenges with the firm's data.

Definitions
• Total Spend – The financial institution's total dollar amount spent for the procurement of goods and services during the calendar year reported.
• Minority- owned – Companies that designate themselves as minority-owned include businesses with more than 50 percent of the ownership or control of which is held by 1 or more minority individuals; and more than 50 percent of the net profit or loss of which accrues to 1 or more.
• Woman- owned – Companies that designate themselves as women-owned businesses with more than 50 percent of the ownership or control of which is held by 1 or more women; more than 50 percent of the net profit or loss of which accrues to 1 or more women; and a significant percentage of senior management positions of which are held by women.
• Minority and woman –owned – Companies that designate themselves as both minority-owned and woman-owned.

The data should be provided and returned in excel format. Do not send your responses as a PDF document of this self-assessment. Please also provide the most recent copy of your firm's diversity and inclusion policies with your template responses. You may contact Erica Miles, Director of Diversity and Inclusion, or Joseph Vaughan, Designee, Subcommittee on Diversity and Inclusion, at (202) 225-4247 with any questions regarding this request.

Response requested by: April 30, 2021

House Financial Services Committee, Subcommittee on Diversity & Inclusion
Request to Institutional Investors
Diversity Data Collection Template
Year Reporting: 2016

Section 1: Organizational Commitment to Diversity and Inclusion/Diversity Policies and Practices

The leadership of a firm with successful diversity policies and practices demonstrates its commitment to diversity and inclusion. Leadership comes from the governing body, such as a board of directors, as well as senior officials and those managing the regulated entity on a day-to-day basis.

For each No response to this questionaire, please provide in the comment from below as follows:

- *No, but we're in the process of implementing this process in the next XX months/years.*
- *No, and we don't expect to implement this practice.*
- *No, we do not track this information.*

		Yes/No	Comments		
	The firm demonstrates its organizational commitment to diversity and inclusion in the following ways:				
1.1	The firm has a written diversity and inclusion policy.				
1.2	The firm's written diversity and inclusion policy is approved and supported by the chief executive officer or other senior level official.				
1.3	A senior level official with experience in diversity and inclusion policies and practices oversees and directs the firm's diversity and inclusion efforts.				
1.4	Does your firm have a lead diversity officer? If so, please describe the title(s) and reporting structure for your institution's lead diversity officer(s).				
		Number of Staff	D&I Budget ($)	D&I Budget as Percentage of Total Firm Budget (%)	Please check this box if your firm does NOT track this information
1.5	Please include the number of staff and budget amount, and percentage of firm's budget dedicated to diversity staff and initiatives:				
1.6	The firm includes diversity and inclusion considerations as part of its strategic plan for recruiting, hiring, retaining, and promoting employees.				
1.7	The firm includes diversity and inclusion considerations as part of its strategic plan for contracting with vendors and suppliers.				
1.8	The firm takes proactive steps to promote a diverse pool of candidates when selecting executive and senior level officials.				
1.9	The firm takes proactive steps to promote a diverse pool of candidates when selecting members of the board of directors or other governing body.				
1.10	The firm regularly offers training and educational opportunities on equal employment opportunity and diversity and inclusion.				
1.11	The Joint Standards reference minorities and women, but do not preclude a firm from using a broader definition of diversity. If your firm uses a broader definition, such as including individuals with disabilities, veterans, or lesbian/gay/bisexual/transgender individuals, please describe.				
1.12	The firm has performance measures tied to diversity initiatives.				
1.13	The firm has d compensation tied to diversity initiatives.				

1.13	Please describe any other ways in which your firm demonstrates its organizational commitment to diversity and inclusion.	

Section 2: Implementation of Employment Practices to Promote Workforce Diversity and Inclusion

Many firms proactively promote diversity and the fair inclusion of minorities and women in their workforces. Firms with successful diversity and inclusion programs also regularly evaluate their programs and identify areas to be improved.

For each No response to this questionaire, please provide in the comment from below as follows:

- *No, but we're in the process of implementing this process in the next XX months/years.*
- *No, and we don't expect to implement this practice.*
- *No, we do not track this information.*

		Yes/No	Comments
	The firm promotes workforce diversity and inclusion in the following ways:		
2.1	The firm engages in outreach to minority and women organizations.		
2.2	The firm engages in outreach to educational institutions serving significant or predominantly minority and women student populations.		
2.3	The firm participates in conferences, workshops, and other events to attract minorities and women and to inform them of employment and promotion opportunities.		
2.4	The firm communicates employment opportunities through media predominately serving minorities and women.		
2.5	The firm regularly evaluates performance under its workforce diversity and inclusion programs.		
2.6	The firm uses quantitative measures to assess the effectiveness of its workforce diversity and inclusion efforts in its employment activities (e.g., hires, promotions, separations, career development, and retention).		
2.7	The firm uses qualitative measures (e.g., surveys) to assess the effectiveness of its workforce diversity and inclusion efforts in its employment activities.		
2.8	The firm includes diversity and inclusion objectives in performance plans of its managers.		
2.9	Please describe any other actions the firm takes to promote workforce diversity and inclusion.		
2.10	Please describe practices that have been most successful in advancing workforce diversity and inclusion.		

Section 3: Consideration of Supplier Diversity in Procurement and Business Practices

Companies increasingly understand the competitive advantage of having a broad selection of available suppliers to choose from with respect to factors such as price, quality, attention to detail, and future relationship building. Many firms have successfully expanded available business options by increasing outreach to minority-owned and women-owned businesses. The use of minority-owned and women-owned businesses as subcontractors also provides valuable opportunities for both the minority-owned and women-owned businesses and the prime contractors.

For each No response to this questionaire, please provide in the comment from below as follows:

- *No, but we're in the process of implementing this process in the next XX months/years.*
- *No, and we don't expect to implement this practice.*
- *No, we do not track this information.*

		Yes/No	Comments
3.1	The firm has a supplier diversity policy.		
3.2	The firm's supplier diversity policy is aimed at providing business opportunities to diverse suppliers, including minority-owned and women-owned businesses.		
3.3	The firm participates in conferences, workshops, and other events to attract minorities and women and to inform them of employment and promotion opportunities.		
	The firm takes specific steps to promote a diverse supplier pool, including:		
3.4	The firm conducts outreach to minority-owned and women-owned contractors.		
3.5	The firm conducts outreach to minority and women organizations or affinity groups.		
3.6	The firm participates in conferences, workshops, and other events to attract minority-owned and women-owned businesses and informs them of contracting opportunities.		
3.7	The firm maintains a list of qualified minority-owned and women-owned businesses that may compete for upcoming contracting opportunities.		
3.8	The firm has an ongoing process to publicize its procurement opportunities.		
3.9	The firm publicizes its procurement opportunities in media primarily serving minorities and women.		
	The firm measures the following attributes of its supplier diversity:		
3.10	The amount spent annually for procuring and contracting for goods and services.		
3.11	The percentage of contract dollars awarded to minority-owned and women-owned businesses by gender, race, and ethnicity.		
3.12	The percentage of contract dollars awarded to minority-owned and women-owned businesses by gender, race, and ethnicity.		

3.13	Please describe practices that have been most successful in advancing supplier diversity objectives.	

Section 4: Practices to Promote Transparency of Organizational Diversity and Inclusion

Transparency and publicity are important aspects of assessing diversity policies and practices. By making public a regulated entity's commitment to diversity and inclusion, its plans for achieving diversity and inclusion, and the metrics it uses to measure success in both workplace and supplier diversity, a regulated entity informs a broad constituency of investors, employees, potential employees, suppliers, customers, and the general community about its efforts. Outreach to minority-owned and women-owned businesses. The use of minority-owned and women-owned businesses as subcontractors also provides valuable opportunities for both the minority-owned and women-owned businesses and the prime contractors.

For each No response to this questionaire, please provide in the comment from below as follows:

- *No, but we're in the process of implementing this process in the next XX months/years.*
- *No, and we don't expect to implement this practice.*
- *No, we do not track this information.*

		Yes/No	Comments
4.1	The firm publishes information about it diversity and inclusion efforts on its web site.		
	The firm publishes the following information regarding its diversity and inclusion efforts on its website:		
4.2	The firm's diversity and inclusion strategic plan.		
4.3	The firm's policy on its commitment to diversity and inclusion.		
4.4	The firm's progress toward achieving diversity and inclusion in its workforce.		
4.5	The firm's progress toward achieving diversity and inclusion in its procurement activities.		
	The firm publicizes opportunities that promote diversity and inclusion on its website, including:		
4.6	Employment and internship opportunities.		
4.7	Contracting opportunities.		
4.8	Mentorship and developmental programs for employees.		
4.9	Developmental programs for potential contractors.		
4.10	Please describe any other tools your firm has found useful in promoting transparency of organizational diversity and inclusion.		

Section 5: Diversity and Inclusion Practices and Policies			
To build and maintain a diverse and inclusive workforce and culture, firms implement a variety of practices and policies to ensure that they have the highest chance of success in its diversity and inclusion program. *For each No response to this questionaire, please provide in the comment from below as follows:* *• No, but we're in the process of implementing this process in the next XX months/years.* *• No, and we don't expect to implement this practice.* *• No, we do not track this information.*			
		Yes/No	**Comments**
The firm takes steps to advance diversity and inclusion that include:			
5.1	Monitoring and evaluating performance under its diversity policies and practices on an ongoing basis.		
5.2	Using the Joint Standards to conduct an assessment of the firm's diversity policies and practices annually.		
5.3	Publishing information pertaining to its assessment of its diversity policies and practices.		
5.4	Recruiting diverse talent		
5.5	Linking diversity and inclusion results to performance		
5.6	Creating employee resource groups		
5.7	Connecting with diverse communities		
5.8	Providing diversity training		
5.9	Using enhanced interview tactics		
5.10	Collecting gender pay equity data and efforts to close the gender pay gap		
5.11	Other		

Section 6: Diversity and Inclusion Challenges			
Firms that are committed to a successful diversity and inclusion programs regularly evaluate their programs and identify areas to be improved.			
		Yes/No	**Comments**
The firm has faced challenges implementing diversity and inclusion efforts that include:			
6.1	Monitoring and evaluating performance under its diversity policies and practices on an ongoing basis.		
6.2	Using the Joint Standards to conduct an assessment of the firm's diversity policies and practices annually.		
6.3	Publishing information pertaining to its assessment of its diversity policies and practices.		
The firm has experienced the following challenges in implementing its diversity goals and initiatives:			

6.4	Competition for talent in STEM/Finance		
6.5	No consistent definition of diversity and inclusion		
6.6	Data collection/self-identification problem		
6.7	Geographical limitations		
6.8	Talent retention		
6.9	Streamlining/integrating diversity and inclusion across large organization		
6.10	Other		

YEAR REPORTING: Calendar Year 2016

SECTION 7: DIVERSITY DATA

Note: if a value is zero, please enter "0"

Workforce Profile

	Total Workforce #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the numbers and percentages of women and minorities in the firm's total workforce for the year listed above?																				
	Total Executive/Senior Level Officials and Managers #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does not track this information
What are the numbers and percentages of women and minorities in the firm's Executive/Senior Level Officials and Managers job category for the year listed above?																				
	Total First/Mid-Level Officials and Managers #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the numbers and percentages of women and minorities in the firm's First/Mid-Level Officials and Managers job category for the year listed above?																				
	Total Professionals #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the numbers and percentages of women and minorities in the firm's Professionals job category for the year listed above?																				
	Total Technicians #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the numbers and percentages of women and minorities in the firm's Technicians job category for the year listed above?																				
	Total Administrative Support Workers #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information

What are the numbers and percentages of women and minorities in the firm's Administrative Support Workers job category for the year listed above?																			
	Total All others #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the numbers and percentages of women and minorities in all other job categories at the firm for the year listed above?																			
Board Diversity																			
	Total Board Members #	Women #	Women %	Male #	Male %	Black or African American #	Black or African American %	Hispanic or Latino #	Hispanic or Latino %	Native Hawaiian or Other Pacific Islander #	Native Hawaiian or Other Pacific Islander %	Asian #	Asian %	American Indian or Alaska Native #	American Indian or Alaska Native %	Two or more races #	Two or more races %	White #	White %	Check here if your firm does **NOT** track this information
What are the total numbers and percentages of women and minorities on the firm's Board of Directors for the year listed above?																			

Procurement – Supplier Diversity

Please provide the firm's total annual procurement spend for the year listed above with women-owned, minority-owned, or minority women-owned businesses compared to the total procurement spend with all vendors and suppliers for the following professional services categories:

	Total Spend $	Women-Owned $	Women-Owned %	Minority-Owned $	Minority-Owned %	Minority and Women-Owned $	Minority and Women-Owned %	White Male-Owned $	White Male-Owned %	Check here if your firm does **NOT** track this information
Legal										
Consulting										
Information Technology										
Human Resources/Staffing										
Other										

Please provide the firm's total annual procurement spend for the year listed above with women-owned, minority-owned, or minority women-owned businesses compared to the total procurement spend with all vendors and suppliers for the following non-professional services:

	Total Spend $	Women-Owned $	Women-Owned %	Minority-Owned $	Minority-Owned %	Minority and Women-Owned $	Minority and Women-Owned %	White Male-Owned $	White Male-Owned %	Check here if your firm does **NOT** track this information
Non-professional (e.g. goods, maintenance, security)										

Asset Management Diversity

	Total Subcontracted $	Women-Owned $	Women-Owned %	Minority-Owned $	Minority-Owned %	Minority and Women-Owned $	Minority and Women-Owned %	White Male-Owned $	White Male-Owned %	Check here if your firm does **NOT** track this information

What is the firm's total amount and percentage of assets subcontracted to women-owned, minority-owned, or minority women-owned asset management firms for the year listed above?									
Underwriting Diversity									
	Total Fees $	Women-Owned $	Women-Owned %	Minority-Owned $	Minority-Owned %	Minority and Women-Owned $	Minority and Women-Owned %	White Male-Owned $	White Male-Owned %	Check here if your firm does **NOT** track this information
What is the firm's total amount and percentage of fees paid out to women-owned, minority-owned, or minority women-owned firms for underwriting activities in the year listed above?										

Data Reliability	
For the year reporting:	Comment
What was the source of the data?	
Are these actual numbers or estimates?	
If they are estimates, how did the firm calculate them?	
Does the firm have any concerns about the reliability of the numbers?	

GH&A
GARCIA HAMILTON & ASSOCIATES, L.P.

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March 17, 2021

Chairwoman Maxine Waters (D-CA)
U.S. House Committee on Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Maxine Waters,

Garcia Hamilton & Associates (GH&A) is an award-winning, high-quality fixed income money manager located in Houston, TX. We are a certified MBE firm with 71% women employees (including 8 of 14 Partners) and 69% minority employees (including 7 of 14 Partners).

We are grateful to you and your staff for highlighting the challenges faced by minority-owned money management firms. We face many challenges on a regular basis, both from unconscious and conscious bias.

We believe one of the biggest barriers to capital access are some of the largest investment consultants. Investment Consultants are the allocators in the asset management industry and they are the gatekeepers that recommend money managers for pension funds, endowments and the like. Most Consultants are lacking in diversity and some receive economic benefit from managers without full disclosure.

Each year, Pensions & Investments Magazine (P&I) publishes a list of the largest consultants and, according to the 2020 report, they advise $42.7 trillion. If you review the report, you will see the concentration of assets among the largest consultants. For example, the largest 10 advise $36 trillion or over 85% of the assets. The largest 20 consultants have 94% market share.

If you look at the concentration among the largest money managers, you'll see something similar. Here are some statistics for U.S. institutional fixed income managers. According to P&I, as of December 31, 2019 there were 148 Active Domestic Fixed Income Money Managers with approximately $2.18 trillion in assets under management. The largest 10 have 69% of the market share and the largest 20 have 84% of the market share.

The numbers speak for themselves. You see a closed system where the largest consultants appear to be recommending the largest money managers, potentially to the detriment of the client. We have even been told by one of the largest 10 consultants that they would never put us in a search because we "have a problem with white men" since we did "not have enough white male partners" in our firm.

Studies conducted by the Knight Foundation found that minority- and women-owned firms manage only 1% of $71.4 trillion in assets. The results also reveal that minority managers perform as well if not better than non-minority firms. Thus, if consultants are not casting a wide net to include minority-owned asset managers, they may not be fulfilling their obligation to source the best managers.

The State of Illinois is an excellent example of "Best Practices" regarding consultant disclosures. Illinois requires Consultants to disclose the following:

(1) the total number of searches for investment services made by the consultant in the prior calendar year;
(2) the total number of searches for investment services made by the consultant in the prior calendar year that included (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability;
(3) the total number of searches for investment services made by the consultant in the prior calendar year in which the consultant recommended for selection (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability;
(4) the total number of searches for investment services made by the consultant in the prior calendar year that resulted in the selection of (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability; and
(5) the total dollar amount of investment made in the previous calendar year with (i) a minority owned business, (ii) a female owned business, or (iii) a business owned by a person with a disability that was selected after a search for investment services performed by the consultant.
(6) Consultants are also required to disclose any compensation or economic opportunity received from an investment manager that is recommended for selection by the consultant.

Another barrier is the term "Emerging Manager" which is often used to label minority managers. Most Emerging Manager programs randomly cap the firms' assets under management (AUM) at $2 - $10 billion for inclusion in search activity. On the other hand, most mainstream mandates have very large minimum AUM requirements which prevent virtually all minority firms from competing because they are too small even though they have the infrastructure and capability to handle the mandate. The unintended consequence of Emerging Manager programs is that the client may miss out on some of the best managers with very competitive performance returns. By definition, successful minority firms will pass the emerging thresholds and will be eliminated from participating in these Emerging Manager programs while, at the same time, they may not be accepted in mainstream searches because they are too small.

Thank you for accepting my letter and I am available to discuss these issues with you at any time.

Sincerely,

Gilbert Andrew Garcia, CFA
Managing Partner

KNIGHT FOUNDATION

Chairwoman Maxine Waters
US House Committee on Financial Services
Chairwoman Joyce Beatty
Subcommittee on Diversity and Inclusion
2221 Rayburn House Office Building
Washington, DC 20515

March 17, 2021

Dear Chairwoman Waters and Chairwoman Beatty,

I write on behalf of the John S. and James L. Knight Foundation, a private foundation investing in journalism, the arts, and the success of cities where brothers John S. and James L. Knight once published newspapers. Given Knight Foundation's research on diversity in the asset-management industry, our history of investment with minority- and women-owned firms and our commitment to inclusive, equitable communities, the hearing's subject "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion" is of special interest to the Foundation.

Knight Foundation's prudent investment of the $680 million it received from the Knight family has allowed it to invest more than $2.8 billion in the programs it supports while growing its endowment to $2.4 billion. Since 2010, the Foundation has increased the amount of its endowment managed by women- or minority-owned investment firms to $914 million from just over $7 million, or 38% of assets under management, as of Dec. 31, 2020.

Given the Foundation's roots in fact-based journalism and the potential positive impact of diverse ownership on Knight communities, we sought to understand why it appears that the rate of Knight Foundation's investment in women and diverse managers appears to be unique. The size of the asset management industry ($69.1 trillion in assets under management in 2016) and the wealth it generates further prompted us to analyze the diversity in the industry. Knight Foundation has sponsored several research studies in this area.

In 2019, the Foundation released the second in a series of its studies by Bella Private Markets, led by recognized industry experts Dr. Josh Lerner from Harvard Business School and Ann Leamon, on the state of diversity in the investment industry. A summary of the report is included as **Appendix 1**. Among its major findings:

- Women- and minority-owned firms manage a very small percentage, about 1.3%, of the assets managed by US-based firms, with their median fund size typically being significantly smaller than their non-diverse peers.

- Bella found no statistically significant difference in performance between women- or minority-owned asset management firms and their non-diverse-owned peers. In fact, diverse-owned firms were over-represented in the top quartile of the investment performance for all funds.

Another Bella study (**Appendix 2**) found that the penalty for underperformance is larger for diverse-owned managers, with underperforming diverse-owned firms less likely to raise a new fund than similarly underperforming non-diverse-owned firms.

In 2020, the Foundation released a study by another well-regarded research firm, Global Economics Group (**Appendix 3**), assessing the representation of diverse asset managers among the 50 largest, by assets, US foundations. GEG found that the median participating foundation invests 13.5% in diversely owned firms -- 10.9% in women-owned firms and 7.9% in minority-owned firms. All but four of the 26 participating foundations invest some portion of their assets with diversely-owned firms with over half investing more than 10% of their assets with such firms.

Because we value transparency, we have shared that information widely, having testified before your committee, participated in many panels and forums on the subject, published our reports online and taken out advertisements to convey the results. For example, in the Sept. 17, 2020 edition of the Wall Street Journal, we placed a full-page ad highlighting the woman-and minority-owned firms successfully managing much of our portfolio (**Appendix 4)** and another in the Washington Post listing foundations willing to be transparent about their use of diverse-owned asset management firms (**Appendix 5)**.

Certainly, these studies provide new insights and raise new questions for future research. Both reports highlight the difficulty in obtaining data on ownership and investing diversity in the industry as an impediment to future research.

We encourage the Subcommittee to consider ways to increase access to diversity data in order to support further research and to allow all investors better access to this information.

Sincerely,

DocuSigned by:
JUAN MARTINEZ
3EFF6E5F8D6E4D3...

Juan Martinez
VP, CFO & Treasurer

DIVERSIFYING INVESTMENTS

A STUDY OF OWNERSHIP DIVERSITY AND PERFORMANCE IN THE ASSET MANAGEMENT INDUSTRY

Executive Report
January 2019

—

Professor Josh Lerner, Harvard Business School
Bella Research Group

I. INTRODUCTION AND BACKGROUND

INTRODUCTION

Research across a multitude of fields and industries has identified the potential economic and social benefits of diversity. Yet the asset management industry continues to struggle with a lack of diversity. Research studies and articles have consistently documented the low level of representation by women and racial/ethnic minorities among asset managers. Analyzing and exploring diversity in the asset management industry is vital given its sheer enormity and the wealth it generates ($69.1 trillion in assets under management and $99 billion in profits in 2016).

This report captures insights from a new study about the state of diversity in the U.S. asset management industry. Professor Josh Lerner (Harvard Business School) and Bella Research Group led the research, building on a similar study published in May 2017. While numerous studies have documented the lack of diversity among asset managers and asset management firm employees, the current research contributes a new perspective by analyzing the diversity of ownership of asset management firms as well as any performance differences between diverse-owned and non-diverse owned asset mangers.

The research was commissioned by the John S. and James L. Knight Foundation, a private grantmaking organization. Beginning in 2010, Knight Foundation embarked on an effort to diversify the management of its endowment holdings, and as of June 30, 2018, had invested $830 million with diverse-owned firms (representing 36 percent of endowment holdings). Knight supported this study to inform the larger discussion unfolding about diversity in the asset management industry.

KEY FINDINGS

1. COMPOSITION: Firms with female or minority ownership make up a low percentage of all firms in the asset management industry. These diverse-owned firms represent an even smaller fraction of the total number of funds and total AUM across all asset classes.

2. PERFORMANCE: Diverse-owned funds perform at a level comparable to that of their non-diverse peers. Within conventional statistical confidence levels, funds managed by diverse-owned firms typically perform as well as non-diverse funds after controlling for relevant characteristics (such as firm size, fund size, geography and investment focus). Extending this analysis to include sophisticated risk adjustment approaches for hedge funds and mutual funds, and public market equivalent metrics for private equity funds reinforced the conclusion that returns, in general, are statistically indistinguishable between diverse-owned and non-diverse-owned funds. Insufficient data made such analysis impossible for real estate funds.

3. TRENDS: Representation of diverse-owned firms has increased modestly in recent years among hedge funds, private equity and real estate. However, AUM with diverse-owned firms has fluctuated significantly year-to-year.

4. DATA: The biggest barrier to research on diverse ownership or management is the lack of data, as most data providers for the asset management industry do not track diversity in a systematic way. The report relies on the most comprehensive data sources available, but to encourage further research on this topic, improved data on the composition of firm ownership and management is required.

For the full report and set of findings, click **here**.

For the enhanced performance analysis, click **here**.

RESEARCH

The research addressed the following key questions:

- What is the number of women-owned and minority-owned firms and funds as well as the amount of assets under management (AUM)?
- How have diverse-owned firms and funds performed compared with all firms?
- How has diverse ownership trended?
- How have different types of investors engaged with diverse-owned firms?

Because little is known about diverse ownership, the study aims to shed much needed light on the neglected topics of diverse ownership and whether any performance differences exist. Women- and minority-owned firms were identified among the universe of asset management firms, though the definition for diverse ownership varies slightly across the data sources. Firms are commonly considered women-owned or minority-owned if at least 25 percent of firm ownership is held by women or minorities.

While the report uses this definition, it also distinguishes between substantial diverse ownership (25 to 49 percent) and majority diverse ownership (50 percent and higher) where the data permit.

This research encompasses four asset classes[1]: (1) mutual funds, which include mutual funds, separately managed accounts, marketable securities, and a few exchange traded funds, (2) hedge funds, (3) private equity and (4) real estate. Addressing the questions required developing a suitable methodology for gathering and analyzing data.

This report utilized several robust databases capturing information about asset management firms. In particular, mutual fund data came from eVestment and hedge fund information from Hedge Fund Research, while private equity and real estate fund statistics were supplied by Preqin and augmented with hand-collected information. The data were then subjected to a series of "stress tests" to assess the impact of various gaps. Clear limitations to the data should be noted. First, there is no single database across asset classes with authoritative or complete data on diverse ownership. Compounding this, the databases use different criteria for "ownership." Thus, several firms will have invariably been excluded or their degree of diverse ownership may be imperfectly defined.

Readers are encouraged to learn more about the methodology, data sources and limitations in the Appendix.

1 Some experts contend that mutual funds do not represent a true asset class. We use them to represent accounts that invest in publicly traded securities (including stocks and bonds), a distinct asset class, and retain the terminology for simplicity's sake.

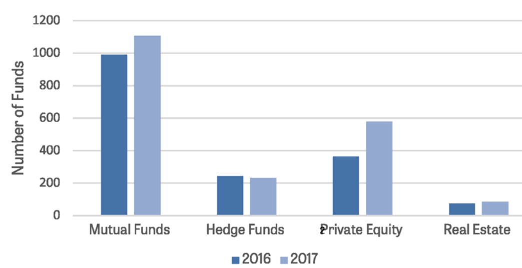
II. KEY CHANGES FROM 2016

Across the four asset classes — mutual funds, hedge funds, private equity, and real estate — the overall number of diverse funds grew by 25 percent, from 1,599 in 2016 to 2,003 in 2017. Private equity, real estate and mutual funds exhibited the largest changes over that period. The number of diverse-owned private equity funds grew 60 percent, from 362 to 577, real estate grew 19 percent from 75 to 89, while the number of diverse-owned mutual funds increased 12 percent from 988 to 1,105.

While the year-on-year growth was significant, the number of substantially or majority diverse-owned funds represented just 8.6 percent of the total in 2017. In 2016, they made up 7.3 percent of the total, using a narrower dataset. Our data provider Preqin started collecting diversity indicators for its private equity and real estate funds in 2017, and the additional data were partly responsible for the year- over-year increase in diverse-owned funds for those asset classes.

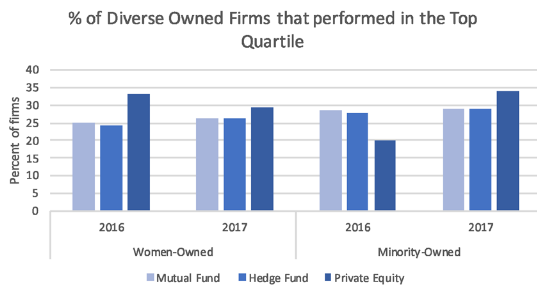
Aggregating across the four asset classes studied, majority diverse-owned firms represent just 0.9 percent of AUM, a figure that increases to just 1.3 percent for substantially and majority diverse-owned firms. Due to the greater data availability for private equity and real estate funds in the current study, this proportion is not directly comparable to the 1.1 percent representation seen in 2016.

Change in the Number of Funds from 2016 to 2017



2 Caution should be exercised when comparing PE and RE values from year-to-year as some of the increase could be caused by our access to more complete data in 2017. Also, the aggregate total of women- and minority-owned funds could double-count any funds with minority-women ownership.

Looking at performance, diverse-owned funds are over-represented among the top quartiles for their asset classes. The number of diverse-owned mutual funds and hedge funds that performed in the top quartile remained largely the same from 2016 to 2017. However, in private equity, minority-owned firms switched from being under-represented in 2016 (19 percent) to being substantially over-represented in 2017 (34 percent), and women-owned firms continued to be over represented in the top quartile, but by a smaller percentage (33 percent in 2016 and 29 percent in 2017).



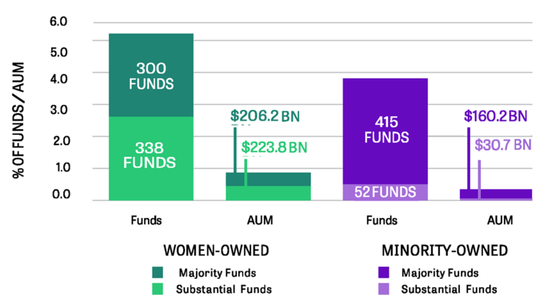
III. CURRENT STATE OF DIVERSE OWNERSHIP

In the asset management industry, firms owned by women or minorities represent a small fraction of the total number of firms, total number of funds, and total AUM. Findings for each asset class are summarized below.

MUTUAL FUNDS

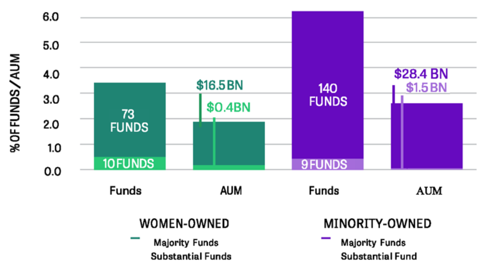
The research identified 136 women-owned and 120 minority-owned firms as of 2017, managing 638 and 467 mutual funds, respectively. Numbers of women- and minority-owned mutual funds represent just 5.5 percent and 3.9 percent of all mutual funds, respectively.

Of the women-owned mutual funds, 338 have substantial female ownership (25 to 49 percent) and 300 have majority female ownership (50 percent and higher). Together, these women-owned funds manage $430 billion in AUM, accounting for less than 1 percent of the total asset class AUM. Similarly, minority-owned mutual funds comprise 52 funds with substantial minority ownership and 415 funds with majority-minority ownership (that is, 50-plus percent minority ownership); all together, minority-owned mutual funds manage less than 0.5 percent of the asset class AUM.



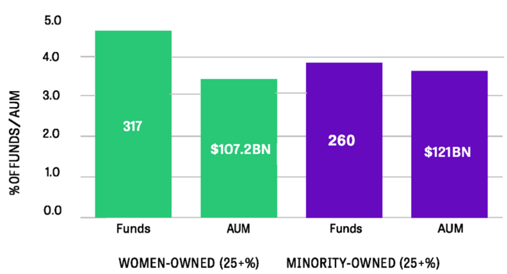
HEDGE FUNDS

As of mid-2017, hedge funds managed by women- and minority-owned firms represent about 4.6 percent and 8.9 percent of all the asset class, respectively. Most of the identified diverse hedge funds are managed by firms with 51 percent or more female or minority ownership. Together, women- and minority-owned hedge funds control less than 1 percent of the total industry AUM.



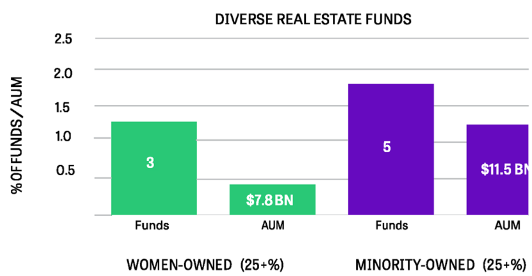
PRIVATE EQUITY

Among active private equity funds (established since the beginning of 2004), the research identified 146 raised by women-owned firms and 106 by minority-owned firms, making no distinction between substantial ownership (25 to 49 percent) and majority ownership (50-plus percent) because of data constraints. These firms represent approximately 9 percent of the total fund count and control less than 8 percent of AUM in the private equity industry.



REAL ESTATE

The research identified 17 women-owned firms and 21 minority-owned firms (established since the beginning of 2004) among the comparable universe of real estate firms in Preqin. Together, this represents less than 4 percent of all real estate firms. Representation by AUM is even lower, with women and minorities representing about 0.8 percent and 1.2 percent of the industry totals, respectively.



IV. PERFORMANCE OF DIVERSE-OWNED FIRMS

Within conventional statistical confidence levels, funds managed by diverse-owned firms typically perform as well as non-diverse funds, after controlling for relevant firm- and fund-level characteristics (firm size, fund size, geography, investment focus, etc.).

The research used several regression models to test performance, and the vast majority of regression coefficients for female and minority ownership are insignificant (that is, there is no discernible difference between the performance of diverse and non-diverse funds). In a few select cases, diverse-owned firms either outperformed or underperformed non-diverse firms.

In the 2017 report, we also explored performance using a series of sophisticated techniques. For mutual funds and hedge funds, our investigation of returns included a consideration of risk. Because diverse and non-diverse funds may differ in their exposure to financial market risk, failure to appropriately control for risk may bias the results. For example, suppose that, on average, women-owned funds are less risky than men-owned funds and there are no gender differences in unadjusted returns. It is reasonable to expect that women would outperform men if they changed their strategy to take on a higher level of risk. We therefore explored the impact of women and minority ownership on multi-factor risk-adjusted returns.

Our results conclude that even controlling for risk, the results are the same — no significant difference in performance for women and minority-owned firms.

For private equity, we used Kaplan Schoar Public Market Equivalents (PMEs) to compare the performance of private equity funds to that of public markets. Here we also determined that there was no consistent difference in performance between diverse and non-diverse firms relative to public markets.

Mutual Funds: Using eVestment data from 2011-2017, we find no evidence that women or minority ownership affects the returns of U.S. mutual funds. For the purposes of this study, mutual funds include all funds in the eVestment Traditional Database that met our selection criteria, including some marketable securities that are not technically institutional mutual funds.

Hedge Funds: Our analysis of Hedge Fund Research data from 2005-2018 shows little evidence that women or minority ownership has any effect on fund performance. Minority-owned funds outperform women-owned funds when comparing the average unadjusted and risk-adjusted returns, although the differences in performance are small.

Private Equity: Our examination of PE funds from 2006 to 2015 using data from Preqin shows no convincing evidence that women ownership significantly impacts returns. Interestingly, there is some mixed evidence that minority ownership increases PE returns. Of the three asset classes, PE has the smallest sample size.

Comparative Performance*

Asset Class	Women-Owned	Minority-Owned	Non-Diverse Owned
Mutual Funds	2.33%	2.37%	2.21%
Hedge Funds	0.59%	0.72%	0.54%

*Unadjusted monthly returns

The research also analyzed the distribution of performance and the extent to which diverse-owned firms comprise the top performance quartile across asset classes (i.e., what percentage of women- and minority-owned funds performed in the top 25 percent?). Among mutual funds and hedge funds, about a quarter of slightly more diverse-owned funds are represented in the top quartile of performance.

In private equity, both women-owned and minority-owned firms are overrepresented among top quartile performers.

Top Quartile Performers

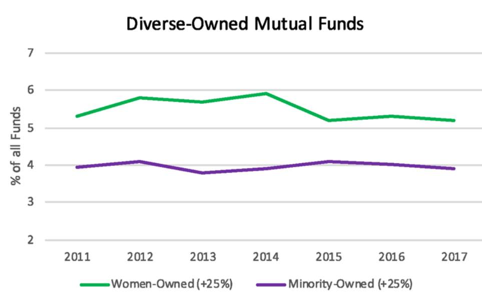
Asset Class	Women-Owned	Minority-Owned
Mutual Funds	26%	29%
Hedge Funds	26%	29%
Private Equity	29%	34%

V. TRENDS IN DIVERSE OWNERSHIP

In recent years, representation of diverse ownership has generally increased in terms of the number of diverse firms and funds as well as the amount of AUM. Yet diverse firms still represent only a small fraction of the total asset management industry. Trends over time are described for each asset class, using the number of funds as the measure of diverse ownership. Additional details and figures that chart the timeline trends for firms and AUM are available in the full report.

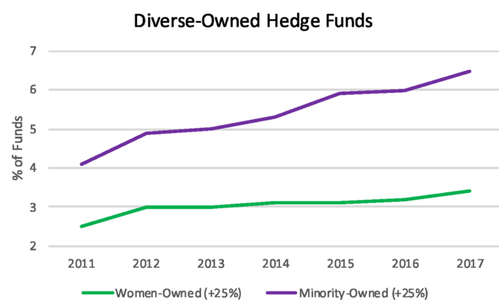
MUTUAL FUNDS

We do not observe any distinct upward or downward trends in the representation of diverse mutual funds since 2011. Over the entire period, both women-and minority-owned mutual funds stay nearly constant in proportion to all funds (5.3% to 5.2% for women owned-firms; 3.95% to 3.90% for minority-owned firms).



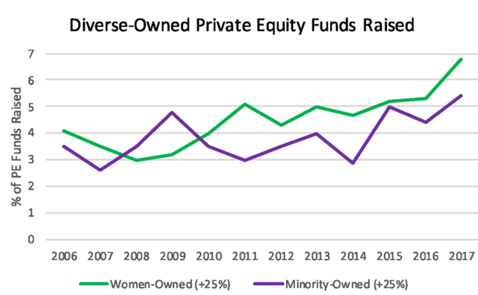
HEDGE FUNDS

Since 2011, women- and minority-owned hedge funds have gained representation, but these hedge funds represent a tiny fraction of the industry.



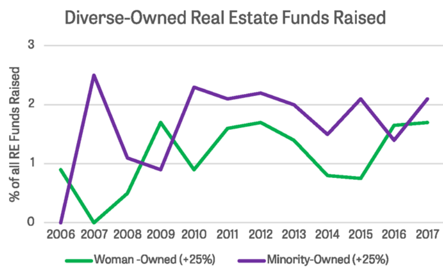
PRIVATE EQUITY

The representation of women- and minority-owned private equity funds since 2011 has increased, in terms of the number of funds raised and the amount of fundraising dollars. Women-owned funds accounted for just over 4 percent of the funds raised in 2006, and by 2017 they made up over 6.8 percent of new PE funds. Similarly, minority-owned representation climbed from about 3.5 percent to 5.4 percent over the same period.



REAL ESTATE

Despite significant fluctuations in the data, there is a generally increasing trend in the representation of diverse-owned real estate funds. Women-owned funds accounted for 0.9 percent of the funds raised in 2006, and by 2017 they made up 1.8 percent of the total funds raised. Similarly, minority-owned representation climbed from 0.0 percent to 2.1 percent over the same period.



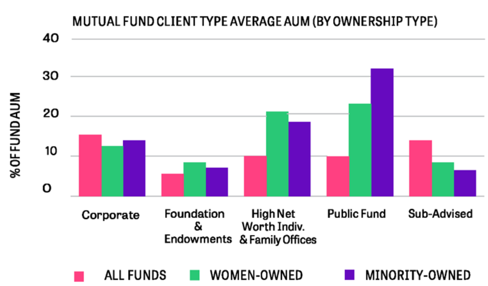
VI. INSTITUTIONAL INVESTOR TYPES FOR DIVERSE-OWNED FIRMS

Finally, the research analyzed the mix of institutional investor types that invest with diverse mutual funds and private equity firms. The mutual fund analysis utilized data on the AUM invested by different institutional investor types; the private equity analysis utilized data on the number of limited partners by type. The available hedge fund data does not have information on investors, and the sample of diverse real estate investment funds is too small for a meaningful treatment of this topic.

Overall, public investment funds appear to be better represented among diverse funds compared with non-diverse funds, for both the mutual fund and private equity industries. In addition, foundations and endowments are well-represented in diverse mutual funds but are underrepresented in diverse private equity funds.

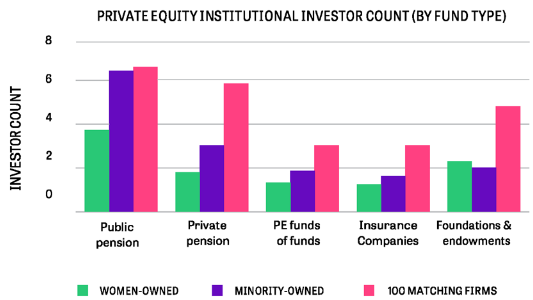
MUTUAL FUNDS

The research examined the mix of institutional investor types and the AUM they invest with diverse and non-diverse mutual funds based on the most recent data from 2017. The average women- or minority-owned fund has proportionally more AUM invested by public funds, foundations, endowments, high net worth individuals and family offices (compared with non-diverse funds). Investments from corporate clients and sub-advised funds make up a larger proportion of the AUM with non-diverse funds.



PRIVATE EQUITY

The research examined the representation of LP types that invest in diverse-owned private equity firms compared with their representation in a random sample of 100 private equity firms from Preqin.[3] The data show the representation in terms of the number of LPs, not in terms of AUM, because such data is not available. Among the most substantial differences, insurance companies and private equity funds of funds represent a smaller proportion of the investors in diverse-owned firms, and public pensions make up a larger fraction of the investors in those firms.



3 We randomly sampled 100 firms that have at least one fund meeting the criteria for inclusion: (1) based in U.S., (2) not a private equity fund-of-funds and (3) vintage year 2004 or later.

VII. CONCLUSION

The study sheds light into just how little diversity exists in the ownership of asset management firms. Aggregating across all four asset classes examined in this report, diverse-owned firms represent just 1.3 percent of industry AUM. While diverse-owned firms have grown in representation in recent years, the growth has been moderate and has not uniformly occurred across all asset classes.

An important finding of the research is that there is no statistical difference in performance between diverse-owned firms and their peers. Even when we adjust for risk in mutual funds and hedge funds and compare to public market returns for private equity funds, we do not find consistent differences in results. A common refrain has stated that poor performance among diverse-owned firms has precluded their receipt of greater investment; the findings of this study cast doubt on this assertion.

Quantifying the performance of diverse funds and the current level of diverse ownership is an initial step to understanding and encouraging diversity in asset management. We hope to increase awareness and knowledge of this important topic and encourage enhanced data reporting in the future.

The report is intended to serve as a foundation for future inquiry and more robust data collection about diversity in the asset management industry. Creating a public, nonproprietary database with this information should be a top priority for the institutional investment community.

Gathering, analyzing and discussing better information about diversity in the asset management industry is critical to advancing progress.

The study was commissioned by the John S. and James L. Knight Foundation and led by Josh Lerner, Chair of the Entrepreneurial Management Unit and the Jacob H. Schiff Professor at Harvard Business School, and the Bella Research Group.

APPENDIX: RESEARCH METHODOLOGY

This note provides a summary of the methodology developed by Bella Research Group for the analysis of asset management firm ownership diversity. The full report contains a more detailed description of the methodology.

DEFINITIONS

The research uses the term "diverse-owned" to refer more broadly to the group of firms owned by women and/or minorities. The definition of "minority" includes racial/ethnic minorities (such as Hispanic, black, Asian and Native American) but does not include other groups such as veterans or disabled persons. Firms may be classified as both women-owned and minority-owned if they have substantial levels of ownership held by women and minorities (for example, firms with both women and minority owners or firms owned by women who also belong to racial/ethnic minority groups). Typically, firms are considered women- or minority-owned if at least 25 percent of firm ownership is held by female or minority individuals, respectively. It is important to note that the classification of diverse owned firms varies slightly across the data sources used in this study.

DATA SOURCES

No single database contains all the information needed for the analysis, so several data sources were used, each specializing in a different asset

class. To assemble a "universe" of the U.S. asset management industry, the research relied on publicly available data and the following commercial databases:

- eVestment Traditional Database
- Hedge Fund Research (HFR)
- Preqin Private Equity
- Preqin Real Estate

This report includes all active U.S.-based funds from the above databases, excluding funds of funds. For private equity and real estate, we define "active" funds as those with vintage years 2004 or later.

DATA ANALYSIS AND LIMITATIONS

To quantify the extent of diverse ownership in each asset class, the subsets of women- and minority-owned firms from each database were compared with the "universe" of all U.S.-based firms listed in each database. The results are further broken down by other firm- and fund-level characteristics such as investment focus, firm location and geographic target. These data are also used to analyze timeline trends, performance and the mix of institutional investor types.

The databases used have relatively strong, but not perfect, coverage of each asset class. There may be biases in the types of firms that report to commercial databases and the data that they make available. The approach to analyzing the data for each asset class and any limitations are further described below.

MUTUAL FUNDS: Some experts contend that mutual funds do not represent a true asset class. We use them to represent accounts that invest in publicly traded securities (including stocks and bonds), a distinct asset class, and retain the terminology for simplicity's sake. Data on institutional mutual funds were obtained from the eVestment Traditional Database which includes mutual funds, separately managed accounts, commingled funds, and a limited number of exchange- traded funds. These data were used to investigate the current state of diversity for this class of assets, construct a timeline of diverse managers, analyze the performance of these diverse firms, and describe the types of institutional investors engaged with these firms. Firms with at least 25 percent ownership held by women or by racial/ethnic minorities were identified, and some analyses further break down the groups of women- and minority-owned firms into two categories: substantially diverse (25 to 49 percent ownership) or majority diverse (50-plus percent ownership). It is important to note that fund managers often benefit from economies of scale, with many of the largest fund managers structured as publicly traded companies. Therefore, a robustness check was conducted for the mutual fund performance analysis that used mutual fund size as a proxy for public ownership and dropped the largest 5 percent of mutual funds. The core set of regressions (described in the report) were estimated with this restricted data set and compared with the results for the full data set. The estimated parameters were similar for both sets of regressions, suggesting that performance is similar for diverse and non-diverse mutual funds. Therefore, the robustness check supports the findings using the full data set, and it suggests that the effect of including public companies is minimal. While the study found that some minority- and women-owned mutual funds performed among the top funds, it is important to note that academic evidence suggests that actively managed mutual funds generally underperformed public markets during the study period, regardless of ownership status.

HEDGE FUNDS: Hedge Fund Research (HFR) data were used to analyze the current state of diversity in the hedge fund space, construct a timeline of diverse managers and analyze the performance of these diverse managers. As with mutual funds, ownership groups were separated into substantially (25 to 49 percent) and majority (50-plus percent) diverse. HFR covers roughly half of the hedge fund industry and was selected among several hedge fund databases because of its detailed demographic information on firm ownership, which is crucial to this report. While there is no reason to believe that the characteristics of the hedge funds covered in HFR differ in any meaningful way from the total universe of hedge funds, any conclusions drawn from these data should be interpreted cautiously. HFR does not include information about the investors in each hedge fund, which precluded analyzing the investor types with diverse and non-diverse hedge funds.

PRIVATE EQUITY AND REAL ESTATE: These asset classes rely on Preqin, a leading data source in the alternatives industry. Between the analysis for the 2016 report and the start of research for this version, Preqin started collecting diversity information on private equity and real estate funds. This information was augmented by hand-collected lists obtained from publicly available reports. That ownership information was merged with data on firm- and fund-level characteristics from Preqin. Even so, the analysis will have inevitably missed some diverse-owned firms, particularly in the real estate space. In addition, the data may suffer from some biases, such as a bias toward larger, better known diverse firms. The sources used for this report provide greater coverage of diverse-owned private equity firms than that of diverse-owned real estate firms. For private equity, the research analyzed the current state of diversity, timeline of diverse ownership, performance, and institutional investor types of diverse- and non-diverse-owned funds. For real estate, the report includes findings pertaining to the current state of diversity, trends in diverse ownership, and analysis of performance, but due to the small sample size for diverse firms, was unable to meaningfully analyze institutional investor types.

KNIGHT
FOUNDATION

An Intolerance of Failure? Evidence from U.S. Private Equity

PUBLISHED JUNE 11, 2019 BY BELLA PRIVATE MARKETS

SHARE:

This piece was originally published on the Bella Private Markets insights page on June 11, 2019.

In our 2018 Diverse Asset Management Study (found here), we show that the asset management industry is characterized by extremely low levels of diversity in ownership. Overall, diverse-owned managers – defined as asset managers with significant female or ethnic minority ownership – control just 1.3% of all US-based managers' assets *[1]*. Our results also indicate that the lack of diversity is unlikely to be explained by differences in fund performance. In particular, the data show no statistically meaningful difference between the performance of diverse- and non-diverse-owned funds. Motivated by these findings, the Bella Private Markets team, together with the John S. and James L. Knight Foundation, began researching a new explanation: that investors are more likely to curtail capital commitments to underperforming diverse-owned funds than to non-diverse funds.

According to this "intolerance of failure" theory, low levels of diversity might be explained by a double standard in the way investors react to fund manager performance. Specifically, investors may be more likely to reduce their investments with poorly performing diverse-owned managers than with non-diverse-owned managers with the same performance. To the extent that diverse-owned managers face higher penalties for failure compared with their non-diverse peers, such firms may struggle to survive during times of low returns.

To test this theory, the Bella team gathered data from Preqin *[2]*, a leading provider of information on alternative investments, to see how past performance affects future fundraising outcomes for US-based diverse-owned and non-diverse-owned private equity (PE) fund managers. We measure an asset manager's performance as the average (excess) multiple of its prior funds *[3]*. A "multiple" reflects how many times an investor receives her initial investment (after fees) in cash distributions from a fund. If an intolerance of failure exists, any dip in performance should reduce a diverse-owned manager's ability to fundraise by more than would the same performance decline for a non-diverse-owned manager. In other words, we would find that the fundraising activities of non-diverse managers are less sensitive to dips in performance.

First, we need to isolate how past performance affects a manager's ability to raise a new PE fund. Using regression analysis, we can hold constant other factors that may influence the relationship between performance and fundraising – such as fund size, fund type, and general economic conditions. For example, larger funds might, on average, have lower returns and be raised in periods with better fundraising outcomes. In that case, failure to account for fund size would cause us to underestimate the true penalty for failure.

To quantify fundraising ability, we look at how a decrease in past performance impacts a manager's likelihood of raising a new PE fund in a given year. **Figure 1** (below) shows the results of our analysis. We find that, on average, a 1-unit decrease in performance is associated with a 24.5% reduction in the probability of women-owned managers raising a new fund, and a 14.3% reduction in the probability of raising a new fund for minority-owned managers, respectively. In essence, then, we find a diverse-owned manager performing one multiple below the average has a 24.5% (for women) or 14.3% (for minorities) lower chance of raising a fund in a given year. This penalty is dramatically higher than that suffered by a non-diverse owner for the same drop in performance. To get a sense of the magnitude, such a decrease in performance may be interpreted as the difference between a manager raising average funds and a manager raising funds returning one multiple below the average. The probability of a non-diverse-owned manager raising another fund after such a performance drop falls by only 3.1%. The evidence suggests that the fundraising activities of women-and minority-owned managers are much more sensitive to past performance.

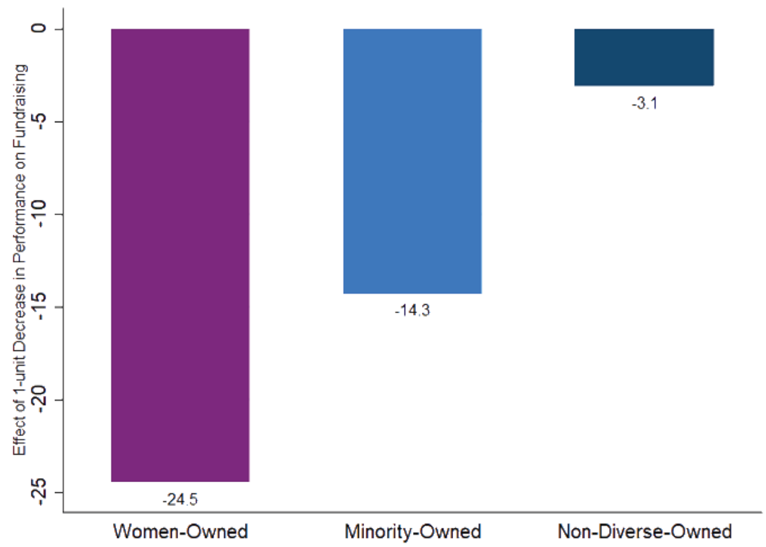


Figure 1. *Impact of a 1-Unit Decrease in Performance on the Probability of Raising a New Fund.*

Second, we estimate a more general version of our model that simply asks whether underperforming PE firms are less likely to raise a follow-on fund in a given year. An "underperforming" manager has started PE funds that perform below the average for funds of the same vintage year. Looking at non-diverse-owned managers, the data show an underperforming manager is 9.6% less likely to raise a new fund compared to an overperforming peer. The estimated penalties for underperformance for women-and minority-owned managers were larger – at 27.9% and 17.3%, respectively. We should note, however, that the difference in the underperformance penalty between diverse-owned and non-diverse-owned managers is only statistically meaningful for women-owned managers. That is, the 27.9% penalty for underperformance by women-owned funds is highly unlikely to have occurred randomly, while there is a possibility that the 17.3% penalty for minority-owned managers may be due to chance.

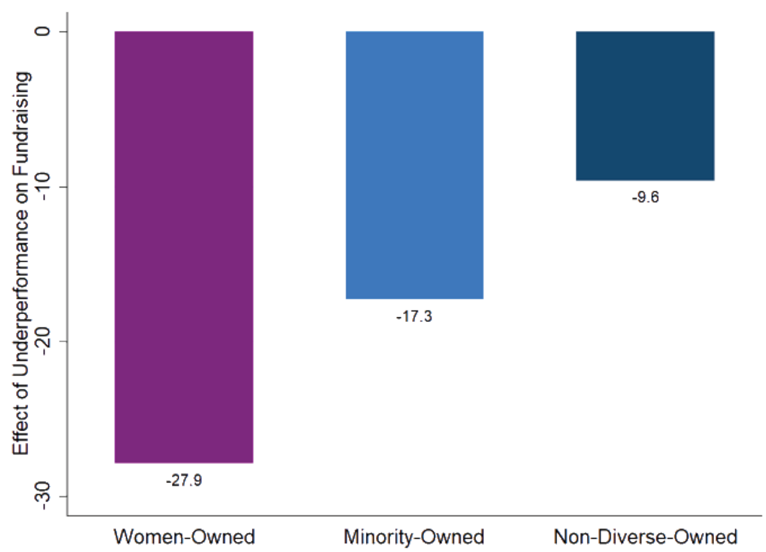


Figure 2. *Impact of Firm Underperformance on the Probability of Raising a New PE Fund.*

Finally, we ask whether a manager's past performance affects the amount of capital raised in the next fund. Specifically, we looked at the relationship between our firm-level performance metric and *fund size growth*, which measures the percentage change in the amount of capital raised between a manager's prior and current funds. Because of the limited number of women-and minority-owned firms, we combine these two groups in a single diverse ownership category *[4]*. We find that, on average, reducing a diverse-owned manager's performance by 1-unit is associated with a 53-percentage point decrease in *fund size growth* relative to diverse owned fund managers. The results suggest that even if poor performing diverse-owned managers succeed in raising a new fund, they may struggle to raise as much capital as their non-diverse peers.

As we compare these results with those of our earlier study of diverse representation, we see an intriguing conundrum. Not only are there fewer diverse-owned firms that manage proportionately less capital than their representation in the population would suggest, but investors may be less likely to give them "the benefit of the doubt." Poor performance by diverse-owned managers appears to be penalized more severely relative to similar non-diverse peers not only in terms of the likelihood of raising a subsequent fund but also with respect to the amount of capital that the manager can raise.

It is important to note that our research does not suggest that an intolerance of failure is the only explanation for the lack of diverse ownership in asset management. Rather, we view it as one of many potential causes. For example, some researchers have suggested gender differences in the willingness to compete, in opportunities for mentorship, and in occupational choices as potential explanations for underrepresentation *[5]*. While such explanations are potentially important drivers of the lack of diverse ownership, we leave their exploration, and the formulation of potential policy solutions for underrepresentation, to future research.

Click here to view the full report, containing all of our findings.

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[1] Private equity managers are considered women-owned (minority-owned) if at least 50% of the firms' equity is held by women (minorities).

[2] Source: www.Preqin.com

[3] We measure an asset manager's performance by looking at how its results across all its previous funds compare to similar funds. To do this, we use the "excess multiple," or the difference of a given fund's performance from the average. We calculate an "excess multiple" by computing the average multiple of funds in the same vintage year and subtracting that from a given fund's actual multiple. A positive excess multiple indicates "above average" performance, while a negative excess multiple indicates "below average" performance.

[4] A PE manager is considered diverse-owned if it is women-owned, minority-owned, or both.

[5] Sutter, Matthias. Glätzle-Rützler, Daniela. "Gender Differences in the Willingness to Compete Emerge Early in Life and Persist. Management Science. Volume 61, Issue 10. October 2015. Pages iv-vii, 2281-2547. See also, Polachek, Solomon William. "Occupational Self-Selection: A Human Capital Approach to Sex Differences in Occupational Structure." Review of Economics and Statistics 63. 1981. Pages 60-69.

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DIVERSITY OF ASSET MANAGERS IN PHILANTHROPY

DIVERSITY OF ASSET MANAGERS IN PHILANTHROPY

A STUDY TO ASSESS THE REPRESENTATION OF WOMEN AND RACIAL OR ETHNIC MINORITIES AMONG INVESTMENT FIRMS USED BY THE COUNTRY'S TOP 50 CHARITABLE FOUNDATIONS

February 2020

Global Economics Group
Candice Rosevear[1]
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CONTENTS

FOREWORD

In early 2010, we were publicly asked how much of Knight Foundation's $2.1 billion endowment was invested by asset managers whose ownership included people of color or women. We had never been explicitly asked this question but, given our values and the size of our endowment, we assumed the number would be material.

We were wrong. The answer then was $7.5 million, managed by a single firm. The answer today is $805 million, or over a third of our current endowment.

Like many leading independent foundations, we have an explicit commitment to equity and inclusion in our grant-making program. But our program spending is just a percentage of the assets we manage. As with all foundations, it is our assets, mainly a privately managed endowment, that yield the resources to invest in our program.

But even as foundations have become increasingly creative in the ways they put their endowments to work to do good and to grow, discussions about diversity and inclusion in who invests the endowment have only recently come to the fore.

There are many ways to consider how values of diversity, equity and inclusion can manifest in the management of an endowment. They might range from how funds are invested to the construction of a management team. We believe the question of diverse ownership, while not the only way, is an important one. In finance, firm owners reap great dividends from the value they create, and it is owners who have the greatest influence on how the capital they manage is invested and the makeup of their investment teams.

Finance is fundamentally about equity. That is, who owns the capital. And our values argued for a more equitable distribution of the equity, so we resolved to do that.

In the past few years, we've published two reports on the level of women and minority owned firms across the entire asset management industry. They concluded that total assets under management by diversely-owned firms is painfully low: around 1% of its $69 trillion in total assets under management across the entire asset management industry. These studies also found that the performance of minority and women firms is not statistically different from the rest of the industry—so we have to ask why they have so few assets under management.

In time, we also asked how we were doing compared to others. What was the state of our field, and what could we learn? Those are questions we've frequently been asked by a variety of stakeholders.

These are all difficult questions to answer. We've also noticed that, without clear answers, supposition has filled the void.

In trying to provide answers, we have struggled to report on how foundations are doing. Foundations are not required to disclose their investment managers outside of the IRS-required disclosure, which accepts general reporting so that identification of specific managers is often impossible to determine.

That's one challenge. Another is that it's difficult to understand the ownership structures of asset management firms. In this report, the economic firm we commissioned, Global Economics Group (GEG), relied on definitions provided through widely used commercial databases, although those definitions are open to reasonable contestation.

We regret the lack of transparency. If we can't agree on, much less describe, the state of the world, how can we hope to engage in discussion about how to move forward?

Because we believe this conversation is so critical, we decided to pose the question nonetheless: What is the representation of diverse-owned asset managers among philanthropic endowments? In response, GEG designed a study to assess the representation of women and minorities among asset managers used by the country's top 50 charitable endowments, which collectively represent endowment assets of $290.3 billion.

The first piece of good news is that charitable endowments are outperforming the industry in the representation of diversely-owned managers:

- All but four foundations for whom data was available (or provided) are investing some portion of their assets with diversely owned firms;
- Over half invest more than 10% of their assets with such firms; and
- Two foundations invest more than 30% of their assets with diversely owned firms, with the maximum invested amount equal to 45.9%.

The second piece of good news is the positive reception we received from our counterparts. Many shared additional data beyond what was publicly available. Others shared our goal but disagreed with the approach. Each foundation had the opportunity to comment, and several provided how they measure diversity in their enterprises and in their endowments. Their comments, in full, are included in this report.

We thank these foundations for their responses and applaud their efforts.

The goal of this report is to provoke a conversation—one that we hope will serve to improve our collective understanding, to clarify how we assess diversity in endowment management, and to enhance the available data on the field. And that will lead to a more equitable distribution of the equity generated by private foundation endowments.

Sam Gill, Senior Vice President/Chief Program Officer
Juan Martinez, Vice President/Chief Financial Officer

EXECUTIVE SUMMARY

For a decade, Knight Foundation has been intentional about identifying high quality, diversely-owned asset managers when investing its endowment. In response to frequent questions from a variety of stakeholders into the performance of the charitable sector regarding this issue — the questions arising from the general lack of data — Knight Foundation asked Global Economics Group to assess the representation of diverse asset managers among foundations.

The study assessed the representation of women- and racial or ethnic minority-owned investment firms ("diversely-owned firms"), among investment firms used by the country's top 50 charitable foundations.[3] The study analyzed available endowment investment data for 26 of the top 50 foundations ("Participating Foundations") and included only endowment investments managed by investment firms based in the United States, amounting to $63.95 billion in invested assets ("Analyzed AUM").[4] The study found:

- $8.62 billion (13.5%) is invested with diversely-owned firms.
- $6.82 billion (10.7%) is invested with women-owned firms, and $5.93 billion (9.3%) is invested with minority-owned firms, as defined below. Approximately 50% of the $8.62 billion is invested with firms that are both women- and minority-owned; thus, the sum of the two figures is greater than $8.62 billion.[5]
- The average foundation invests 13.3% of its assets in diversely-owned firms, 10.8% in women-owned firms and 9% in minority-owned firms. The median foundation invests 13.5% in diversely-owned firms, 10.9% in women-owned firms and 7.9% in minority-owned firms.

3 The top 50 foundations were determined in terms of total asset size. The top 50 foundations account for over $290 billion in total assets, collectively. Total assets include all foundation assets, including investment assets.

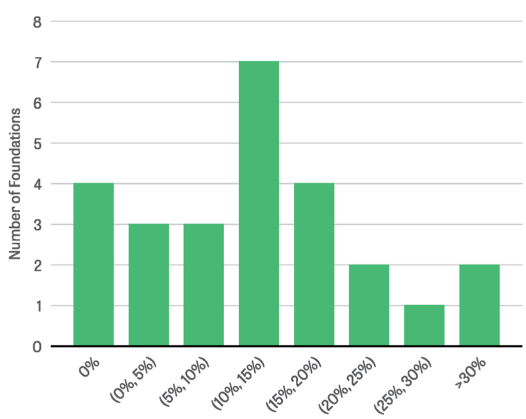
4 We included only United States-based firms because we define a minority as is typically defined from the perspective of the United States, as described below.

5 Due to the unique structure of public charities (that is, the organization itself controls only a portion of how its endowment is invested) we provide two alternative diversity scores in our study. The first includes the full invested endowment. The second includes only the portion of the invested endowment that the organization itself controls (where such information was provided by the organization). If we consider the second variation, the study found that, among the $53.47 billion of analyzed endowment investments, $8.62 billion (16.1%) is invested with diversely-owned firms, $6.82 billion (12.8%) is invested with women-owned firms, and $5.93 billion (11.1%) is invested with minority-owned firms. The results for the second variation are presented in parentheses in the Full Results table below. The remainder of the text refers to results from the first variation.

- As the histogram below shows, all but four of the 26 Participating Foundations invest some portion of their assets with diversely-owned firms. Over half invest more than 10% of their assets with such firms. Two foundations invest more than 30% of their assets with diversely-owned firms, with the maximum invested amount equal to 45.9%.

Distribution of Foundations in Each Range, Percentage of Analyzed AUM Invested with Diversely-Owned Firms

Chart Includes Only the 26 Participating Foundations



FULL RESULTS

The table below shows the full results for the top 50 foundations. We selected the top 50 foundations in terms of the market value of total assets, according to data compiled by Candid in 2019.[6] The top 50 foundations on the Candid list collectively hold $290.32 billion in total assets and consist of the following organizational types:

- 39 independent foundations,
- 7 community foundations, and
- 4 operating foundations.

Of the top 50 foundations, we were able to compile and analyze investment data for 26, either by accessing the data through publicly available sources or through direct voluntary submission by Participating Foundations. Such investment data amounts to $63.95 billion in Analyzed AUM. Of the remaining 24 foundations whose investment data are not included in the study:

- 16 had insufficient publicly available data and declined to participate in the study for a variety of reasons, including contractual nondisclosure agreements with fund managers (classified as: "Declined to participate; insufficient public data for analysis."),

- 3 had insufficient publicly available data and did not respond to our requests (classified as: "Did not respond to requests; insufficient public data for analysis."), and

- 5 had investment assets that were mostly or completely invested in assets that do not fit with the purpose of this study, such as art or a family office (classified as: "Investment assets are not relevant to the study. See notes.").

The remainder of this report provides greater detail on the study in order to ensure that the process we implemented is clear and replicable. This study is purely descriptive, based on a set of clearly defined rules as described in the Methodology section below. **Appendix A** provides a compilation of foundations' comments of up to 200 words from those foundations that elected to submit a comment. **Appendix B** provides detailed notes on the available investment data for each foundation.

6 "Top 100 Active U.S. Foundations by Assets, circa 2017," sourced by Candid in 2019.

					Analyzed AUM Managed by Woman-Owned Firms[3]		Analyzed AUM Managed by Minority-Owned Firms[3]		**Analyzed AUM Managed by Diversely-Owned Firms[3]**	
		Total Assets ($B)[1]	Foundation Type[1]	Analyzed AUM ($B)[2]	$B	As a % of Analyzed AUM	$B	As a % of Analyzed AUM	**$B**	**As a % of Analyzed AUM**
1	Bill & Melinda Gates Foundation	$51.83	IN	$1.15	$0.03	3.0%	$0.01	0.9%	**$0.04**	**3.4%**
2	Ford Foundation	$13.83	IN	Declined to participate; insufficient public data for analysis.						
3	Silicon Valley Community Foundation[4]	$13.58	CM	$8.58 ($0.95)	$0.11	1.3% (11.8%)	$0.14	1.6% (14.5%)	**$0.18**	**2.0% (18.4%)**
4	J. Paul Getty Trust	$12.60	OP	Declined to participate; insufficient public data for analysis.						
5	Lilly Endowment Inc.	$11.68	IN	Investment assets are not relevant to the study. See notes.						
6	The Robert Wood Johnson Foundation	$11.40	IN	$6.21	$1.32	21.3%	$1.19	19.1%	**$1.65**	**26.6%**
7	Foundation to Promote Open Society	$10.32	IN	Declined to participate; insufficient public data for analysis.						
8	The William and Flora Hewlett Foundation	$9.89	IN	Declined to participate; insufficient public data for analysis.						
9	W.K. Kellogg Foundation	$8.60	IN	Declined to participate; insufficient public data for analysis.						
10	Bloomberg Family Foundation Inc	$7.85	IN	Investment assets are not relevant to the study. See notes.						
11	The David and Lucile Packard Foundation	$7.10	IN	Declined to participate; insufficient public data for analysis.						
12	John D. and Catherine T. MacArthur Foundation	$7.00	IN	$4.80	$0.27	5.7%	$0.35	7.3%	**$0.47**	**9.9%**
13	The Andrew W. Mellon Foundation	$6.86	IN	$4.59	$0.66	14.3%	$0.38	8.2%	**$0.78**	**17.0%**
14	Gordon and Betty Moore Foundation	$6.45	IN	Declined to participate; insufficient public data for analysis.						
15	The Leona M. and Harry B. Helmsley Charitable Trust	$5.47	IN	$4.30	$0.59	13.8%	$0.64	14.9%	**$0.83**	**19.4%**
16	Walton Family Foundation	$4.93	IN	$3.44	$0.46	13.2%	$0.46	13.3%	**$0.53**	**15.4%**
17	Tulsa Community Foundation/ George Kaiser Family Foundation	$4.54	CM	$1.39	$0.00	0.0%	$0.00	0.0%	**$0.00**	**0.0%**
18	The JPB Foundation	$4.28	IN	$1.28	$0.25	19.1%	$0.08	6.0%	**$0.25**	**19.1%**
19	The Rockefeller Foundation	$4.09	IN	$2.73	$0.24	8.7%	$0.26	9.6%	**$0.39**	**14.2%**
20	The Kresge Foundation	$3.95	IN	$1.97	$0.24	12.1%	$0.03	1.4%	**$0.27**	**13.6%**
21	Open Society Institute	$3.73	OP	Declined to participate; insufficient public data for analysis.						
22	The Duke Endowment	$3.69	IN	Declined to participate; insufficient public data for analysis.						
23	The California Endowment	$3.67	IN	Declined to participate; insufficient public data for analysis.						
24	Carnegie Corporation of New York	$3.52	IN	$1.90	$0.32	16.8%	$0.15	8.1%	**$0.40**	**20.9%**
25	Robert W. Woodruff Foundation	$3.32	IN	$3.13	$0.00	0.0%	$0.00	0.0%	**$0.00**	**0.0%**
26	Simons Foundation	$3.32	IN	Declined to participate; insufficient public data for analysis.						
27	Greater Kansas City Community Foundation	$3.16	CM	Investment assets are not relevant to the study. See notes.						
28	Chan Zuckerberg Foundation	$3.13	IN	Investment assets are not relevant to the study. See notes.						
29	John Templeton Foundation	$2.91	IN	$1.91	$0.41	21.7%	$0.28	14.8%	**$0.41**	**21.7%**
30	Margaret A. Cargill Foundation	$2.90	IN	Declined to participate; insufficient public data for analysis.						

		Total Assets ($B)[1]	Foundation Type[1]	Analyzed AUM ($B)[2]	Analyzed AUM Managed by Woman-Owned Firms[3]		Analyzed AUM Managed by Minority-Owned Firms[3]		**Analyzed AUM Managed by Diversely-Owned Firms[3]**	
					$B	As a % of Analyzed AUM	$B	As a % of Analyzed AUM	**$B**	**As a % of Analyzed AUM**
31	Chicago Community Trust[4]	$2.83	CM	$2.50 ($1.06)	$0.27	10.8% (25.4%)	$0.32	12.8% (30.3%)	**$0.33**	**13.4% (31.6%)**
32	The Annie E. Casey Foundation	$2.82	IN	$1.28	$0.17	13.6%	$0.12	9.2%	**$0.19**	**14.9%**
33	The New York Community Trust[4]	$2.81	CM	$2.36 ($0.94)	$0.09	3.6% (9.1%)	$0.09	3.6% (9.1%)	**$0.09**	**3.6% (9.1%)**
34	Charles Stewart Mott Foundation	$2.79	IN	Declined to participate; insufficient public data for analysis.						
35	Conrad N. Hilton Foundation	$2.69	IN	Declined to participate; insufficient public data for analysis.						
36	The Susan Thompson Buffett Foundation	$2.67	IN	Did not respond to requests; insufficient public data for analysis.						
37	Shelby Cullom Davis Charitable Fund	$2.52	IN	Did not respond to requests; insufficient public data for analysis.						
38	The Wyss Foundation	$2.51	IN	$0.57	$0.00	0.0%	$0.00	0.0%	**$0.00**	**0.0%**
39	The William Penn Foundation	$2.49	IN	$1.60	$0.19	12.0%	$0.17	10.7%	**$0.21**	**13.1%**
40	The Carl Victor Page Memorial Foundation	$2.49	IN	$0.58	$0.05	7.8%	$0.04	7.6%	**$0.06**	**10.3%**
41	Maxcess Foundation Inc.	$2.48	IN	Did not respond to requests; insufficient public data for analysis.						
42	Foundation for the Carolinas	$2.48	CM	$1.51	$0.08	5.2%	$0.01	0.9%	**$0.08**	**5.2%**
43	Kimbell Art Foundation	$2.46	OP	Investment assets are not relevant to the study. See notes.						
44	Cleveland Foundation	$2.45	CM	Declined to participate; insufficient public data for analysis.						
45	Ewing Marion Kauffman Foundation	$2.43	IN	$0.95	$0.00	0.0%	$0.00	0.0%	**$0.00**	**0.0%**
46	McKnight Foundation	$2.41	IN	$1.51	$0.11	7.1%	$0.12	7.7%	**$0.12**	**7.7%**
47	Casey Family Programs	$2.39	OP	$1.28	$0.36	28.0%	$0.31	23.9%	**$0.45**	**35.3%**
48	The James Irvine Foundation	$2.37	IN	Declined to participate; insufficient public data for analysis.						
49	John S. and James L. Knight Foundation	$2.32	IN	$1.76	$0.53	30.2%	$0.70	40.0%	**$0.81**	**45.9%**
50	Richard King Mellon Foundation	$2.32	IN	$0.69	$0.08	11.0%	$0.09	12.7%	**$0.10**	**14.1%**
	Total[4]	**$290.32**		**$63.95 ($53.47)**	**$6.82**	**10.7% (12.8%)**	**$5.93**	**9.3% (11.1%)**	**$8.62**	**13.5% (16.1%)**

Notes

1 "Top 100 Active U.S. Foundations by Assets, circa 2017," sourced by Candid in 2019. Foundation Type as determined by Candid is defined as follows: IN=Independent Foundation, CM=Community Foundation and OP=Operating Foundation.

2 IRS Form 990 (most recent filing for each foundation as of October 1, 2019) and investment firm data provided directly by participating foundations. Analyzed AUM reflects the portion of the foundation's invested assets for which identifying information on its investment firms is available, and includes only the invested assets that are held and managed by firms that are (1) based in the United States and (2) available in Preqin's or eVestment's diversity datasets, or in the diversity data submitted by participating foundations, such that the investment firm's diversity of ownership profile can be observed. Analyzed AUM, therefore, may not reflect all invested assets. See Appendix B, "Notes on Available Data," for exceptions and additional information.

3 Preqin Alternative Assets diversity data for private equity, venture capital, private debt, hedge fund, real estate, infrastructure, and natural resource asset classes (as of June 26, 2019). eVestment® diversity data for separate account, commingled trust fund, institutional mutual fund, and exchange-traded fund asset classes (as of August 14, 2019). All eVestment® data Copyright (c) 2019. Diversity data submitted by participating foundations. See Appendix B, "Notes on Available Data,"

4 The figures in parentheses represent only the portion of the public charity's invested endowment that the organization itself controls. See Appendix B, "Notes on Available Data," for additional detail on the alternative diversity calculation used for participating public charities in this study. for exceptions and additional information on each foundation.

METHODOLOGY

APPROACH

We conducted the study with the following guiding principles: transparency about methods and data, a commitment to accuracy by sharing our findings with each foundation, and an openness to foundation input.

We collaborated with the foundations throughout the process. At the beginning of the process, we notified each of the top 50 foundations of our efforts and disclosed to the foundation our preliminary results with respect to its data.[7] At this stage we also offered each foundation the opportunity to submit its own investment data when such data was unavailable publicly, and to correct or clarify any publicly available investment data that may have been preliminarily relied upon in the study. We also afforded each foundation the opportunity to provide a comment of up to 200 words, which we have included in Appendix A without edit. Foundations used the opportunity to comment to describe other methodological criteria that could be used to assess the diversity of their endowment, to explain why they could not participate, and to provide detail regarding their own work in this area.

Furthermore, while we relied upon third-party data to determine the ownership diversity of investment firms, as described below, we also encouraged foundations to provide insight into the diversity profile of firms with which they have investment relationships and then used such insights to inform the study. We adopted a generous view of diversity when presented with conflicting information for a firm. In other words, if a participating foundation classified an investment firm as diverse when the third-party data did not, we accepted the foundation's definition and applied such definition study-wide, so that all foundations would benefit from the updated diversity profile of such investment firms.

Global Economics Group does not take a position on what an appropriate level of diverse investment should be for the foundations analyzed in the study or generally. The study simply provides a snapshot of where foundations are directing their investment funds according to set criteria as described in this report. In addition, we acknowledge that the analysis was performed only on the portion of the foundations' investments that were publicly available for study or voluntarily submitted by Participating Foundations. This may or may not be reflective of where investments are distributed among their total portfolios.

7 We shared the foundation's own results only. We did not disclose the full results of the study for all foundations before the study was finalized.

DATA COLLECTION

The study used two distinct datasets: (1) a dataset of Participating Foundations' invested assets ("Invested Asset Data") and (2) a dataset of the ownership diversity of a large set of investment firms ("Diversity Data").

The Invested Asset Data is sourced from publicly available IRS 990 data and directly from Participating Foundations. It consists of the name of the investment firms or funds and the fair market values of the AUM held by each firm or fund for each foundation, where available. For each of the top 50 foundations, we collected its most recent IRS Form 990-PF ("Return of a Private Foundation") or IRS Form 990 ("Return of Organization Exempt from Income Tax") as of October 1, 2019, from either GuideStar[8] or the foundation's website. We extracted all relevant data on invested assets from each IRS Form 990, including firm name, the fund name, and the fair market value of invested assets, and converted it from PDF into spreadsheet format. As mentioned above, we also incorporated investment data voluntarily provided by Participating Foundations. Due to differences in fiscal years and reporting schedules, our study includes investment data for fiscal years ending 2016 through 2019. Appendix B provides detailed notes on the available investment data for each foundation.

The Diversity Data is compiled from the most comprehensive investment firm data sources available, Preqin[9] and eVestment.[10] The Preqin data predominately consists of private equity and hedge funds and contains diversity information on 37,613 firms and 74,209 funds. The eVestment data consists of firms investing in public market securities, such as stocks and bonds, through a variety of products like mutual funds and separately managed accounts and contains diversity information on 1,834 firms and 13,316 products.

STUDY DEFINITIONS

The study includes Participating Foundations' invested assets that are held and managed by investment firms based in the United States for which diversity information is also available in Preqin's or eVestment's diversity datasets. We refer to this set of assets as Analyzed AUM. Analyzed AUM, therefore, may not reflect the full size of a foundation's invested endowment.

8 GuideStar by Candid, https://www.guidestar.org.

9 Preqin Alternative Assets diversity data for private equity, venture capital, private debt, hedge fund, real estate, infrastructure, and natural resource asset classes (as of July 9, 2019).

10 eVestment® diversity data for separate account, commingled trust fund, institutional mutual fund, and exchange-traded fund asset classes (as of August 14, 2019). All eVestment® data Copyright (c) 2019.

Our focus on firms based in the United States is necessary to apply a clear definition of diversity – that is, we define "minority" as it is typically defined from the perspective of the United States. "Minority" owned firms include racial and ethnic minorities (e.g., Hispanic, Black, Asian, and Native American). We use the term "diversely-owned" to refer to the broader group of women- and minority-owned firms.

The definition of what comprises a diversely-owned firm differs across the Preqin and eVestment data sources. Generally, we took the most generous definition of diversity possible in the available data with respect to women and minority ownership. Preqin considers a firm to be woman-owned (minority-owned) if either the firm has a woman (minority) founder or co-founder or at least half the partners are women (minorities). eVestment provides a percentage breakdown of firm ownership by gender and ethnicity. For the purposes of this study, we consider a firm to be woman- or minority-owned if it is flagged as such in Preqin or has greater than 0% diverse ownership according to the eVestment data. As mentioned above, keeping true to the principle of collaboration with the foundations, we accepted the diversity definitions provide by Participating Foundations. If a foundation represents a firm as diversely-owned and Preqin or eVestment does not, we recognize that firm as diversely-owned for the purposes of this study and apply such definition to every endowment included in the sample.[11]

11 Of the $63.95 billion in Analyzed AUM included in the study, 13.5% is invested with "diversely-owned" managers. Information provided by foundations themselves led to diversely-owned classifications for 6.8 percentage points. Thus, if we were to exclude the foundation-provided diversity definitions, the overall diversity score from the study would fall from 13.5% to 6.7%. Of the $63.95 billion in Analyzed AUM included in the study, approximately 80% matched with Preqin dataset and 20% matched with eVestment dataset. If we were to implement a stricter 50% ownership cutoff for the eVestment data to make it more similar to the Preqin standard, the overall diversity score from the study would fall by an additional 3.8 percentage points, from 6.7% to 2.9%.

APPENDIX A - FOUNDATION COMMENTS

1	Bill & Melinda Gates Foundation	Unlike most other large charitable endowments and as confirmed by this study, BMGFT manages the vast majority of our $50 billion portfolio in-house with limited use of external asset managers. As a result, the study looks at just a sliver of our portfolio. While we are grateful the study calls attention to this very important issue, it does not accurately capture how we manage our portfolio or our commitment to women and minority-owned asset managers. We strongly support initiatives that increase diversity, equity, and inclusion in the investment community and will continue to push to advance these important causes.
2	Ford Foundation	No comment provided.
3	Silicon Valley Community Foundation	Silicon Valley Community Foundation (SVCF) was an early champion of hiring diverse managers and has actively worked to diversify its portfolios for the last decade. SVCF partners with its investment consultant to identify and select diverse asset managers for its endowment and portfolios available to donors and nonprofits establishing funds at the foundation. These assets represent a portion of SVCF's total AUM. Other assets include donated assets that are in the process of being liquidated and separately managed funds that have separate investment policies. If these separately managed funds and donations in process of liquidation are removed, then 18.4% of SVCF's assets are invested with diverse managers.
4	J. Paul Getty Trust	No comment provided.
5	Lilly Endowment Inc.	No comment provided.
6	The Robert Wood Johnson Foundation	No comment provided.
7	Foundation to Promote Open Society	No comment provided.
8	The William and Flora Hewlett Foundation	Hewlett is unable to participate because of contractual nondisclosure agreements with fund managers.
9	W.K. Kellogg Foundation	At the W.K. Kellogg Foundation, we deploy our investment capital to improve the lives of children, their families and communities. We focus our investments in three key areas: 1. Emerging Managers Program – Launched in 2010, we've invested more than $100 million from our endowment in diverse manager-owned firms to develop the talent pipeline and increase innovation and racial equity in the investment industry. 2. Mission Driven Investment (MDI) • Mission-Related Investments – In our MDI program, one of the oldest and largest, we've committed $100 million of our endowment to market-rate, mission-related investments that disrupt the status quo and drive capital to communities of color. • Program-Related Investments – We've committed more than $50 million from our program budget to strategically fund below market-rate, program-related investments, exemplified by the Detroit-based Entrepreneurs of Color Fund. WKKF initiated this fund in partnership with JPMorgan Chase. Today, the Fund has more than tripled in size to $22 million and the model is being replicated nationally. 3. Expanding Equity Program – This game-changing program is equipping the financial services sector with the tools they need to drive racial equity within their companies. We're working with some of the largest managers in the U.S., with more than $1.5 trillion AUM.
10	Bloomberg Family Foundation Inc	No comment provided.
11	The David and Lucile Packard Foundation	No comment provided.

12	John D. and Catherine T. MacArthur Foundation	The MacArthur Foundation values diversity and the benefit it brings to perspective and decision making. In pursuit of our mission to build a more just, verdant, and peaceful world, the Foundation adopted a Just Imperative framework that describes the rationale and charge to lead with a commitment to justice. We are asked to consider across the Foundation, including our investment decisions, how to incorporate the values of diversity, equity and inclusion into all we do, what more we can do, what resources we need, and what barriers we need to tackle. We are committed therefore to identifying investment management firms that meet our investment criteria and that are owned by people of color and women-owned or firms where people of color or women are key principals, as this is often the path to influence and ownership over time. We have adopted a number of steps (on our website) to ensure we are taking all reasonable steps to identify such firms. We will continue our efforts to identify and retain diverse investment managers meeting our investment criteria as we seek to achieve our investment objectives over time to sustain our charitable mission. We welcome expressions of interest from such firms.
13	The Andrew W. Mellon Foundation	The Mellon Foundation has consistently engaged with partners and prospective managers on the benefits of diverse leadership and teams, both as a value unto itself and as a necessary component of effective work. A good indicator of a forward-thinking investment organization is a commitment to building a racially, ethnically, and gender- diverse team, as well as encouraging a range of diverse perspectives. We are not satisfied with the percentage of women and minority professionals in our portfolio, and we are committed to improve those numbers. We are proud that our own investment team is 10 of 13 women and 4 of 13 underrepresented minorities. We applaud the Knight Foundation for promoting diverse representation in the investment community. Firm ownership is one appropriate measure when gauging the diversity of organizations. A metric that we also focus on is the number of senior investment professionals at a Firm. Additionally, we think it is important to look at rates of change. We are encouraged by organizations that have made demonstrable progress in committing to add diverse talent to their ranks at all levels, and we continue to learn from and engage with Firms who are leading the way in this regard.
14	Gordon and Betty Moore Foundation	No comment provided.
15	The Leona M. and Harry B. Helmsley Charitable Trust	No comment provided.
16	Walton Family Foundation	We appreciate the Knight Foundation examining how the largest foundations work with women and minority-owned investment managers. This research is important as the financial industry evolves. We look forward to learning more and believe this research will advance this critical topic.
17	Tulsa Community Foundation/George Kaiser Family Foundation	No comment provided.
18	The JPB Foundation	No comment provided.
19	The Rockefeller Foundation	We applaud the impetus behind this survey, and hope it can serve to help stimulate important conversations in the investment/Foundation community. RF believes diversity and inclusion to be a critical issue, and we look forward to engaging further in this important discussion. Regarding the data, we realize certain methodology choices need to be made, agree with the focus on U.S.-based firms, and understand the rationale behind looking at firm ownership. In the future, we would respectfully submit that while the firm ownership approach works for most asset classes, we believe it does not capture the essence of "economic ownership/control" and decision-making as it relates to many private funds. Specifically, we would suggest that: funds run by a team of investment professionals physically located in China/India/other – who have 100% control over all decisions (including personnel, investments, compensation, etc.) – should not be classified as "U.S." simply because that team is affiliated with a U.S.-based firm; and (2) because of the long lives of private funds (in particular venture capital), differences should be considered between the makeup of the Managing Partners for say a 2002-vintage year fund versus the Managing Partners for a 2019-vintage year fund.

20	The Kresge Foundation	In April 2019, The Kresge Foundation announced "25% by '25", whereby it pledged to invest one quarter of its U.S. endowment assets in diverse-owned firms by 2025. Kresge launched this initiative not only because expanding equity and opportunity is central to its mission, but also because it believes endowment performance will be improved by diligently sourcing and partnering with diverse-owned firms across all asset classes. As of September 30, 2019, the Foundation had invested 15.9% of its U.S. assets in diverse-owned firms. In addition to "25% by '25", Kresge has announced initiatives related to Talent and Industry Leadership as part of its three-pronged approach to advancing diversity, equity and inclusion within the investment industry. Its Talent plan calls for improving decision-making by purposefully building a more diverse and inclusive team. Under Industry Leadership, the Foundation has pledged to further opportunities for diverse-owned firms and diversity candidates by systematically championing diversity, equity and inclusion within the industry, including with its current investment partners.
21	Open Society Institute	No comment provided.
22	The Duke Endowment	No comment provided.
23	The California Endowment	No comment provided.
24	Carnegie Corporation of New York	No comment provided.
25	Robert W. Woodruff Foundation	The Woodruff Foundation's managed investments favor passive strategies and low-cost index replication.
26	Simons Foundation	No comment provided.
27	Greater Kansas City Community Foundation	No comment provided.
28	Chan Zuckerberg Foundation	No comment provided.
29	John Templeton Foundation	The John Templeton Foundation has a globally diverse investment portfolio. The data shown excludes a large percentage of the Foundation's assets which are invested and managed internationally.
30	Margaret A. Cargill Foundation	No comment provided.
31	Chicago Community Trust	The Chicago Community Trust has greater influence over asset manager selection within its primary pooled portfolios, which represent a portion of its total AUM. The analysis presented in this study calculates the diversity ratio as the total Analyzed AUM that is diversely managed by US funds divided by its Analyzed AUM (i.e., $0.33 billion/$2.50 billion, or 13.4%). The denominator of this ratio includes all investment portfolios, including those for which Chicago Community Trust does not actively recommend asset managers. If only the primary pooled portfolios for which Chicago Community Trust has substantial influence regarding asset managers are considered, the diversity ratio is $0.33 billion/$1.06 billion, or 31.6%.
32	The Annie E. Casey Foundation	The Casey Foundation has a broad commitment to diversity in its investments. In addition to investing with firms that have majority women and people of color ownership, we invest with firms that allocate a substantial portion (25-49%) of firm or fund economics to women or people of color, have investment decision makers who are women or people of color, or are led by women or people of color. We also make social impact investments that aim to address racial disparities. As of June 30, 2019 investments with U.S.-based managers totaled $1.8B, including: • $138M (8% of AUM) managed by women-owned firms, $206M (12%) by people of color-owned firms and $325M (19%) by firms that are majority owned by either; • $17M (1%) managed by substantially women-owned firms, $165M (10%) by substantially people of color-owned firms and $305M (18%) by firms that are substantially owned by either; • $156M (9%) managed by women, $352M (20%) by people of color and $481M (27%) by portfolio managers who are either; • $154M (9%) managed by firms led by women, $218M (12%) by firms led by people of color and $345M (20%) managed by firms led by either; and • $6M in impact investments addressing racial disparities.
33	The New York Community Trust	The New York Community Trust can recommend asset managers for select funding pools, which represent a portion of its total AUM. The analysis presented in this study calculates the diversity ratio as the total Analyzed AUM that is diversely managed by US funds divided by its total Analyzed AUM (i.e., $0.09 billion/$2.36 billion, or 3.6%). The denominator of this ratio includes all the funding pools, including those for which New York Community Trust cannot recommend asset managers. If only the select funding pools for which New York Community Trust has discretion to recommend asset managers are considered, the diversity ratio is $0.09 billion/$0.94 billion, or 9.1%.

34	Charles Stewart Mott Foundation	No comment provided.
35	Conrad N. Hilton Foundation	No comment provided.
36	The Susan Thompson Buffett Foundation	No comment provided.
37	Shelby Cullom Davis Charitable Fund	No comment provided.
38	The Wyss Foundation	No comment provided.
39	The William Penn Foundation	No comment provided.
40	The Carl Victor Page Memorial Foundation	No comment provided.
41	Maxcess Foundation Inc.	No comment provided.
42	Foundation for the Carolinas	No comment provided.
43	Kimbell Art Foundation	No comment provided.
44	Cleveland Foundation	No comment provided.
45	Ewing Marion Kauffman Foundation	We chose not to engage in the study's process for correcting its publicly provided number in the preceding table for two reasons. First, we believe the study is flawed in its methodology. Second, we weren't satisfied it adequately addressed the confidentiality of information provided by our managers. Using Knight's methodology and timeframe, and with data provided by our managers, 30% of the Kauffman Foundation's U.S.-based assets are managed by firms that have female and minority ownership. A portion of this number is Vanguard Funds, which are shareholder owned and meet the Knight standard of diverse ownership. We also believe that a focus on ownership alone is too narrow and doesn't advance the much-needed efforts to increase diversity among teams, especially at larger investment firms. Over the past several years, we have actively pursued strategies to advocate for more inclusive teams. We are still learning as we work to address this important issue.
46	McKnight Foundation	No comment provided.
47	Casey Family Programs	Casey Family Programs integrates mission-related as well as financial goals as we invest globally across all asset classes. Diversity, equity and inclusion (DEI) is a natural part of our investment philosophy and process. We take keen interest in what our investment managers are doing to create opportunities in risk-taking roles for minorities and women. Total Fund has a much higher exposure to minorities and women, at 49.3% globally. We will continue to follow this approach and subscribe to models that advance quality in our DEI initiatives.
48	The James Irvine Foundation	No comment provided.
49	John S. and James L. Knight Foundation	No comment provided.
50	Richard King Mellon Foundation	No comment provided.

DIVERSITY OF ASSET MANAGERS IN PHILANTHROPY

APPENDIX B - NOTES ON AVAILABLE DATA

1	Bill & Melinda Gates Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Bill & Melinda Gates Foundation Trust 2017 IRS 990-PF for the fiscal year ending December 31, 2017. We have included in the analysis the following investment types as defined in the Bill & Melinda Gates Foundation Trust's 2017 IRS 990-PF: FUND INVESTMENTS, MUTUTAL FUNDS/ETF, PARTNERSHIPS and REAL ESTATE INV TRST.
2	Ford Foundation	Declined to participate; insufficient public data for analysis.
3	Silicon Valley Community Foundation	The figures in parentheses represent only the portion of Silicon Valley Community Foundation's invested endowment that the organization itself controls, which is \$0.95 billion. The total investment asset amount used in this study was drawn from the Silicon Valley Community Foundation 2018 Independent Auditors Report for the fiscal year ending December 31, 2018 (svcf-audit-report-2019.pdf available at https://www.siliconvalleycf.org/sites/default/files/documents/financial/svcf-audit-report-2019.pdf). The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for fiscal year ending December 31, 2018, which was used in conjunction with the data from the Auditor's Report to assess the diversity of the foundation's investments. The foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Silicon Valley Community Foundation 2017 IRS 990 for the fiscal year ending December 31, 2017, was not used.
4	J. Paul Getty Trust	Declined to participate; insufficient public data for analysis.
5	Lilly Endowment Inc.	According to the foundation's most recent publicly available filing of the IRS Form 990-PF as of October 1, 2019, which is the Lilly Endowment Inc. 2018 IRS 990-PF for the fiscal year ending December 31, 2018, the foundation's investments are primarily in the form of Eli Lilly and Company common stock contributed by its founders and passive index funds. It does not rely on external asset managers and therefore cannot be analyzed in this study.
6	The Robert Wood Johnson Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The Robert Wood Johnson Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
7	Foundation to Promote Open Society	According to the foundation, the assets of the Foundation to Promote Open Society are invested in the Quantum Fund which is advised by Soros Fund Management (SFM). The vast majority of this capital is invested with internal SFM portfolio managers and the balance of the capital is invested in select external managers identified by SFM. These data were not available to us, and therefore the Foundation to Promote Open Society cannot be analyzed in this study.
8	The William and Flora Hewlett Foundation	Declined to participate; insufficient public data for analysis.
9	W.K. Kellogg Foundation	Declined to participate; insufficient public data for analysis.
10	Bloomberg Family Foundation Inc	According to the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The Bloomberg Family Foundation Inc 2017 IRS 990-PF for the fiscal year ending December 31, 2017, the foundation's investments are held by the Bloomberg family office. It does not rely on external asset managers and therefore cannot be analyzed in this study.
11	The David and Lucile Packard Foundation	Declined to participate; insufficient public data for analysis.

12	John D. and Catherine T. MacArthur Foundation	The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the John D. and Catherine T. MacArthur Foundation [Consolidated] 2017 IRS 990-PF for the fiscal year ending December 31, 2017. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending December 31, 2017, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
13	The Andrew W. Mellon Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The Andrew W. Mellon Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
14	Gordon and Betty Moore Foundation	Declined to participate; insufficient public data for analysis.
15	The Leona M. and Harry B. Helmsley Charitable Trust	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The Leona M. and Harry B. Helmsley Charitable Trust 2017 IRS 990-PF for the fiscal year ending March 31, 2018.
16	Walton Family Foundation	The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Walton Family Foundation, Inc. 2017 IRS 990-PF for the fiscal year ending December 31, 2017. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending December 31, 2017, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
17	Tulsa Community Foundation/George Kaiser Family Foundation	The asset manager data used in this study was drawn from the George Kaiser Family Foundation 2017 IRS 990, for the fiscal year ending December 31, 2017. The George Kaiser Family Foundation is a Type I supporting organization to the Tulsa Community Foundation (see George Kaiser Family Foundation 2017 IRS Form 990 (fiscal year ending December 31, 2017), pgs. 90-91), which means it is supervised or controlled by the TCF (see IRS, "Supporting Organizations - Requirements and Types," available at https://www.irs.gov/charities-non-profits/charitable-organizations/supporting-organizations-requirements-and-types). For purposes of this analysis, we have analyzed the invested assets that are publicly available in the George Kaiser Family Foundation's 2017 IRS 990. The Tulsa Community Foundation's 2017 IRS 990, for the fiscal year ending December 31, 2017, does not provide sufficient data on invested assets to be included in this analysis.
18	The JPB Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The JPB Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
19	The Rockefeller Foundation	The total investment asset amount used in this study was drawn from The Rockefeller Foundation 2018 IRS 990-PF for the fiscal year ending December 31, 2018. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending December 31, 2018, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
20	The Kresge Foundation	The asset manager data used in this study was provided directly by The Kresge Foundation. The data reflects The Kresge Foundation portfolio as of December 31, 2018.
21	Open Society Institute	According to the foundation, the assets of the Open Society Institute are invested in the Quantum Fund which is advised by Soros Fund Management (SFM). The vast majority of this capital is invested with internal SFM portfolio managers and the balance of the capital is invested in select external managers identified by SFM. These data were not available to us, and therefore the Open Society Institute cannot be analyzed in this study.
22	The Duke Endowment	Declined to participate; insufficient public data for analysis.
23	The California Endowment	Declined to participate; insufficient public data for analysis.
24	Carnegie Corporation of New York	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Carnegie Corporation of New York 2016 IRS 990-PF for the fiscal year ending September 30, 2017.

25	Robert W. Woodruff Foundation	The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Robert W. Woodruff Foundation 2018 IRS 990-PF for the fiscal year ending December 31, 2018. The asset manager data used in this study was provided directly by the Robert W. Woodruff Foundation.
26	Simons Foundation	Declined to participate; insufficient public data for analysis.
27	Greater Kansas City Community Foundation	According to the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Greater Kansas City Community Foundation 2017 IRS 990 for the fiscal year ending December 31, 2017, the foundation-provided supplemental asset data, as of March 31, 2019, and commentary from the foundation, the foundation's investments are primarily in the form of passive index pools. The foundation does not rely on external asset managers and therefore cannot be analyzed in this study.
28	Chan Zuckerberg Foundation	According to the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Chan Zuckerberg Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017, the foundation's investments are primarily in the form of Facebook common stock. It does not rely on external asset managers and therefore cannot be analyzed in this study.
29	John Templeton Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the John Templeton Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
30	Margaret A. Cargill Foundation	Declined to participate; insufficient public data for analysis.
31	Chicago Community Trust	The figures in parentheses represent the Analyzed AUM of Chicago Community Trust's primary pooled investment portfolios, which together total $1.06 billion. The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Chicago Community Trust 2017 IRS 990 for the fiscal year ending September 30, 2018. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending September 30, 2018, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
32	The Annie E. Casey Foundation	The asset manager data used in this study was drawn from the Annie E. Casey Foundation Inc 2016 filing of the IRS Form 990-PF for the fiscal year ending December 31, 2016. The foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the 2017 IRS 990-PF for the fiscal year ending December 31, 2017, omits the attachments that contain the asset manager data making it insufficient for this analysis.
33	The New York Community Trust	The figures in parentheses represent only the portion of New York Community Trust's invested endowment that the organization itself controls, which is $0.94 billion. The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The New York Community Trust 2018 IRS 990 for the fiscal year ending December 31, 2018. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal period ending July 31, 2019, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
34	Charles Stewart Mott Foundation	Declined to participate; insufficient public data for analysis.
35	Conrad N. Hilton Foundation	Declined to participate; insufficient public data for analysis.
36	The Susan Thompson Buffett Foundation	Did not respond to requests; insufficient public data for analysis.
37	Shelby Cullom Davis Charitable Fund	Did not respond to requests; insufficient public data for analysis.
38	The Wyss Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Wyss Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
39	The William Penn Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The William Penn Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.

40	The Carl Victor Page Memorial Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The Carl Victor Page Memorial Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
41	Maxcess Foundation Inc.	Did not respond to requests; insufficient public data for analysis.
42	Foundation for the Carolinas	The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Foundation for the Carolinas 2017 IRS 990 for the fiscal year ending December 31, 2017. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending December 31, 2017, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
43	Kimbell Art Foundation	Based on information provided directly by the Kimbell Art Foundation, of the foundation's total assets, 85% are charitable use assets, principally its art collection and museum buildings, and therefore not investable. Only 5% of the total assets are managed by external investment firms, which does not meet the study's minimum threshold; accordingly, the Kimbell Art Foundation was excluded.
44	Cleveland Foundation	Declined to participate; insufficient public data for analysis.
45	Ewing Marion Kauffman Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Ewing Marion Kauffman Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.
46	McKnight Foundation	The total investment asset amount used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is The McKnight Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017. The asset manager data used in this study was drawn from the foundation-provided supplemental asset manager data for the fiscal year ending December 31, 2017, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
47	Casey Family Programs	The asset manager data used in this study was provided directly by the Casey Family Programs. The data reflects the Casey Family Programs portfolio as of November 12, 2019.
48	The James Irvine Foundation	Declined to participate; insufficient public data for analysis.
49	John S. and James L. Knight Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the John S. and James L. Knight Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017. In addition, the foundation provided supplemental asset manager data for the fiscal period ending June 30, 2018, which was used in conjunction with the data from the IRS 990 to assess the diversity of the foundation's investments.
50	Richard King Mellon Foundation	The asset manager data used in this study was drawn from the foundation's most recent publicly available filing of the IRS Form 990 as of October 1, 2019, which is the Richard King Mellon Foundation 2017 IRS 990-PF for the fiscal year ending December 31, 2017.

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FOR FOUNDATIONS, INVESTING FOR EQUITY STARTS WITH TRANSPARENCY

The multi-trillion-dollar asset management industry is an important source of wealth, opportunity and influence. Yet, at a time of heightened concern for equity and inclusion, only about 1% of U.S.-based assets are managed by firms owned by women or minorities.

The John S. and James L. Knight Foundation is a customer of this industry. We are also committed to diversity, including in who manages our investments. Today, more than one-third of our endowment, over $700 million, is successfully managed by diverse-owned firms.

In our experience, the first step toward equity is meaningful transparency. So, we asked the 50 largest U.S. foundations what percentage of their endowments were entrusted to asset management firms substantially owned by women or minorities. We sincerely appreciate the 25 foundations that joined us in making adequate data available for public analysis. They inlcude:

Carnegie Corporation of New York
Foundation for the Carolinas
The Annie E. Casey Foundation
Casey Family Programs
The Chicago Community Trust
Bill & Melinda Gates Foundation
Robert Wood Johnson Foundation
The JPB Foundation
Ewing Marion Kauffman Foundation
The Kresge Foundation
John D. and Catherine T. MacArthur Foundation
McKnight Foundation
The Andrew W. Mellon Foundation
Richard King Mellon Foundation
The New York Community Trust
The Carl Victor Page Memorial Foundation
William Penn Foundation
The Rockefeller Foundation
Silicon Valley Community Foundation
John Templeton Foundation
Tulsa Community Foundation/George Kaiser Family Foundation
Walton Family Foundation
Robert W. Woodruff Foundation
Wyss Foundation

The 26 participants reported an average of 13% of their endowments were invested by firms owned by women or minorities. Like Knight Foundation, these institutional investors are finding value in diversity. But much more can be done.

Visit **kf.org/diverseownership** to read our study on Diversity of Asset Managers in Philanthropy, access research on ownership and performance, and learn about Knight's experience with diverse-owned firms.

KNIGHT FOUNDATION
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NATIONAL BUSINESS
INCLUSION CONSORTIUM
2021
NBIC PUBLIC POLICY BRIEFING MEMO
REPRESENTING OVER $9 TRILLION IN ECONOMIC IMPACT
from America's diverse business communities
nglcc
Disability:IN
NaVOBA
USHCC
USPAACC
WEConnect INTERNATIONAL
WIPP
WBENC

NATIONAL BUSINESS INCLUSION CONSORTIUM

2021 NBIC Public Policy Briefing Memo

EXECUTIVE SUMMARY

Equality is good for business. It's even better for the vitality of our national economy.

That is the guiding principle behind the National Business Inclusion Consortium (NBIC), a coalition of the nation's leading business organizations representing diverse communities, and its allies in various business ecosystems. The diversity of leadership within the new Biden-Harris Administration, as well as throughout the 117th Congress, is a stunning affirmation that this country rejects a long history of discrimination and inequity that have kept too many from achieving all that they can. It is our fundamental, shared belief that everyone deserves a shot at the American Dream, and that our economy only succeeds when that dream is achievable by *all* Americans. NBIC firmly believes that a policy agenda that reflects a commitment to racial justice must be at the heart of all we hope to collectively accomplish.

In that spirit, the following recommendations to the Administration, its agency heads, and the leadership of both Houses of Congress reflect a subset of NBIC organizations, which include: National LGBT Chamber of Commerce (NGLCC); U.S. Black Chambers, Inc. (USBC); United States Hispanic Chamber of Commerce (USHCC); Disability:IN; the United States Pan Asian American Chamber of Commerce (USPAACC); and Women Impacting Public Policy (WIPP). Additional collaborating partners of the NBIC, along with their background information, are listed at the end of this document.

We stand ready to be proactive policy and advocacy partners in the important work of creating equity, opportunity, and access for every American.

WHO IS THE NATIONAL BUSINESS INCLUSION CONSORTIUM?

Launched in 2011, the NBIC advocates for the business interests of a diverse range of people, including the lesbian, gay, bisexual, and transgender, ethnic minority, disability, veteran, and women-owned business communities. Altogether, these communities **represent over $9 trillion in annual consumer spending power and significant contributions to the marketplace and workplace.**

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The NBIC encourages parity in cross-segment diversity and inclusion initiatives in corporate America and works to identify areas of collaboration among diverse businesses. It advocates for the advancement of policies that support the growth of diverse-owned companies in both the public and private sectors, including tax policy, equitable healthcare, and more.

PUBLIC POLICY GOALS & RECOMMENDATIONS TO LAWMAKERS:

- **EQUITY IN ACCESS TO CAPITAL / PPP / RECOVERY FUNDING:**
  - Utilize NBIC's tremendous reach, including its network of community-based business organizations and lending partners, to advance fair, equitable, and inclusive ways to disburse funds to struggling and underserved minority and diverse businesses and regions;
  - Increase or extend the coverage of PPP to include 1099 contractors who had been hired to do the work of W-2 employees who had to leave their jobs because of COVID-19 illness or related issues such as care of aging parents, spouse or children
  - Minority Equity Fund should be established at Dept. of Treasury led by diverse economic experts and collaboration with NBIC
    - Debt and Equity Options: Congress should work to ensure that all financial institutions, especially FinTech's, asset managers, and diverse capital funds, are treated fairly in the lending process and that financial facilities allocated to Treasury, the SBA, and the Federal Reserve Bank be granted to these groups to help with our economic recovery.

- **PROMPT PAYMENT FOR DIVERSE FEDERAL SUPPLIERS**
  - We encourage leaders to utilize both public and private options, such as minority-owned CDFIs, to establish a more predictable and steady cash flow that is necessary to finance day-to-day operations, while concurrently investing in growth and job creation.
  - Small, diverse businesses are an invaluable part of the federal supply chain; however, their cash flow and fiscal concerns are vastly different than those of larger entities from whom the government may contract.
    - Companies of all sizes expect a level playing field, fair treatment, and prompt payment for the goods and services they provide.

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- A 2019 report from American Express found that cash flow problems prevent 32 percent of small businesses from being able to pay their own vendors, pay off loans, or pay employees on time
- A 2016 survey by the SBA found that fear of not getting paid prevents almost 25 percent of U.S. small businesses from entering the global import-export market; a major concern in an ever-globalizing economy

  - As the Treasury Department's own website states:
    - "If a vendor submits a proper and valid invoice to the right people in a federal agency, the agency must pay the invoice on time. If not, the payment is late."
    - "Bills are to be paid [by the federal government] within **30 days** after receipt and acceptance of material and/or services - or - after receipt of a proper invoice whichever is later."
    - Both statistical and anecdotal evidence confirms that diverse small business owners simply do not see this as a reality for them

- **INCLUSIVE DEFINITION OF DIVERSE FEDERAL CONTRACTORS:**
  - We encourage the federal government to holistically review its definitions of "diverse" and "minority" to reflect the dynamic spectrum of diversity in the American economy, as reflected by the NBIC and its partners
    - Public sector contracting agencies at the State, County, City, and Municipal Agency level across the nation have intentionally worked with many NBIC groups to expand such definitions and opportunities to include those left out from ethnicity/gender-based programs, ie; LGBTQ-, disability-, and veteran-owned business enterprises
  - Recommend that programs for capacity building and grant opportunities review efforts to be fully-inclusive of all diverse and disadvantaged business communities;
    - Even the Small Business Administration's 8(a) Business Development program for small disadvantaged businesses does not include language the explicitly welcomes those from historically discriminated communities

- **ENSURE ACCESSIBILITY and INCLUSION FOR ALL ABILITIES:**
  - Ratification of the Convention on the Rights of Persons with Disabilities
  - Establishment of a permanent office of International Disability Rights at the U.S. State Department
  - Formalized partnership with and inclusion of disability-owned businesses at the U.S. Small Business Administration

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- **IMPROVED RFP COORDINATION BETWEEN OSDBUs AND NBIC ORGANIZATION**
    - Establishing a direct link and regularly conversations between OSDBUs and NBIC member organizations would streamline processes of increasing contracting opportunities for diverse business owners:
        - "The Office of Small and Disadvantaged Business Utilization (OSDBU) is an advocacy and advisory office responsible for promoting the use of small, small disadvantaged, 8(a), women-owned, veteran-owned, service-disabled veteran-owned, and HUBZone small businesses within the U.S. Department of Commerce's (DOC) acquisition process." https://www.osec.doc.gov/osdbu/

- **BROADEN PARTICIPATION BY DIVERSE BUSINESS COMMUNITIES IN CONTRACTING, ESPECIALLY IN INFRASTRUCTURE PROJECTS**
    - House and Senate Small Business Committees should review the current laws and regulations relating to contract 'bundling' issues, especially a review of category management, that prohibits and discourages small businesses from competing for government contracting opportunities
    - "The U.S. DOT's Disadvantaged Business Enterprise (DBE) program was designed to include small business groups on federally assisted highway, transit, airport and transportation-safety projects. The program embraces the concept of engaging women, veterans and minority and small business owners in the transportation industry as contractors and skilled workers."
    - Expanding DOL: Participation Goals for Minorities
        - "Goals under Executive Order 11246, as amended, do not require that any specific position be filled by a person of a particular sex, race, or ethnicity. Instead, the requirement is that contractors engage in outreach and other efforts to broaden the pool of qualified candidates to include minorities and women."
        - This should be expanded, per recommendations above, to explicitly include additional diverse business communities represented by NBIC and its partners
            - OMB should explicitly indicate goals on all proposals and contracts for federal spending across all federal agencies

- **Expand Technical Assistance and Resource Grants to Minority Businesses**
    - Allocate $3 billion of funding to the Economic Development Administration (EDA). Grants from EDA provide resources directly to state and local government entities, tribal institutions, institutions of higher education, and non-profits to fund initiatives that support economic development.

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- Allocate additional funding to the Minority Business Development Agency (MBDA) at the Department of Commerce to continue COVD-19 business relief and recovery programing
- Provide relief for small businesses, minority-owned businesses, and nonprofits by prohibiting debt collection and requiring forbearance and loan modifications through a temporary credit facility.
- Temporarily suspend negative credit reporting for consumers and advance reforms to the credit reporting industry.
- Expand banking services for minority businesses and strengthen support for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) to serve these communities.

- **ENCOURAGE BOARD and COMMISSION REPRESENTATION and DIVERSITY**
  - Introduce legislation and/or agency guidance recommending diversity goals on Boards of Directors / Governing Boards
    - Extend those recommendations to federal agency commissions and working groups
    - Leverage public sector models (ie: California's AB 979) and private sector policies (ie: NASDAQ's proposal to advance board diversity and enhance transparency of diversity statistics) for reference, potentially housed under United States Office of Personnel Management (OPM) with input from NBIC members and diverse business stakeholders with recommendations
  - Establish a task force within the White House called the "White House Small and Minority Business Task Force" to address procurement policies, federal agency goal setting metrics, and defining necessary technical assistance programs to expand the reach of federal procurement into minority communities
  - Establish an external Diverse Business Advisory Committee for each agency to assist with issues like procurement goals, program dissemination, and other relevant items
    - Ie: SBA's Obama-era Council on Underserved Communities Advisory Board

- **CODIFY NON-DISCRIMINATION POLICIES ACROSS FEDERAL SPENDING**
  - Clarify agency policies protecting diverse employees also include contractors and vendors to the government
  - Make a strong public policy statement that discriminatory acts against one ethnic group-- whether it is against Natiive American Tribes, LGBTQ Americans, Black Americans, Hispanic Americans, Pan Asian Americans, etc-- is discrimination against all. It humiliates and denigrates all minorities, is a violation of human

dignity and rights, hurts the national economy and should not be tolerated by anyone engaged in contracts that utilize public dollars.

CURRENT NBIC MEMBER ORGANIZATIONS INCLUDE:

- National LGBT Chamber of Commerce (NGLCC)

  The National LGBT Chamber of Commerce (NGLCC), the business voice of the LGBT community, is the only national advocacy organization dedicated to expanding economic opportunities for the LGBT business community. NGLCC is the exclusive third-party certifying body for Certified LGBT Business Enterprise® (Certified LGBTBE®) companies. Over 1/3 of Fortune 500 recognize this certification and partner with NGLCC to create fully LGBT-inclusive supply-chains. The LGBT business owners NGLCC represents generate over $1.7 trillion in economic impact, create jobs and innovate business solutions nationwide. Additionally, NGLCC is the leading public policy advocate working to include Certified LGBTBE® businesses in procurement opportunities at the federal, state and local level.

- Disability:IN (formerly USBLN)

  Disability:IN is the leading nonprofit resource for business disability inclusion worldwide. Partnering with more than 240 corporations, Disability:IN expands opportunities for people with disabilities across enterprises. The organization is the exclusive third-party certifying body for certified Disability-Owned Business Enterprises (DOBE®), Service-Disabled Veteran Disability-Owned Business Enterprises (SDV-DOBE®), and Veteran Disability-Owned Business Enterprises (V-DOBE®).Through its programs and services, Disability:IN empowers businesses to achieve disability inclusion and equality.

- National Minority Supplier Development Council (NMSDC)

  Chartered in 1972, The National Minority Supplier Development Council (NMSDC) was stood up as a result of the civil rights movement in the late 1960s and continues to be the leading minority business development organization in the United States. NMSDC supports the economic sustainability of more than 12,000 certified minority business enterprises (MBEs) and advances minority business development by facilitating procurement opportunities between its certified MBEs and its network of Corporate Members. The NMSDC network includes a National Office in New York, 23 affiliate regional councils, five

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international partner organizations and the Business Consortium Fund (BCF) as its funding arm.

- National Veteran-Owned Business Association (NaVOBA)

  NaVOBA provides a direct link for contracting between corporate America and Certified Veteran's Business Enterprises™ (VBE) and Certified Service-Disabled Veteran's Business Enterprises™ (SDVBE). NaVOBA's mission is to create corporate contracting opportunities for America's Veteran's and Service-Disabled Veteran's Business Enterprises (VBEs/SDVBEs) through certification, advocacy, outreach, recognition and education. For more information visit us on the web at http://www.navoba.org or follow us on Facebook at www.facebook.com/navoba and on Twitter @navoba.

- U.S. Black Chambers, Inc (USBC)

  The U.S. Black Chambers (USBC) is at the forefront of advocating for resources to support Black business owners. Through the creation of resources and initiatives, USBC supports African American Chambers of Commerce and business organizations in their work of developing and growing Black enterprises.

- United States Hispanic Chamber of Commerce (USHCC)

  The United States Hispanic Chamber of Commerce (USHCC) actively promotes the economic growth, development, and interests of more than 4.7 million Hispanic-owned businesses that, combined, contribute over $800 billion to the American economy every year. It advocates on behalf of its network of more than 250 local chambers of commerce and business associations nationwide, and also partners with more than 260 major American corporations. For more information, please visit ushcc.com.

- United States Pan Asian American Chamber of Commerce (USPAAC)

  Founded in 1984, USPAACC is the most established and effective voice advocating for equal opportunity for the 22.2 million Pan Asian Americans (includes East, South and Southeast Asian American and Pacific Islander) with $900 billion in purchasing power, and the 13 million businesses that produced $700 billion in annual revenue (US Census 2020). For 35 years, USPAACC has been the unified voice of the Pan Asian American business community. When our certification program began 20 years ago, we traveled across America to educate Pan Asian Americans in the efficacy of being certified as an Asian American and Minority business. Because of that, USPAACC has increased the diversity and number of qualified minority suppliers and vendors available to governments, corporations and large nonprofits. We now have a grassroots presence with regional chapters in the Northeast, Southeast, Midwest, Southwest and West, and in the Washington, DC-Maryland-Virginia area. USPAACC Advocacy also has cultivated and developed relationships with policy and decision-makers in the U.S. Congress, the Executive Branch, national trade associations, and think tanks. Federal and state officials, the media, and academic researchers often seek our views on issues affecting the economy and international trade and commerce.

- WEConnect International

  WEConnect International helps women-owned businesses succeed in global value chains. It identifies, educates, and certifies women's business enterprises based outside of the U.S. that are at least 51% owned, managed, and controlled by one or more women, and then connects them with qualified member buyers. WEConnect International members represent over US$1 trillion in annual purchasing power and a commitment to supplier development and inclusive sourcing. The result is a network of corporate buyers working with women business owners based in over 100 countries that are learning, collaborating and winning new business.

- Women Impacting Public Policy (WIPP)

  WIPP is a national nonpartisan organization advocating on behalf of women entrepreneurs—strengthening their impact on our nation's public policy, creating economic opportunities, and forging alliances with other business organizations. The issues cover a broad range of current legislation and/or policies such as affordable health care, leveling the playing field for women-owned businesses, opening up federal procurement policies for women-owned businesses, the implementation of well-established federal law which seeks to encourage women in the marketplace, tax policies, energy, telecom, etc.

- Women's Business Enterprise National Council (WBENC)

  WBENC is the largest third-party certifier of businesses owned, controlled, and operated by women in the United States. WBENC partners with 14 Regional Partner Organizations (RPOs) to provide its world-class standard of certification to women-owned businesses throughout the country. WBENC is also the nation's leading advocate of women-owned businesses and entrepreneurs. Throughout the year, WBENC provides business development opportunities for member corporations, government agencies and close to 16,000 certified women-owned businesses at events and other forums. Learn more about WBENC.

New America Alliance

March 17, 2021

The Honorable Maxine Waters
Chairwoman, House Committee on Financial Services
United States House of Representatives
2221 Rayburn House Office Building
Washington DC 20515

The Honorable Joyce Beatty
Chairwoman, Subcommittee on Diversity and Inclusion
House Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515

Re: By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity, and Inclusion – Statement for the Record

Congresswoman Waters and Congresswoman Beatty,

First, thank you for holding this particularly important and timely hearing. As we finally exit what has been one of the darkest periods in our country's history, with a once-in-a-generation pandemic that disproportionally ravaged communities of color, to historic levels of social unrest in the aftermath of the tragic murder of George Floyd, and too many others, our nation must do better to empower our diverse communities and that begins with transparency and collecting timely and accurate data.

Founded in 1999, the New America Alliance is a national organization of Latino business leaders dedicated to advancing the economic development of the American Latino community. Our members leverage their success and influence as leading money managers to increase the availability of investment capital for women and minority-owned firms, and to accelerate diverse leadership in entrepreneurship, corporate America, and public service. We passionately believe access to investment capital for women and minority-owned businesses is one of the last frontiers of the civil rights movement. The availability of capital means the difference between a community that can build both individual and community wealth through flourishing businesses and job opportunities, and those communities that stagnate, with ever higher levels of poverty and lack of opportunity.

In many ways, the COVID-19 pandemic amplified many of the social inequities that access to capital for women and minority-owned businesses could help address. Ethnic communities, where a historic lack of economic opportunities and investment have defaulted entire populations into "essential" work, vastly increased the incidence of infection, severity, and lethality of the virus.

To understand why this lack of opportunities has existed for so long in ethnic communities, our analysis must first be informed with accurate data. Simply put, the more we know about how these communities experienced the pandemic and the circumstances that lead to that experience, the better you will be able to craft policy solutions to reinforce and uplift them.

In closing, the reason why we refer to access to capital as one of the last frontiers of the civil rights movement is because, for too long, we did not systematically measure the impact lack of capital has had on communities of color. While voting rights, civil rights and other movements flourished, access to capital was left on the sidelines. But we do not know what we do not know. In many ways, the lack of transparency and the lack of accurate and timely data on how institutional investors were deploying capital enabled the "business as usual" approach to investing that has driven much of the inequality we see today. We have, through data, been able to make the case to policy makers and institutional investors on the struggles ethnic communities face in accessing capital, and through additional data and analysis, we will be able to move the pendulum even further.

Again, the New America Alliance applauds you for holding this hearing at a time when we need more transparency and data about this important subject. If there is any way we can be of assistance to you and your teams, please let us know.

Respectfully Submitted,

Solange F. Brooks

Solange Fernández Brooks, Chief Executive Officer
New America Alliance

Statement of Representative Anthony Gonzalez

In response to Rep. Tlaib's allegations around auto insurance underwriting and racial discrimination, I would note that the Majority called a witness before the Committee in May 2019 who reported that auto insurance premiums average $1,277 a year in Cleveland versus $5,414 a year in Detroit. Until recently, Michigan was the only state in the country that mandated no-fault, unlimited Personal Injury Plan auto insurance. Every auto insurance policy in Michigan had to cover unlimited medical damages. Of course, the coverage is going to be ludicrously expensive. On a bipartisan basis, Michigan made changes to its state law to address this problem – which was a Michigan problem, not an Ohio problem or a federal problem for Congress to deal with. Affordable auto insurance is available to Ohioans regardless of their race, thanks to our sensible state-based regulatory framework and competitive market with multiple insurers competing for business.

'Racial bias runs deep' at America's largest banks, study says

By Chauncey Alcorn, CNN Business
Updated 6:58 AM ET, Thu March 18, 2021

New York (CNN Business) — The banking industry has a race problem, and a new study is putting a spotlight on the inequalities within the nation's largest financial institutions.

For people of color, the chances of getting promoted to the highest levels of management or senior and executive leadership at some of the nation's most powerful consumer banks are much lower compared with their White peers, according to the report, which was conducted by the Committee for Better Banks and obtained by CNN Business.

"Racial bias runs deep," the report concluded.

That's true for much of Corporate America. The tech industry, in particular, has come under fire for its hiring practices. But Nick Weiner, the CBB study's lead author, says the lack of minority representation in financial services has some of the most wide-ranging consequences.

The financial services industry provides "critical infrastructure for the national economy, helping people and businesses process transactions, raise money for new ventures, and facilitate services like insurance and employee benefit programs," the study said.

"Banks are so essential to everyone being able to function in society and in our economy," Weiner told CNN Business. "There's an important high bar that banks need to meet for diversity and inclusion."

Some of the financial institutions that publicly condemned racism in the aftermath of the police killing of George Floyd last year have a track record of keeping African American, Latino and Asian bank tellers and call center employees stuck in low and entry-level jobs, dimming their prospects for climbing the career success ladder, according to the report.

CBB is a coalition of bank employees, consumer advocacy groups, and labor organizations. Last summer, the group's researchers began gathering and analyzing demographic data on the workforces at 13 of the nation's largest consumer banks, which are legally required to provide some of the same information to the Equal Employment Opportunity Commission.

The Bank of America Tower stands in New York City on June 9, 2020.

What the study found

The report, titled "Advancing Racial Justice for Frontline Bank Workers," graded 13 major banks based on three categories: their willingness to disclose workforce demographic data, their levels of diversity across the job classification hierarchy, and how employees of color fare in career advancement relative to their White peers.

CBB gave a final overall grade of "C" for diversity and inclusion to the collective financial services industry.

The overall industry received "D's" for Black and Latino representation and a "C" for Asian representation.

Asian Americans fared better than Black and Latino workers throughout the report.

Black employees fared the worst when it comes to career advancement at the banks examined, the study said. The overall industry received "C's" for the career advancement of African Americans and Latinos and a "B" for Asian Americans.

"None of them performed that great," Weiner said of the banks.

Grading the banks

None of the banks received an overall grade higher than a "C."

The top grades went to Bank of America, Capital One, Citibank and JPMorgan Chase — a "C" means their diversity metrics are on par with the larger industry.

The report gave the lowest grades to banks that provided incomplete data or declined to provide any. Only five of the 13 banks — Bank of America, TD Bank, Citibank, JPMorgan and Capital One — provided CBB's researchers with all the stats the group deemed necessary to complete its report.

researachers with data on "the total number of employees within race groups at the company" and in some cases declined to break down their percentage of Black, Latino, and Asian employees.

"Because accountability begins with transparency, banks that did not disclose data were judged accordingly," the study authors wrote.

US Bank said CBB's findings are not accurate and do not reflect data the company has publicly released, including the 2020 Environmental, Social and Governance report available on its website, which does contain its workforce demographic statistics.

Truist Bank told CNN Business its workforce demographic data is included in its 2020 corporate social responsibility report, which CBB did not include in its findings. A Truist spokesman said the CBB report also did not include details on its diversity, equity and inclusion efforts.

The bank says it submits demographic data to federal regulators and lawmakers in compliance with the Dodd-Frank Act. Data provided to CNN Business shows Truist's board of directors includes 31.8% women and 18.2% people of color. The data also shows Truist's senior and executive leaders are 22.1% women and 11.8% people of color.

Truist said it has always been committed to diversity, equity, and inclusion —but events like the police killing of George Floyd caused the company to become even bolder in its stance.

"Like millions of our fellow citizens, we have taken an introspective look at where the country is today and where we, as Truist, need to go," the bank wrote in its 2020 CSR report. "We will work diligently to help bridge our nation's gap in economic inequality, to ensure our company reflects the diversity of the communities we serve, and to invest in organizations aligned with our aspirations for equity."

Bank of the West and Santander refused to disclose any demographic information, according to the CBB report. Bank of the West's CEO Nandita Bakhshi, who is Indian-American, says she disagrees with CBB's findings, noting her bank was recognized by Forbes as one of the best employers for diversity in 2020.

"My executive leadership team is more than 30% women, nearly one-third people of color, and 50% diverse - speaking 10 different languages," Bakhshi told CNN Business in an emailed statement. "I lead with and empower diversity because I believe this is the only way we can achieve a sustainable future. I am confident in our DEI credentials. Our diversity is one of the reasons that we are a fundamentally different bank and the leading sustainable bank in the country."

Santander declined to comment on the report. JPMorgan, Bank of America, and Capital One did not respond to requests for comment.

Wells Fargo acknowledged it had more work to do on diversity and inclusion, while noting the bank "values diversity and inclusion not just as a business imperative, but because it's the right thing to do."

Citibank said it publicly reported its own workforce demographics last year and expects to increase the ratio of Black representation in select leadership roles to at least 8% by the end of this year. HSBC said it published its demographic data on its own in October.

Wells Fargo employee Ted Laurel, 38, stands outside a Wells Fargo location in the San Antonio metro area in March 2021.

Career advancement disparities

Black and Latino employees at all the banks evaluated face "strong unfavorable disparities" compared with White employees when it comes to career advancement, according to the analysis, which found a trend of "decreased diversity at higher employment levels within all eight banks" that provided demographic data.

Citibank and Bank of America employees of color had the best chance of reaching the highest ranks when compared with their White counterparts. Black Citibank employees had a 27% chance of becoming a senior or executive leader compared with their White peers. Latino Citibank employees had a 23% chance compared with White employees.

"Meanwhile, Black employees [at Citibank] are 2.3 times and Latino employees are 1.8 times more likely than White employees to hold entry level positions," the study authors wrote.

Black Bank of America employees had a 23% chance of being an executive when compared to their White colleagues, according to the report. Latino BofA employees have a 16% chance of reaching the executive ranks. Respectively, Black and Latino BofA employees are 3.75 and 5.05 times more likely to hold entry level positions than their White peers, researchers found.

"Based on these findings, the Committee for Better Banks concludes more robust policies must be adopted and enforced to address systemic racism in the banking sector," the study authors wrote.

What banks need to do

Researchers recommended the banks agree to detailed workforce demographic data disclosure and transparency.

pipeline and link executive pay with diversity benchmarks that include "transparent enforcement."

Citibank says it already has implemented all of CBB's policy recommendations on its own prior to the release of the group's study.

Charles W. Scharf, CEO of Wells Fargo, arrives to testify during the House Financial Services Committee hearing on Capitol Hill in Washington D.C. on March 10, 2020.

Employees push for change

Mexican-American Wells Fargo account resolution specialist Ted Laurel, 38, of San Antonio, says he has held the same position with the company for eight years and has never been promoted despite receiving multiple raises and positive reviews from managers at his call center.

"I've applied for 15 promotions at Wells, but have not received a single interview," Laurel told CNN Business. "It makes me feel very deflated."

Wells Fargo rebutted Laurel's claims about his work history, but declined to comment further.

Laurel, an Army Reserve veteran and father of eight, says his Black and Brown coworkers have all had similar experiences. He says employees at Wells Fargo have been demanding change ever since the company's CEO Charles Scharf came under fire for blaming the bank's lack of Black executives on a "very limited pool of Black talent to recruit from" in a memo circulated in the aftermath of the George Floyd tragedy last June.

Scharf apologized for those remarks in September. Laurel said employees at his call center participated in a conference call with Scharf in December during which they aired their grievances about lack of career advancement opportunities, an issue he says still has not been addressed.


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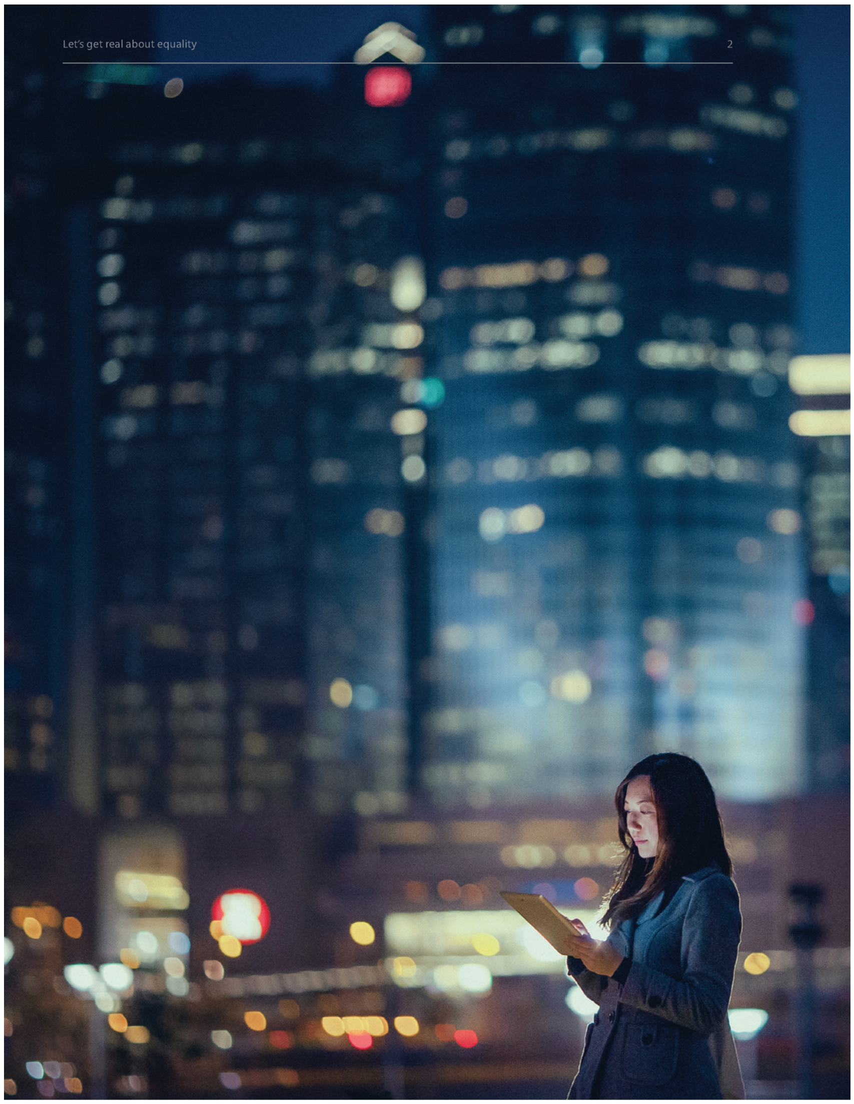
welcome to brighter
let's get real about
equality
When Women Thrive offers an evidence-based approach to improving diversity and inclusion. For our 2020 global report, we surveyed more than 1,150 companies in 54 countries, representing over seven million employees worldwide. Uncover the active measures you can take to ensure equality of opportunity, experience and pay — and nurture an inclusive culture.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01 Foreword

Today's leaders are quick to point out how focused they are on empowering women and how hard they're working to build diverse teams, but it's time to get real about it. We're still a long way from gender equality.

Across industries and geographies, women continue to face challenges — from unfair treatment to unequal pay and limited access to opportunity for career development and advancement. These stubborn realities are why, six years ago, we at Mercer founded our **When Women Thrive, Businesses Thrive** research and consulting practice.

Since then, we've gone from proving the business case for gender equality to how to accelerate the trajectory and get it done. We're continuing to invest in this research for our clients because diversity and inclusion are good not only for business but also for the society we share. Significantly, we've almost doubled the number of respondents participating in our 2020 research compared to our 2016 report. The research now represents 1,157 organizations with 7 million employees from 54 countries.

This surge in participation includes many organizations in emerging markets, demonstrating that gender equality is no longer just an issue for the mature economies — indeed, it has evolved into a global imperative. In this year's research, 81% of our respondents across all regions rated diversity and inclusion as "important" or "very important."

Still, we found that women's representation has only slightly improved: 40% of the global workforce is female, up from 38% in 2016. Female representation in executive and senior management levels also saw a modest 3% uptick.

Progress, yes, but not enough. We know that diverse teams bring value to organizations, and a substantial and growing body of research shows that companies with a more equal gender balance substantially outperform those without. But study after study shows that women, people of color, LGBTQ+ people and those with disabilities remain vastly underrepresented in leadership roles and executive positions.

Only 33 companies on the Fortune 500 are run by women — that's about 7%. In terms of board seats at those same companies, only about one-third are held by women and minorities. What will move the needle toward gender equality and true diversity and inclusion?

Our 2020 **When Women Thrive** research shows that three key components, when put together, will drive real change. Gender equality can thrive at organizations that:

1. **Use data-driven insights** to inform decisions and measure success, leveraging assessments such as Mercer's Internal Labor Market Analysis® methodology and Mercer | EDGE.
2. **Set clear and visible goals** that ensure values don't get diluted.
3. **Drive culture and tone from the top:** A deep leadership commitment to taking action and engaging employees is part of the solution.

Organizations agree on the imperatives of gender equality, diversity and inclusion, so why is progress so slow? I hold that there's not enough accountability. We need leaders who not only believe in the business value of diversity and inclusion but also take responsibility for it, ensuring that it flows throughout the organization — not as a mandate, but as a powerful component of culture.

At Mercer, we routinely take a hard, objective look at ourselves,

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our leaders, our processes and our programs to find opportunities for impact; for example, we did a business impact analysis and found that project teams with greater gender diversity had 28% higher win rates.

Policies, processes and programs need to be aligned and connected to eliminate bias — especially the unconscious bias that leads people to hire and develop people who look, talk and think like they themselves do.

These are challenging goals and aspirations, but the organizations that live up to them will empower themselves and their employees for a better future. Welcome to the brighter horizons outlined in our 2020 research!

Martine Ferland
President and Chief Executive Officer, Mercer

01 About this report

The *Let's Get Real About Equality: When Women Thrive 2020 Global Report* builds upon our seminal 2014 and 2016 research that looked at the achievements made to date and the ground yet to cover. Learnings from this research help guide organizations in the steps they must take to successfully institutionalize the policies, practices and programs that will help ensure equality of opportunity, experience and pay — and ultimately nurture an inclusive culture.

Our 2020 research is notable for its remarkable size and geographic scope, placing it as one of the most comprehensive workforce gender equality studies in the world. We observed a substantial increase in participation from regions where the focus on diversity and inclusion (D&I) is still emerging, but emerging rapidly based on our findings.

Size

1,157
organizations

Scope

2.8 million
women represented globally

Geographic scope

54 countries
in Asia, Australia and New Zealand, Europe, Latin America, Middle East and Africa, North America

Our global and regional responses for each survey question are available for download at www.mercer.com/wwt-research. In addition to this global report, Mercer will publish 17 additional reports in 2020 to share insights and solutions relevant to particular geographies and industries.

About the When Women Thrive survey

Our 2020 global survey was conducted between September 23 and November 22, 2019. Respondents were surveyed on topics relating to:

- Engagement, accountability and leadership
- Organization design and governance
- Pay equity commitments and analysis
- Talent practices and career development
- Financial wellness, health and caregiving
- Organizational flexibility
- Policies and programs

Respondents provided workforce data aggregated by gender, age group and career level for a 12-month period, including starting and ending headcounts, hires, promotions and exits. In addition, US respondents provided race/ethnicity data by gender and career levels.

Data were analyzed using descriptive statistics and Mercer's proprietary Internal Labor Market Analysis® (ILM) mapping, which has been a hallmark of the **When Women Thrive** research.

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Defining diversity, inclusion and gender

For the purposes of the report, we define diversity as a variation in backgrounds, attitudes, values, beliefs, experiences, behaviors and lifestyle preferences with respect to gender; race; ethnicity; nationality; language; age; cognitive and physical abilities and characteristics; sexual orientation; education; religion; socioeconomic situation; marital status; social role; personality traits; and ways of thinking.

We define inclusion as practices that provide an equitable and fair distribution of resources, such as jobs, income and access to opportunities and information, which ultimately drive and support a culture where all members can thrive. Such acts and practices enable all members, including those from underrepresented groups, to be respected and appreciated for their unique contributions and to be fully integrated into the formal and informal networks of an organization.

Mercer encourages organizations to be inclusive of all genders, including cisgender women and men, transgender women and men, and non-binary individuals. Although some organizations are beginning to track the broader spectrum of gender identity in their workforces, most still exclusively track employee gender as male and female, which is reflected in the binary data collected in this research.

This research was conducted in collaboration with EDGE Certified Foundation.

EDGE Certification is the leading global assessment methodology and business certification standard for gender equality. Getting certified validates an organization's ability to create an optimal workplace that benefits both women and men. EDGE Certification provides a competitive advantage by recognizing an organization as a gender-enlightened environment in which to work, invest and do business. Mercer is the exclusive Accredited Licensing Partner for EDGE in the US, UK and Latin America.

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Five years later: How do we boldly shape a diverse global workforce and inclusive culture?

In the five years since Mercer conducted its ground-breaking research and published the landmark global report *When Women Thrive, Businesses Thrive*, "thriving" has embodied the spirt of an era indelibly marked by empowering movements. The pursuit of workforce D&I culture has become a front-and-center pursuit for organizations around the world.

With new and expanded research, *Let's Get Real About Equality: When Women Thrive 2020 Global Report* takes a deep dive into where D&I is now and addresses the critical question, "What actions are needed to boldly shape the future?"

Worldwide, the research provides encouraging evidence of seismic shifts, significant developments and tangible traction as organizations take the steps necessary to make progress. Eighty-one percent of organizations reported that broadly improving D&I is "important" or "very important." Also cause for celebration are concrete gains in hiring, promotion and retention rates of women across all career levels — significant achievements.

Gender equality, though, is only one dynamic in an increasingly ethnically, economically, generationally and educationally diverse workforce. It requires more holistic approaches and systemic changes to ensure that the workplaces of the future are fit for purpose. This means embedding practices that ensure a continued diverse talent flow throughout organizations along with policies that guarantee equal opportunity, experience and pay for all employees. It also means concertedly addressing and meeting the unique needs of women — from health and well-being, to financial wellness and caregiving — and embracing the perspectives, roles and support of middle and frontline managers (men and women).

Though optimistic, we are also realistic. Challenges and barriers remain. When we encourage organizations to "get real," it's a call to take specific actions that will, over time, systematically surmount challenges and knock down barriers. We are biased in favor of incremental steps toward progress over sweeping commitments or pledges that lack a concrete plan of action. After all, achieving equality of opportunity, experience and pay is hard work; let's be smart about how we do it.

Let's Get Real About Equality: When Women Thrive 2020 Global Report enables organizations to progress further from wherever their starting point may be. We provide guidance for those looking to get started and activate, those building on a strong foundation to accelerate or those ready to truly thrive.

At Mercer, our position on "thriving" has evolved along with the times and, fittingly, we are embracing the concept in a more inclusive way. Truly, when women thrive, businesses thrive; we now have more and more examples demonstrating that this is indeed the case. But today, women thriving transcends business. When women thrive, so do men, families, communities, countries and society as a whole. Collectively, by driving equality, we are creating a better, more equitable world for everyone.

02

Pressure cooker

Over the past five years, important factors and forces have emerged and evolved, resulting in increased pressure on organizations for greater progress. This pressure is coming from many directions. So much so, few organizations are untouched in some way:

- **Environmental, social and corporate governance (ESG):** The rise in ESG investing has increased the focus on diversity as a way for stakeholders to measure the social impact of an investment.
- **Disclosure:** We've seen an increase in voluntary disclosure of gender representation by organizations, notably in the tech sector, and a growing recognition among business leaders that gender parity provides a competitive advantage. For example, in September 2018, media company Bloomberg announced the launch of its Gender Equality Index, a partnership with the UK government to track the performance of public organizations with a commitment to advancing women globally.
- **Shareholder activism:** Activism among shareholders is also on the rise, with resolutions promoting further progress and diversity gaining increasing support. For example, in January 2019, Arjuna Capital challenged 12 top banks and technology giants to reveal their median gender pay gap.[1]
- **Regulation and quotas:** More countries, especially in Europe, now have gender quotas for senior executives and boards.
- **Pay-equity mandates:** And, of course, mandates to bridge pervasive pay gaps are high on the agenda. Governments, such as in the UK and France, have issued new reporting requirements on gender-pay differences, with 40 economies enacting 62 reforms that will help women realize their potential and contribute to economic growth and development globally.[2] The pressure isn't coming just from legislation. In one globally galvanizing event, the champion US Women's National Team turned the World Cup soccer playing field into a global stage for equal pay when it filed a lawsuit against US Soccer for parity with male athletes' paychecks.
- **Millennial and Generation Z demands:** These generations have experienced an equality of opportunity and experience in education, sports and more. They expect it in the workplace as well, along with equal pay, and are vocal and active in ensuring they get it.

All of these developments come in an environment where the fundamental role of business is shifting. In August 2019, the influential Business Roundtable[3] signed a pledge to redefine the purpose of a corporation from maximizing profits to committing "to lead their organizations for the benefit of all stakeholders — customers, employees, suppliers, communities, and shareholders."

Larry Fink, Founder, Chairman and CEO of BlackRock, offered the same admonition to businesses: Look beyond quarterly results and collect information on how you are managing sustainability-related questions — including workforce diversity.[4]

Add into the mix countless media headlines; increasing pressure from worker affinity, activist and advocacy groups; and demands from shareholders and stakeholders, and these voices will not be ignored. Plus — and this is a big plus — the business case has been proven, time and time again!

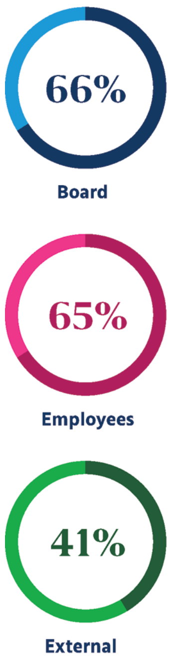
[1] Arjuna Capital. "12 US Banks and Tech Giants Targeted with 'Median Gender Pay Gap' Shareholder Proposal," 13 Feburary 2019, available at http://arjuna-capital.com/news/press-release-12-u-s-banks-and-tech-giants-targeted-with-median-gender-pay-gap-shareholder-proposal.

[2] The World Bank. "40 Economies Make 62 Legal Reforms to Advance Women's Economic Participation," 2020, available at www.worldbank.org/en/news/press-release/2020/01/14/40-economies-make-62-legal-reforms-to-advance-womens-economic-participation.

[3] The Business Roundtable comprises CEOs from a broad spectrum of nearly 200 leading organizations.

[4] Fink L. "A Fundamental Reshaping of Finance," *BlackRock*, 2019, available at www.blackrock.com/uk/individual/larry-fink-ceo-letter?siteEntryPassthrough=true&cid=ppc:CEOLetter:Google:responsive:UK:keyword&gclid=CjwKCAiA66_xBRBhEiwAhrMuLUJfvE5eUOuKpVbse_2fnlOyKy9_9pp3TBeT-jzkLoC9A6XaDLD1uBoCb6AQAvD_BwE&gclsrc=aw.ds.

Organizations receive pressure to improve D&I outcomes from:



Brave new world

Encouragingly, our latest research illuminates optimism-inducing bright spots around the world and across organizations. From positive progress to tremendous gains, these areas demonstrate forward momentum with the potential for lasting impact. In other areas, we found clear learning curves and room to grow.

Over the years, Mercer has gained a better understanding of the evolving D&I universe. For a new organization just opening its doors, we can confidently advise them on the practices, policies, programs and processes necessary to sustain a diverse workplace with an inclusive culture.

For most other organizations, in real terms, reaching that mark will require pushing past parity in hiring, retention and promotion, and getting to root causes of differences in the career trajectories of women compared with men. It will necessitate perseverance over time. These efforts are playing out in a complex global ecosystem with multiple stakeholders under scrutiny — internally and externally — from employees and boards to activist groups and customers. Women representing 50% of the global workforce is still decades away. That's one thing about math: It's undeniable.

So how do we actually get to where we want to go? We lay it out in the three main sections of the report.

Out on the horizon yet within our grasp lies a **Bright Future** (see Section 3). The road has been partly paved by the progress we have made so far, and the signposts are promising. Here, we are learning from what is working and are applying it at warp speed.

- Hiring, promotion and retention of women are all on the rise.
- 81% of organizations say improving D&I is high on their agenda.
- 66% of organizations say senior executives are actively engaged in D&I.
- 72% of organizations are conducting pay-equity analyses.
- 48% of men are engaged in improving gender equality, up from 38% in 2016.

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Vital to activating and accelerating progress is strategically aligning D&I goals with business objectives. Are D&I success measures in one silo and business success metrics in another? Are data and technology being harnessed and maximized across enterprises to empirically guide D&I strategies to increase the probability of success? In Section 4, we examine how to **Walk the Talk**.

Also crucial is cultural alignment. Are our policies saying one thing and our managers doing another? The importance of culture underpinned by core values, as well as processes, programs and accountability, cannot be underestimated. We have to **Hardwire It** into the organization to make it stick (see Section 5).

So, with all hands on deck and rowing together in the same direction, we can most certainly go further, faster. A coordinated effort among organizations, industries, communities and countries will move that proverbial needle to truly ensure equality of opportunity, experience and pay.

The six Ps of an effective gender diversity strategy[5]

The six Ps identified in our 2016 research are as enduring and relevant today as they were when we published the original research. In order to achieve success, organizations need:

1. **Passionate leadership**
   Women thrive when leaders at all levels are passionately engaged.
2. **Personal commitment**
   Women thrive when both men and women are engaged and see gender equality as a win-win.
3. **Perseverance**
   Women thrive when an organization's commitment to gender equality can sustain leadership changes and persevere over time.
4. **Proof of what's helping and what's hurting**
   Women thrive when organizations use data to understand where they have gaps and to build an evidence-based strategy to close them.
5. **Processes that actively support women**
   Women thrive when organizations ensure equity in their talent practices; for example, pay, promotion and performance management.
6. **Programs that support women's unique needs**
   Women thrive when their unique health and financial needs are supported.

[5] Mercer. *When Women Thrive, Businesses Thrive*, 2016, available at www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/WWT-Global-Report-2016.pdf.


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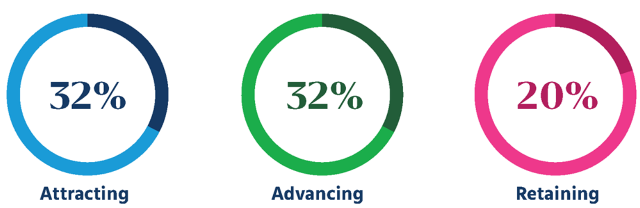
Bright future

First, the good news: Parity in talent flows is now a reality. The latest global ILM map emerging from our research shows that the hiring, promotion and turnover rates (as a percentage of the existing headcount) for women are favorable or comparable to men.
In other words, the average global organization has achieved essential parity in the talent flows that drive representation over the long haul.

This is a brilliant bright spot.

Plus, organizations globally are optimistic about their ability to attract, retain and advance women. Less than a third of organizations globally say that they are challenged by:



03

Mapping the ILM[6]

Every organization operates an "internal labor market." People are selected, learn and develop, perform, advance, and choose to stay or leave in response to the practices and circumstances they experience.

An organization's internal labor market (ILM) dynamics constantly shape its workforce. Ideally, those dynamics are creating the workforce that best meets the business needs of the enterprise, including D&I. A succinct way of representing key D&I dynamics is an ILM map. Such a map is a "system at a glance" visualization of a workforce. A map arrays a workforce by career levels, each having different scopes of responsibility, authority and compensation. An ILM map also displays fundamentally important aspects of talent flows — specifically, the entry and exit of talent by career level and the rates of advancement from lower to higher levels. Visualizing this information by gender can deliver valuable insights.

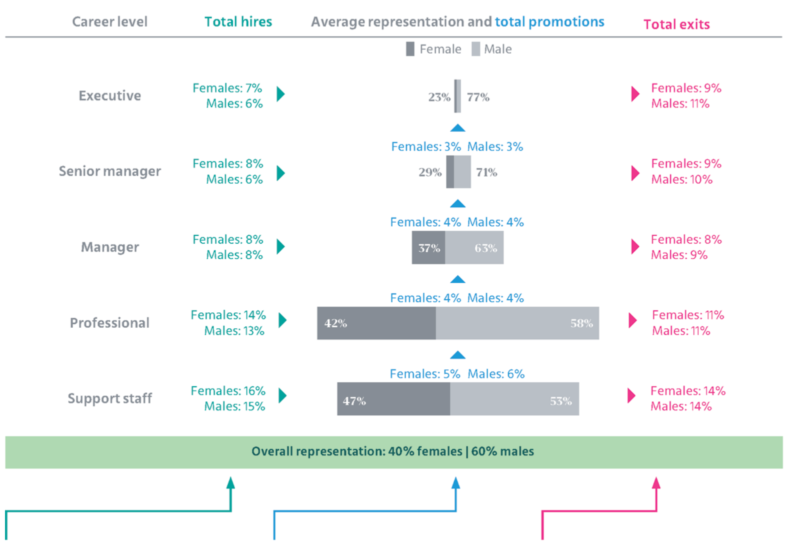
Examples of insights available from ILM maps include:

- **Balance — or imbalance** — of representation of women and men by career level.
- The extent to which an organization "**buys**" its talent via hiring or "**builds**" its talent via promotion into higher career levels. Talent strategies that emphasize one over the other can play out in ways that affect gender equality.
- The presence of "**choke points**"; that is, bottlenecks where rates of advancement into a higher level shrink precipitously. Choke points can occur that disproportionately affect one gender, such as when the chances of promotion for women falls below that of men.
- **Unwanted differences** in talent losses by gender.

ILM maps help track change over time, both to mark progress and to forecast future workforce composition; for example, what will gender representation be five to 10 years from now given current rates of hire, promotion and turnover? The maps also are the starting point for next-step investigation into why unwanted gender differences exist, in order to identify where and what interventions are needed.

[6] Nalbantian HR, Guzzo R, Kieffer D, Doherty J. *Play to Your Strengths: Managing Your Internal Labor Markets for Lasting Competitive Advantage*, McGraw-Hill, 2003.

Internal labor market talent flows



Organizations are generally getting better at bringing women into their talent pipelines at all levels. Female hiring rates modestly exceed those for males across all career levels, with the notable exception of managerial levels, where the hiring rates are equal. This represents a positive shift from 2016, when we saw female hiring more focused at the top levels.

Promotion rates are comparable for men and women. The modest advantage in promotion for women across most career levels in 2016 data is no longer observed.

Turnover rates for women are equal to those for men at the bottom two levels, whereas they are modestly lower than those for men at the top three levels.

03

Global gender gap in perspective: World Economic Forum 2020 report highlights

We saw some good news from the World Economic Forum's latest research — and it may in part be driving the talent flow parity gains we see in the global ILM map.

Women around the world are enjoying increased levels of education and health. Educational Attainment and Health and Survival are much closer to gender parity at 96.1% and 95.7%, respectively. In fact, we may see the Educational Attainment global gender gap closed in just 12 years, mainly thanks to advancements in some developing countries. And closing the Health and Survival gender gap has already been achieved in 40 of 153 countries, according to the 2020 report.[7]

Pushing past parity

Gender parity in talent flows is a critical accomplishment of the past five years and, indeed, an indicator of progress. However, the research also reveals that we still are not where we want to be — and may not get there anytime soon at the rate we're going.

Why? Overall, only 40% of the participating organizations' workforce is female, up from the 38% observed in the previous **When Women Thrive** research. Although female representation in both the executive and senior-manager levels has increased by 3 percentage points from 2016 to the 2020 research, we still continue to see a dramatic reduction in the representation of women as career levels rise.

Unfortunately, equalization of hire, promotion and exit rates for men and women alone will not change the trajectory for achieving parity anytime soon; simple math makes that clear. If these talent flows were to remain constant over the next 10 years, we predict that female representation at the professional level and above will realize only a modest 3-percentage-point increase in this decade to come.

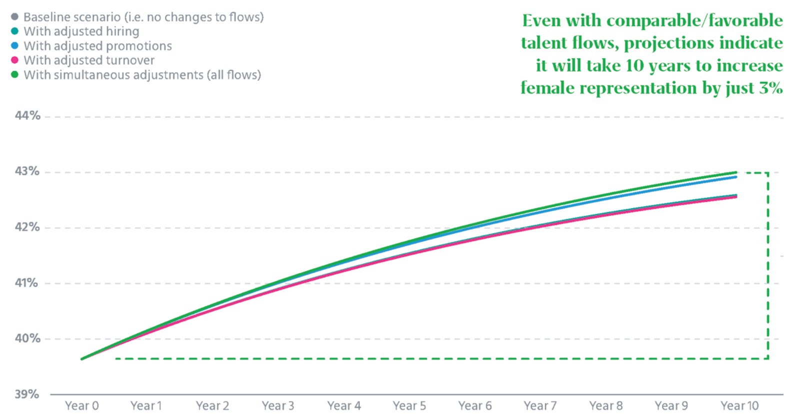
Let's put this another way: The average organization committed to reaching gender parity in the next decade (a frequently cited goal) simply isn't going to get there merely by doing what it has been doing. Discouraging? Yes, absolutely, as so many organizations have taken significant steps to progress this goal. The math indicates that reaching gender parity anytime soon will require a systematic over-indexing of women over men in hiring, advancement and retention.

This is likely not a palatable or realistic game plan for the vast majority of organizations.

[7] World Economic Forum. *Mind the 100 Year Gap*, 2019, available at www.weforum.org/reports/gender-gap-2020-report-100-years-pay-equality.

Where will women be in 10 years?

	Current period		5-year projection		10-year projection	
	Baseline scenario	With all changes	Baseline scenario	With all changes	Baseline scenario	With all changes
Current and projected female representation % (professionals and above)	**40%**	**40%**	**42%**	**42%**	**43%**	**43%**



Note: Not all colored lines may show as a result of overlapping estimates.

Those organizations that are prepared to make bold moves, such as over-indexing, should be ready for significant challenges. Leaders need to be deeply and uniformly committed, transparent about goals, and candidly ready to address the inevitable question from male employees: What about us?

What's more, an organization's practices, programs and policies all need to be carefully aligned to support the effort and help ensure an inclusive environment where there isn't just equal representation, but also equality of opportunity, experience and pay at all levels. Finally, in some jurisdictions, these tactics would need to be carefully assessed by appropriate legal counsel to ensure they are structured and administered in full compliance with the law.

The bottom line? Changing the math isn't going to be easy.

Parity in perspective: Haig Nalbantian, Co-Founder, Workforce Sciences Institute, Mercer

"We observe in the new data a move to full parity in hiring, promotion and turnover rates — that is, 'talent flows' — between women and men in the organizations covered. That's an achievement to be celebrated. However, parity in these talent flows does not automatically translate into equality in representation in leadership or across career levels. Unfortunately, most organizations are up against the weight of history, when past imbalances in hiring, promotion and turnover have left them with an insufficient internal pipeline of women to produce equitable representation in middle and upper levels within a reasonable period of time, even if they maintain parity in the key talent flows.

If your goal is full equality in representation, you may have to embrace more aggressive solutions that focus exclusively on women. One approach to hasten progress is 'over-indexing'; that is, making a concerted effort to overcorrect for past imbalances in hiring, promotion and turnover going beyond simple parity until true equality is achieved.

Another more nuanced approach is to proactively manage the careers of talented women. Use hard data from statistical modeling to identify empirically what it takes to be successful in your organization, not just individual characteristics or behaviors, but 'situational' factors such as the roles, the jobs, the parts of the business, the people employees work with or for. We find in our work with clients that such situational factors strongly predict whether employees will advance or receive high performance ratings. In effect, some employees are better positioned to succeed than others.

All too often, women are less likely than their male counterparts to be in such favorable situations. By proactively managing the careers of high-potential, high-performing women, you can help ensure that systemic barriers to their success are overcome. The advantage of this approach relative to over-indexing is that it is inherently aligned with the underlying talent dynamics and rewards in the organization, thereby reflecting business imperatives. Hence, it is more likely to be embraced by leadership and all employees, which is a prerequisite for success.

In the past, organizations were too circumspect and risk-averse to embrace any solution that openly offered special consideration for any one group. But this is changing.

Today's CEOs and boards are serious about equality in the workforce; they increasingly want to be able to report publicly that they've achieved true gender parity in pay, representation and equality of opportunity. In pursuit of this goal, they are more willing to be both bold and flexible.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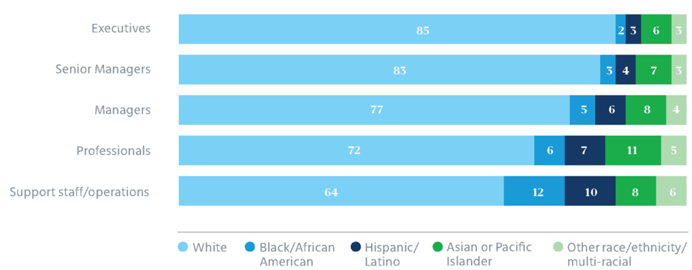
Beyond gender: racial and ethnic reality in the US

Although gender diversity is a global issue, diversity encompasses many other dimensions such as ethnicity and culture. In this report, we are able to address one additional dimension of diversity: race/ethnicity in the US. As the World Economic Forum's *Global Gender Gap Report 2020* indicates, figures for workforce participation are not improving when women of color are included.[8]

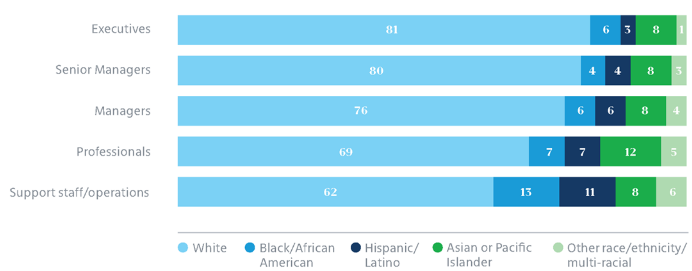
Mercer's research findings demonstrate that the Black/African American and Hispanic/Latino populations (overall and just for women as well) are underrepresented at every career level above the support staff level when compared to their representation in the general population.[9]

Also concerning is that the representation of people of color (both men and women) decreases incrementally as career levels rise. This pattern holds true for all racial/ethnic groups, except for Asian/Pacific

Distribution of all employees by race/ethnicity and career level



Distribution of female employees by race/ethnicity and career level



[8] World Economic Forum. *Global Gender Gap Report 2020*, 2019, available at www3.weforum.org/docs/WEF_GGGR_2020.pdf.
[9] United States Census Bureau. "Quick Facts: United States," available at www.census.gov/quickfacts/fact/table/US/RHI125218.

Islanders, for whom representation is most highly concentrated at the professional level.

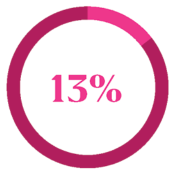
The most dramatic decrease in representation is among Black/ African American employees who make up 12% of support staff positions, but only 2% of executive level positions.

When looking at just women of color, Asian/Pacific Islander and Black/ African American women have higher representation at the executive levels compared to other groups of color (8% and 6%, respectively). Further, Asian/Pacific Islander women are better represented at every level above the support level relative to other women of color.

When specifically comparing Black/ African American men and women, representation of women is higher than men at every career level except at the executive level. This is a notable difference from the gender representation observed for all other racial/ethnic groups, in which men of color are better represented than their female counterparts.

The **When Women Thrive** 2020 research found that US organizations have more difficulty attracting and advancing people of color (men or women) than women generally. Attraction was the most commonly identified challenge (46%), whereas 39% said advancement was a challenge. Retention continues to be an area where organizations feel the most confident.

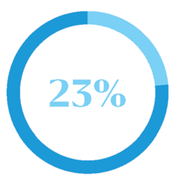
There is certainly room to grow to close the representation gaps:



Although close to half of US organizations (42%) have documented commitments to racial or ethnic equality publicly, **only 13% offer programs specifically targeted at women of color.**

Though 66% of organizations track representation and 53% track rates of hiring, promotion and exits by race or ethnicity and career level, **only 23% of US organizations routinely review performance ratings by race or ethnicity to ensure against any adverse impact.**

Only 38% of US organizations routinely review engagement responses by race or ethnicity.



Only 23% of organizations in US have high-potential programs for people of color.

If these US findings are any indication of the global status (and shortfalls) of representation — and we suspect they are — this area is in critical need of even greater effort to address.

Racial and ethnic representation in perspective ▶

03

Racial and ethnic representation in perspective: Rayna Edwards, Workforce Strategy Consultant, Mercer

"Gender representation is on the upswing. However, if we slice those data in an intersectional way — that is, looking not only at gender, but also at race/ethnicity — we see a different story emerge. The progress that has been made by women over the past few decades has overwhelmingly been made by white women. It is clear in these results: as we move up the career hierarchy, we lose diversity, and this happens disproportionately more often with race/ethnicity than with gender.

In most cases, the combined effect of being a woman and a racial/ethnic minority has a more negative impact on careers than being a woman alone.

We also note a concerning disconnect between what organizations say and what they do. When organizations tell us they find it more difficult to attract, retain and advance people of color, we would expect that they would have policies and practices in line to bridge that gap. Yet few organizations in the US offer programs specifically targeted toward women of color, and less than half have publicly documented commitments to racial and ethnic equality.

The business case for diversity and inclusion is no secret. Increasing demands for transparency and equality by consumers, clients, employees, boards and investors have brought diversity and inclusion to the forefront. Successful organizations will look unflinchingly at their diversity and inclusion data, create goals and metrics grounded in those data, and hold themselves accountable to achieving those goals. They will see both gender and racial/ethnic equity as a business imperative.

Further, it will become increasingly important for organizations everywhere to start collecting and examining their data in an intersectional way. This will be easier in the US, where race/ethnicity is tracked as a reporting requirement. However, global organizations that get ahead of the curve by thinking creatively about how to identify and track the unique racial/ethnic challenges in geographies outside the US will prove to be more competitive in the years to come.

This admittedly will be a challenge. Certain countries have blocked collecting data on race/ethnicity because of potential misuse. But context matters, as we always say. In today's environment, not knowing what's happening from a race/ethnicity perspective can significantly impact what organizations can do to both remove barriers for racial/ethnic groups and drive equality. This can lead to functioning in a 'blind' of neutrality when in fact there is a world of inequality. Is that sustainable?"

Get real. Get smart.

03

Get real.

Regardless of what stage an organization is at, Mercer has defined active measures it can take to advance a diverse workforce and inclusive culture.

Get smart.

To make true and lasting progress, actions must be *specific, measurable, actionable, relevant* and time-based.

Here's how to put the findings and learnings from this section into action:

Activate

(for organizations just getting started)

- Develop an ILM map using career levels to examine your representation, hiring, promotions and exits by gender and race/ethnicity
- Leverage external labor market data and benchmarking to add context

Accelerate

(for organizations with a good foundation)

Apply advanced analytics to identify drivers or root causes of and barriers to hiring, promotions and turnover (e.g. reveal criteria for promotion from professional to manager level)

Thrive

(for organizations that have made significant progress)

- Use models to project the composition of your future workforce
- Determine what actions need to be taken in order to achieve gender and/or racial/ethnic balance within your targeted time frame

Walk the talk

Across regions and sectors, organizations are actively laying the building blocks for advancements in a diverse workforce and inclusive culture. It’s worth repeating: Improving workforce diversity and inclusion is high or very high on the agenda of 81% of organizations surveyed.

So much positive intent and good work — yet we’re still at only at 40% representation of women in the workforce and far less in leadership positions. Why is that?

The research demonstrates that, though progress has been made with specific programs, policies and practices, these alone are not enough to drive real and lasting progress. Further advances require addressing important structural issues: the absence of a comprehensive D&I strategy, a shortage of metrics for adequately measuring achievements, and the need for accountable employees — especially middle and frontline managers at the core of the organization.

Arguably most important, a diverse workforce and inclusive culture are still not widely viewed as a vital part of the business strategy of an organization. Making these changes will be both uncomfortable and disruptive. But organizations that want to be relevant and thrive must acknowledge the changing environment and adapt.

This translates to moving beyond pledges and onto action and accountability. It will require taking an honest look at data to understand where there are gaps in opportunity, experience and pay. Only then can an organization fully own D&I and walk the talk, through the business principles they know best: cogent strategy and bottom-line results.

04

Game plan required

There's what we say we will do. And then there's actually what we do. Ideally, they match up; too often, they don't. It's called the "say-do" gap, and we were surprised to discover a number of them in our latest research.

Although improvements in talent flows demonstrate that leadership in most large organizations is engaged with D&I challenges, we found minimal evidence-based, strategic planning to back up or propel a concrete forward strategy. Optimism and confidence about improvements in representation, hiring, promotions, retention and pay equity also don't appear to be backed up by an uptick in using data analytics to drive decision-making and measure outcomes.

What organizations say	What organizations do	Why the gap matters
81% of organizations globally say they're focused on improving D&I 	**Only 42% of organizations** report having a documented, multi-year D&I strategy **Only 50% of organizations** globally set quantitative goals or targets for D&I outcomes such as representation, engagement and pay equity	The lack of a strategy makes it difficult ensure the most impactful steps are taken to drive process — or to measure it.
66% of organizations say senior executives are actively engaged in D&I 	**Globally, 33% of organizations** have a chief diversity or inclusion officer. Of those, the vast majority (63%) report to HR, with the remaining reporting to the CEO or a senior executive. In many regions, D&I is driven by HR due to its role in attracting and retaining talent	The values associated with D&I are not fully owned in the business units focused on P&L. Most organizations also don't connect D&I with other areas that motivate business decisions, such as corporate responsibility or social impact.

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Accountability in perspective: Jill Zimmerman, Global Chief Talent & Inclusion Officer, Mercer

"Many years ago, at a different company, I was leading our talent acquisition team. We set out to diversify our workforce at all levels by changing our sourcing, recruiting and hiring strategy. And we were successful. Fast forward two years, however, and most of that diverse talent was leaving that company. Why?

It turned out we hadn't been looking at the whole picture. We did focus on diversifying our hiring at all levels, but we did not also look at the balance of our promotions or retention at all levels. Often companies look solely at representation instead of the entire pipeline of talent: the in-flow, up-flow and out-flow at all levels. This can be misleading, as it was in the story shared above, where the focus was solely on the in-flow of diverse talent.

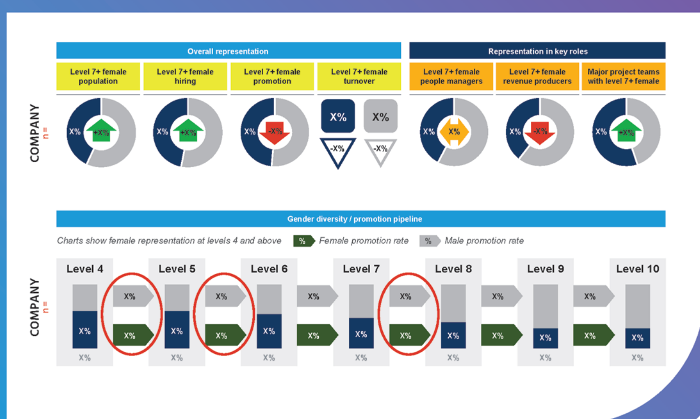
When I came on board at Mercer, I had the data available to take a more comprehensive, data-driven approach to accurately measure and diversify our work force — using our ILM Analysis to build a new quarterly dashboard for leaders. Our ILM Analysis shows the entire makeup of our workforce by level. We used that ILM data and analysis to create our data-driven diversity strategy — to identify common choke points where diversity would fall off, to pinpoint the key types of roles that tended to lead to advancement, to understand the composition of our workforce and to recognize opportunities for improvement.

Organizational leaders receive D&I dashboards that include the in-flow, movement and out-flow of our talent in different groupings for each level of the organization sliced by gender and race/ethnicity. The dashboards also break down key metrics such as which type of roles are likely to lead to advancement to higher level roles. In our case, to be in a people-manager role or client revenue-generating role was to advance your career. In other companies I have worked in, to be in a P&L role was to advance your career.

The data can be misleading if you simply look at representation at a certain job level; it is important to also look at the diverse representation in specific roles that lead to advancement.

Working with corporate HR, their business leadership teams and HR business partners, our leaders review their quarterly dashboard and use the data (the hiring, advancement, retention and representation in key roles) to identify specific data-driven actions (up to three) that will make a difference in the composition of the workforce. Those actions are then communicated back to the organization, and leaders are held accountable by our CEO for moving the needle on them. We use that same dashboard quarterly to track progress. It's measured. It's shared. And it's transparent. Once you have a dashboard in place, establish the transparency and accountability to track not just the data, but real, ongoing actions and outcomes that are owned by the business — and you will be well on your way."

Example gender diversity dashboard

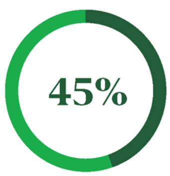


Black box

Perhaps because D&I remains outside the purview of business performance, many organizations do not place a value on investing in or disclosing D&I commitments and data. Clearly, greater public disclosure and transparency can accelerate change and advance accountability.

Here's what the research showed:

Only 50% of organizations globally are publicly documenting commitments to gender equality, which is flat from 2016.



Globally, 45% of organizations make no public disclosures, although there are significant regional variations.

Less than half of organizations actively seek external recognition for D&I efforts. In North America, organizations are notably less likely to seek that recognition than in other regions.

What data are being shared? For those that do disclose, women in senior leadership (46%) tops the list of data shared, followed by pay equity disclosures (27%). And beyond gender, organizations are even less likely to publicize their progress — only 11% globally disclose representation of historically underrepresented employee groups.

Speaking out. Stepping in. Owning up.

Perhaps most critical among the eyes keeping close watch on what organizations are doing to improve workforce diversity and cultural inclusion are the millennials and Generation Xers (with Gen Z quickly following).

Research shows these cohorts, which now dominate the workforce, are willing to act on principle and hold organizations accountable. These purpose-driven generations set a high bar for both consumer and employment decisions. One study shows that three out of four millennials would take a pay cut to work for a responsible organization.[10] They also prefer responsible brands.[11] More broadly, a recent study showed that two-thirds of US consumers expect organizations to take a stand on social and political issues.[12]

The implication for global employers is clear: These generations are opting to work for organizations with clear value systems and corresponding behaviors, around inclusion, transparency, fairness and sustainable business practices. They will be paying close attention to what their leaders and managers say — and will expect that to be consistent with they ultimately do. Our research bears out this premise: 65% of organizations are feeling pressure from their employees to improve D&I outcomes.

Increasingly, we can expect to see more millennial and Generation X employees speak up and demand visible change in the workplace — and workforce.

[10] Cone Communications LLC. 2015 *Cone Communications Millennial CSR Study*, 2015, available at www.conecomm.com/research-blog/2015-cone-communications-millennial-csr-study.

[11] Ibid.

[12] Sprout Social, Inc. "#BrandsGetReal: Championing Change in the Age of Social Media," 2018, available at www.sproutsocial.com/insights/data/championing-change-in-the-age-of-social-media.

Transparency in perspective: Aniela Unguresan, Co-Founder, EDGE Certified Foundation

"Fostering equitable workplaces is an aspiration shared by leaders across industries and geographies. Yet workplace gender equality is a systemic issue that is influenced by public policy, education and culture around gender roles — forces that often feel outside organization control. The stakes are high, and organizations sometimes feel they have limited ways to influence and shape these external forces. Put more starkly:

> **Leaders don't want to be held accountable for making progress in terms of gender equity if they are not confident that they have the power to succeed.**

Having a systematic and structured approach helps leaders move past emotion into action. By identifying and sharing where we stand, we can expose the underlying causes, develop communication strategies and invest resources accordingly. Instead of letting outside influences restrict us, we can reverse that paradigm inside the organization and create an ecosystem that will in turn push and transform those external forces.

Accountability and transparency will enable the different stakeholders — employees, investors, consumers and business partners — to not only understand how they will benefit, but also to contribute to support the organization's goals for equity and, ultimately, ensure its success."

04

Get real. Get smart.

Get real.

Regardless of what stage an organization is at, Mercer has defined active measures it can take to advance a diverse workforce and inclusive culture.

Get smart.

To make true and lasting progress, actions must be *specific, measurable, actionable, relevant* and *time-based.*

Here's how to put the findings and learnings from this section into action:

Activate
(for organizations just getting started)

- Collect data: Track and regularly monitor outcomes, such as representation, hires, promotions and exits by gender and career level
- Identify drivers of those outcomes, such as ascension into key roles, impact of leaves of absence, part-time status, reporting relationships, etc.

Accelerate
(for organizations with a good foundation)

Publicly document your organization's commitments to gender equality and broader D&I

Thrive
(for organizations that have made significant progress)

- Regularly monitor key D&I metrics to measure progress, identify gaps and develop mitigating solutions.
- Be transparent about progress on key D&I metrics, both internally and externally
- Get EDGE certified

04

Take it from the top

In organizations where a diverse workforce and inclusive culture is flourishing, there's usually only one way to look: Up! Senior leaders are a key driver of D&I outcomes, particularly as it relates to demonstrating passionate leadership, personal commitment and perseverance.

Our latest research suggests gains in many of these areas.

Who's getting onboard?

Direct involvement in D&I initiatives and programs

Board

Since our 2016 report, we've seen a 5-percentage-point improvement in board engagement globally (57%)

North American organizations report the lowest levels of board involvement, at 43% versus 57% globally

Senior executives

Globally, 66% of organizations say that senior executives are actively engaged in D&I initiatives and programs, up 9 percentage points from our previous research

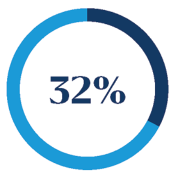
Encouragingly, senior executives are helping to support cultural transformation in multiple ways:

- Publicly position D&I as a business imperative (internally and externally)
- Sponsor or regularly meet with various employee resource groups/affinity groups
- Direct the implementation of diversity metrics and programs
- Serve as members of the diversity council

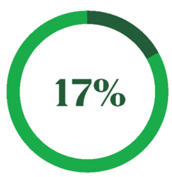
At the same time, senior leaders could do more in other areas to demonstrate their commitment to fostering D&I in their organizations. One powerful way is by acting as personal sponsors or mentors to individuals. Notably, just 38% of executives globally are taking on this role. By contrast, sponsorship is high in North America (52%) and Australia/New Zealand (54%), which correlates to the more mature D&I models in those regions.

About targets

Despite a marked increase in leadership commitment to accelerating workforce diversity and inclusion, organizations show little appetite for setting targets for D&I initiatives:



Globally, our research showed a low prevalence (32%) of individual leaders in the organization having formal quantitative goals or targets tied to D&I, dropping to just 25% in North America.



Globally, only 17% of executive compensation targets are tied to D&I initiatives.

These findings may be linked to a reluctance to adopt representation quotas or targets, which is often how organizations think about measuring progress in D&I outcomes. The lack of goals and targets can stifle progress, so organizations should consider meaningful alternatives. For example, instead of measuring gains solely in terms of representation, consider measuring the impact of policies, programs and practices that improve the overall equality of opportunity, experience and pay — as we outline in in the next section, **Hardwire It!**

The new normal

Cultural change that goes beyond policy or programmatic changes to support equality of opportunity and treatment across the board will also require a change-management effort led from the top.

Clearly, new competencies are needed for today’s changing and challenging environment. Leaders must be able to connect the dots between social issues and business solutions and recognize that the two need not be mutually exclusive. They must take a holistic view of the needs and desires of all stakeholders in order to uncover market opportunities, attract customers and open the door to innovative ideas.

Get real. Get smart.

04

Get real.

Regardless of what stage an organization is at, Mercer has defined active measures it can take to advance a diverse workforce and inclusive culture.

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Here's how to put the findings and learnings from this section into action:

Activate

(for organizations just getting started)

Senior leaders model inclusive behaviors, learn more about their own bias and privilege, and lead D&I initiatives

Accelerate

(for organizations with a good foundation)

Senior leaders take personal ownership of D&I and integrate it into their business strategy; new leadership competencies are defined and modeled

Thrive

(for organizations that have made significant progress)

Senior leaders are held accountable for progress toward meaningful goals to improve workforce D&I


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Hardwire it!

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Despite the advances we have seen so far, some of the heaviest lifting lies ahead. To advance, women need the right roles, opportunities, pay, benefits, flexibility and organizational environment that are most predictive of success.

How do we get there?

In this section, we turn our focus back to the six P's — specifically programs, process and proof — and how we can hardwire changes into the organization that ultimately support a more diverse workforce and inclusive culture. It starts with better engaging the middle and frontline managers (both men and women) who shape and influence the daily life of employees — and critically, can play a pivotal role in connecting them with the right resources and experiences within the organization. We must also recognize that women have unique needs with regard to health, financial wellness and caregiving that organizations can and should support.

Managers: making a difference

Our research shows that, in increasing numbers, leaders are getting engaged with organizational efforts to improve D&I outcomes. But the momentum can often stop there, reaching the middle, slowly, and not spreading further throughout the organization.

In some cases, changes in policy and process — along with setting representation targets — have curtailed progress when the underlying culture remains unchanged. Organizations need to engage middle and frontline managers who are critical to administering D&I practices, managing people across the talent lifecycle and setting the culture, to ensure that inclusive values are adopted as corporate ones.

In fact, the data show that managers are significantly less involved in supporting D&I efforts than senior executives, which is a major barrier (and missed opportunity) to achieving progress.

We've also seen limited progress globally in introducing more managerial training to support employees. Only 33% of organizations train managers to support employees through parental leave and return-to-work, and just 34% train them to support their employees' use of flexible work options.

Who's getting onboard?

Direct involvement in D&I initiatives and programs

Middle managers

Increasingly involved in D&I activities **(53%, up from 39% in 2016)**, with very few differences regionally

Frontline managers

46% involvement globally — but just 37% in North America

05

Accelerating culture change:
Angela Berg, Global Diversity & Inclusion Consulting Leader, Mercer

"People don't leave companies, they leave managers.

A broad range of data support this often-repeated statement, but interestingly, managers are often one of the later stops organizations make when they are on a journey of cultural transformation. Though hardwiring programs, policies and processes is a critical part of that change process, managers are ultimately on point to implement them in the workplace through everyday interactions with employees — and can have critical impact on D&I outcomes.

Parental leave is a good example of how this plays out. Over the past several years, many organizations have adopted generous parental leave policies that provide time off for both parents. However, uptake of the benefit is often low. Why? The missing piece is training managers to support the policy. Often, managers simply don't understand how the policy works, so they are unable to guide their employees on how to apply it and how it would impact pay, benefits and so on. In other cases, managers fail to receive support or guidance on how to staff while employees are out on leave. In both cases, the net result is managers who aren't able to actively support the transition to leave — and employees who are reluctant to take advantage of the benefit.

As organizations work to ensure equality of opportunity, experience and pay, consider the role of the manager as an accelerator and provide the right training and support to ensure that the manager is fully equipped to play that role.

Train managers to effectively conduct pay conversations, to give employees (all employees — not just women!) the confidence that they are paid equitably. Ensure that managers are prepared to connect employees to the many benefits and programs available to support employees' health and well-being. Actively coach managers on how to hire, train, mentor and provide feedback in an unbiased way.

Culture change is hard and takes time, but managers can be an organization's greatest asset to enable the transformation."

Men: in the middle

Men are essential to the pursuit of gender parity. Not only does it need to be said, but also reflected in what we do. Necessary actions range from listening to men's perspectives to engaging men as change agents, managers and partners in developing and embedding solutions. As integral as men are to successfully achieving D&I goals, sadly, they are not participating in the prevailing dialogue: D&I conferences are still composed of mostly women.

More open communication is needed to address any reluctance and/or uncertainty about how to address or achieve the aims of D&I. This is particularly true in those situations when outcomes are viewed as zero-sum, such as in low-growth industries or situations involving quota schemes.

Yet despite this, many men are showing their willingness to embrace the ambitions of D&I. Globally, 48% of organizations report that men are actively involved or engaged in D&I programs or initiatives, compared with 38% in 2016.

Men's roles in perspective: Ray Arata, JD, and Ed Gurowitz, PhD, Co-Founders and Partners, Inclusionary Leadership Group

"As we move to close the gender gap, we shouldn't be afraid to expect more and ask more from men. Once they are aware of inequality at work, men want to fix it. They want to be educated on what it means to be vulnerable and authentic and human, in a way that isn't charged or laying blame at their feet. And they want to make positive changes that drive equality. Most men are simply looking for good leaders to show them how.

As we look at these data, one thing is clear: It's men who have to step forward to remove the remaining organizational barriers to D&I, because it's men who put those barriers there — however unintentionally — and it's men who still control those levers of power.

When confronted with the reality of inequity — not blamed, but made aware of it — men will start to change their behaviors and advocate for change.

Men want to have these conversations, so leaders should not shy away from them. Male leaders, especially, should take the opportunity to lead by example. Focus on vulnerability and accountability, which we define as taking full responsibility for words, choices and actions and their consequences, whether intended or not.

Once men understand that their privilege is an accident of birth, they can recognize it as a powerful tool. In our practice, we ask them, 'You've got privilege, why not use it for good? We're not asking you to give it up. We're asking you to use it.' The response is overwhelmingly positive."

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Spotlight: Parental Leave Matters, Mercer (2018)

Increasingly, large organizations are offering paternity leave to new fathers, yet relatively few are taking it up. Research by Mercer finds that though 80% of large global employers do explicitly offer paternity leave (paid or unpaid), 23% of new fathers in G7 countries like the US are declining to take it.[13]

This is extraordinarily self-defeating. A benefit that is most likely to be taken up by just half of the workforce helps to ingrain bias and skew the playing field between men and women in the workplace. Not surprisingly, the Mercer research found that parental leave is proving to be the key to addressing the gender pay gap. Because working mothers are still doing the bulk of parenting work at home, their upward mobility in the workplace is hindered and they fall behind.

By allowing men to help shoulder responsibility from the start, we can help equalize the effects of maternity leave and motherhood on the development, compensation and overall equality of women in organizations.

In addition, men, their partners, their children and their organizations are all more likely to thrive if men spend time with their children in the period following their arrival.

Father-and-baby bonding during leave helps a dad's ability to care for children in the long-term and become a more involved parent. It also has a positive impact on men's relationships with their spouses or partners. It's clearly beneficial for women, too, who see a decline in overall levels of post-partum depression and sick leave and an increase in well-being when their male partners take parental leave. Plus, paternity leave helps to mitigate the "motherhood penalty" when male spouses take leave. A recent study found women's salaries on average are approximately 7% higher for every month of leave their partners take.

Critically, organizations may reap the highest rewards by encouraging men to take parental leave. Between 89% and 99% of employers say leave has no negative effects on productivity, profitability, turnover and morale. And according to studies in both Scotland and the US, fathers and parents of both sexes who took parental leave were more likely to stay with their organizations.

In order to put principles into actions, however, senior male managers have to lead by example if they want their employees to follow.

[13] Mercer. "Want to Improve Gender Equality at Work? Help Men Take Parental Leave," 2018, available at www.mercer.com/our-thinking/want-to-improve-gender-equality-at-work-help-men-take-parental-leave.html.

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Activate
(for organizations just getting started)

Educate middle and frontline managers on why D&I is critical for organizational success; share D&I data, discuss opportunities for improvement and train them on how to support employees who take leave, work flexibly, etc.

Accelerate
(for organizations with a good foundation)

Equip managers to support D&I by attending training, sharing learning, modeling inclusive behaviors, mentoring or sponsoring an underrepresented employee, or participating in BRGs

Thrive
(for organizations that have made significant progress)

- Partner with managers in developing solutions to D&I challenges
- Integrate cultural competencies and inclusive behaviors into job descriptions and performance measures

05

Pay equity progress

We’ve seen tremendous progress globally in pay equity — another bright spot, because an increasing number of organizations are adopting more disciplined methods to ensure its achievement. We know from the research and from our work with hundreds of clients globally that these organizations do better from a talent-flow and representation perspective.

We’ve also seen a substantial increase globally — from 60% in 2016 to 74% in 2020 — in pay equity being included as part of the compensation strategy. In this respect, Europe has seen the most dramatic increase, with the number of organizations including pay equity as a compensation metric rising to 80% from 57% in 2016. This is likely due to regulatory disclosure laws.

Although regulation drives pay equity efforts in certain regions, organizations continue to see pay equity as an important human capital issue. Our research showed that ensuring fair pay relative to contributions is the primary objective of analyzing pay equity for 85% of organizations; 68% focus on fair pay largely to attract or retain the best talent.

Also note that, although globally pay equity tends to be framed as a gender issue, it’s not only women whose pay may need to be remedied. Men who are underpaid can benefit from a corrective adjustment as well.

	What organizations are doing	
Methodology	Importantly, conducting pay equity analysis using a robust statistical approach (the gold standard) is trending strongly, with **56%** of organizations doing so, up from 35% in 2016	
Scope	**84%** of organizations that analyze pay report that if an employee is eligible for an increase, the adjustments typically address both base and variable pay	
Remediation	Only **44%** of organizations globally have a formalized process for remediating pay inequities	
Oversight	HR and the C-suite are actively engaged in pay equity efforts, but only **38%** of organizations engage the board in fair pay discussions (we expect boards to increasingly make D&I a priority and become more involved in oversight)	

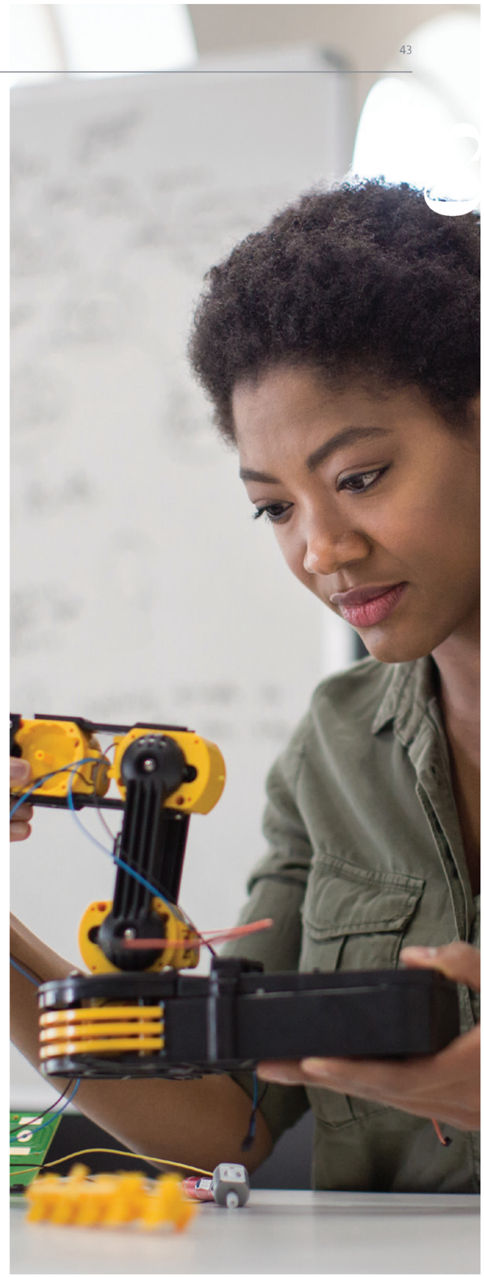
Pay equity in perspective: Brian Levine, PhD, Pay Equity Leader, Strategy & Analytics, Mercer

"Pay equity was once just focused on ensuring that people in the same job and in the same role were paid equivalently. We now see a greater realization that equity is not simply about pay within a role. Organizations need to provide equitable opportunity for employees to advance, and to grow, and to earn more through that advancement. This shift is reflective of an increased pressure on organizations to disclose their work, but also continued priority by organizations to improve diversity and ensure access to the best talent.

Pay equity is a foundation. Our past research has found that good practices related to pay equity translate into good, effective, fair processes across the board, by focusing managers on equity — and so they are very effective in helping organizations build D&I throughout the hierarchy. This makes pay equity an ideal place for organizations to start when they are trying to effect broad change.

There is only going to be increased demand for organizations to be transparent about pay equity and related efforts.

Organizations need to look deeply and broadly at the issue to respond and drive related successes — analysis done right will be insightful and actionable, revealing short- and longer-term actions to close gaps, and, yes, to support the right reporting when the time comes."



05

Get real. Get smart.

Get real.

Regardless of what stage an organization is at, Mercer has defined active measures it can take to advance D&I outcomes.

Get smart.

To make true and lasting progress, actions must be *specific, measurable, actionable, relevant* and *time-based.*

Here's how to put the findings and learnings from this section into action:

Activate
(for organizations just getting started)

Analyze pay equity annually using a rigorous, multi-variate regression analysis

Accelerate
(for organizations with a good foundation)

Adopt an end-to-end pay-equity strategy that includes analyses, a formal process and a budget for remediating any inequities, and training for managers on your compensation philosophy and how to confidently handle pay conversations

Thrive
(for organizations that have made significant progress)

Be transparent about your pay practices and the results of your pay-equity analyses, both internally and externally with appropriate legal guidance

Getting ahead

In addition to working toward pay parity, organizations need to commit more widely to equality of opportunity. This enables women and other underrepresented groups to get the career advancement and promotions that can help make all levels and branches of an organization more diverse.

Our research and consulting experience show that women in people-manager roles with P&L responsibility and experience in different parts of an organization are more likely to advance. These findings are consistent with the 2016 report, which found, among other things, that having more women in P&L roles is strongly linked to greater gender diversity throughout the organization.

The vast majority of organizations report that women in their organizations have equal access to the specific roles or positions that are more likely to lead to advancement into senior management or leadership positions. Interestingly, that optimism is not supported by data.

Despite progress in the diversification of the talent flow, there is still a distinct lack of female mobility into P&L roles and people-management roles, as well as other geographic and business units.

The research also showed a shortage of sponsorship and mentorship programs, which have the potential to level the playing field between men and women in programs that recognize high-potential talent. Globally, only 35% of organizations have high-potential programs for women, and just 30% in North America.

In addition, our findings reveal a lack of data being collected to truly understand the root causes of a deficiency in female advancement. Globally, organizations report a low amount of tracking of key metrics by gender, with just 28% reviewing performance ratings by gender and 44% examining engagement survey responses by gender.

What organizations say

79%

of organizations report that women have equal access to roles that lead to advancement into leadership positions

71%

of organizations say women are equally likely as men to move across business units and/or geographies

What organizations do

Only 64% track gender representation and 58% track hiring, promotion and exits by gender

Only 52% say women are equally represented in people-manager roles and only 44% say they are equally represented in P&L roles

Only 41% track internal mobility by gender

Why the gap matters

Not tracking reliable performance measures is a glaring gap that undermines the efforts even of those organizations that are making laudable progress

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Mobility in perspective: Rick Guzzo, PhD, Co-Founder, Workforce Sciences Institute, Mercer

"The innovators in equity in career development and advancement are organizations that have two characteristics. The first is that they go public with their efforts — success or failure — not just to the board or the executive team, but also to their stakeholders, including employees, investors and customers.

The other is that they don't ever do just one single thing. They try multiple things. They understand that to move the needle, they cannot take only one shot at the problem, and that it will take time and patience before they see tangible progress. To maintain momentum and achieve change that sticks, they'll need to put several plays into the field at once. Deploying interventions in two or three areas will have more impact than an organization trying just one thing.

For organizations just getting started, our advice is to look carefully at what's happening in their own organization in terms of equal access for men and women.

Take note of who's got access to the springboard jobs that accelerate the capabilities of individuals and their potential to move up. Determine whether you are keeping the right people and how that is different by gender. And closely examine things like pay equity and fair opportunity. Those are table stakes that must be met for the employer to be credible."

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More flexibility, please

Clear links exist between the comparatively small number of women in key organizational roles and the lack of flexible working arrangements in many organizations, which often impedes upward mobility.

An important area for organizations to prioritize in order to hardwire D&I into their cultures is flexible working arrangements. Employees across demographic groups value opportunities to work flexibly and require that organizations respect their desire to balance work with other interests and responsibilities.

Ultimately, we need all organizations to respond to employee demands for flex-time and family leave, which are significant to not only millennials and Generation Z, but also to experienced workers, who frequently have care responsibilities.[14]

One of the biggest challenges facing employers is managing performance in a flexible workplace where many workers are struggling with competing demands.

The majority of employers aren't presently meeting flexible workforce demand and, "where flexible policies exist, data shows they are generally two-dimensional, limited to where and when people can work."[15]

Organizations should look at workplace flexibility across multiple dimensions: "When work is done, where work is done, what work is done, how work is performed and rewarded."[16] Research shows that a well-implemented workplace flexibility framework has a clear link to improved physical and mental well-being for employees.[17]

How much is flexibility valued? A 2016 report by My Family Care and Hydrogen — including survey responses from more than 2,300 employees and more than 440 employers in the UK, Europe, Middle East and Asia Pacific — found that 53% of people would rather work flexibly than receive a 5% salary increase; 45% of those would sacrifice pay rises of 10% to have flexible working opportunities.[18]

The difficulties in acting on these imperatives are clear from the data: Two-thirds of organizations globally report that they offer a variety of flexible work arrangements, but only 45% of organizations say that part-time employees have the same opportunities to advance as full-time employees and only 44% say they value employees who work remotely equally.

[14] Mercer. "Are You Age-Ready?" 2019, available at www.mercer.com/content/dam/mercer/attachments/private/gl-2019-6009756-mn-experienced-worker-POV-mercer.pdf.

[15] My Family Care, Hydrogen. *The Competitive Advantage of Flexible and Family Friendly Working*, 2016, available at www.hydrogengroup.com/flexible-working-report.

[16] Mercer. "Are You Age-Ready?" 2019.

[17] Ibid.

[18] Ibid.

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Flexibility is a key issue for the modern, multi-generational workforce. People of all ages — including experienced workers — are willing to trade compensation for flexibility. Developing a culture of acceptance for the use of this benefit will remove a considerable impediment for career development and advancement. Effective training for managers — in combination with modeling desired behaviors — will drive acceptance and use.

— Ilya Bonic, President,
Career and Head of Mercer Strategy, Mercer

A significant number of organizations are confident that they're not discriminating against workers who use flexible benefits. Well over half (61%) globally say that employees who take family leave, time off or flexible working options advance at the same rate as their peers. And more than two-thirds (67%) of organizations say their culture is equally supportive of men taking family leave, time off and flexible working options as it is of women. This optimism is hard to verify and often conflicts with anecdotal stories from employees.


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Yvonne Sonsino, Global Co-Leader, Next Stage, Mercer

"Flexible work is finally moving in the right direction. We can tell by looking at one critical question in this research: 'We value people's contribution according to results, not number of hours worked.' The results here show us moving from an old model of 'presenteeism,' where contribution was measured by hours in the workplace, to new ways of measuring effort and impact. This is an important shift that will make possible a more flexible global work environment, which will be particularly impactful for both women and older workers.

In years past, managers did not trust teams to work remotely or at different hours and still get their work done. This lack of trust correlated with two factors: a low level of familiarity with flex-working and a difficulty in measuring results. The more comfortable organizations become with measuring success and results, the more likely they will be to stop measuring output by punches on the time clock, the more familiar they will become with flexibility, and the more it will flourish.

The benefits of flexibility are clear. Workers at every age, of every gender and in every region are demanding it. They want to better balance the needs of family units, manage their own career goals, attend to caring responsibilities or education, and fit their lifestyle around work. At the same time, the labor pool is shrinking and changing. People are living longer. Birth rates are lower."

Flexibility is an economic imperative as organizations try to attract and keep their labor force. Organizations must become more flexible to stay competitive.

Spotlight: The rise of experienced workers

Ageism is one of the last D&I frontiers, and is still a bit of a blind spot for many organizations, but flexibility can help us make inroads,
says Yvonne Sonsino, Partner at Mercer.

The one labor pool that is actually growing in most developed nations is that of older, more experienced workers. Nine out of 10 workers over 50 years old tell us they also want to work differently in the future, but they need a lot more encouragement and support from leadership and line managers to take advantage of flexible work options. It's very early days still, but if these trends hold true, and with the shifting attitudes of managers and leaders, the growth of flexibility will prove to be critical in engaging the experienced workforce.

Employers must be mindful of considerations around experienced workers and the need to ensure that they can also see career mobility. This is likely to involve a review of performance ratings and promotions, as Mercer's systematic review of work with client organizations finds a consistent pattern of experienced workers receiving lower performance ratings and lower promotion rates, on average, than their younger colleagues.[19]

Because experienced workers are largely ignored — or misperceived — in strategic workforce plans, organizations are failing to capitalize on the value that workers with decades of experience can deliver.

[19] Mercer. "Are You Age-Ready?" 2019.

05

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Here's how to put the findings and learnings from this section into action:

Activate

(for organizations just getting started)

Ensure women and underrepresented employee groups are appropriately represented in formal development programs; e.g. leadership development, high-potential, mentoring programs

Accelerate

(for organizations with a good foundation)

Use data to identify what it takes to advance in your organization; e.g. the roles, jobs and parts of the business, the people to work with or for

Thrive

(for organizations that have made significant progress)

Proactively manage the careers of high-potential, high-performing women and underrepresented employee groups to ensure they're positioned to succeed

Care beyond career

Though benefits that apply universally can help engage all employees, evidence suggests that programs targeting women's unique needs can have a powerful impact on gender diversity in the workforce. To date, however, we found a substantial lack of progress in addressing the holistic and unique caregiving, health and financial wellness needs of women — which, candidly, was a disappointment in our latest research.

Staying healthy

Organizations are more committed to gender-based health initiatives than to financial ones, but no progress has been made in either case since the last report, and relevant initiatives are still not tracked.[20]

23%

have conducted analyses to identify healthcare needs for late-career workers (both men and women)

24%

state that women have access to affordable contraception and reproductive care in all geographies

25%

track gender-specific health needs

27%

provide health education to women, up from 24% in 2016

31%

gather information on employees' caregiving needs and obligations (e.g. childcare, elder care)

34%

offer health programs beyond the core health plan, specific to women's needs (infertility coverage, domestic violence support, breast cancer diagnosis/treatment and menopause)

67%

say their culture is equally supportive of men using family leave, time off and flexible working options as women

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[20] Women's Forum for the Economy and Society: Daring Circles. *Addressing Health Barriers Through Technology*, 2015, available at https://storageprdv2inwink.blob.core.windows.net/4b35381f-d595-4da9-8f03-d28d973544c0/19e787a3-2643-4548-a840-2085886370b2.

Health in perspective: Dr. Lorna Friedman, Global Health Leader, Multinational Client Group, Mercer

"Maintaining and accessing health and well-being resources is a significant determinant of whether women stay in the workforce. There are a number of differences between men and women when it comes to health and well-being. Importantly, around the world, women still assume the double burden of being professionals and family caregivers,[21] which reduces their time and resources for healthy behaviors and accessing care.[22]

Women have unique healthcare needs and are more likely than men to experience a range of health issues. Like men, women suffer from chronic diseases like cardiac illness, but gender bias in treatment protocols leaves them vulnerable to poor outcomes.[23,24] Not only are women often denied access to quality care, they are also discriminated against in the delivery of this care.[25] Gender is undeniably a social determinant of health.

Finally, women face biases that are detrimental to access and outcomes in traditional arenas of reproductive and sexual health.

Cultural stigma and constraints particular to women often also prevent them from seeking and acquiring the mental healthcare they need.[26] Women are less likely to use mental health services when they face economic or structural barriers.[27] Technology-based solutions can help break down barriers to accessing mental health care by providing information and accessible services. New digital platforms and products have the potential to improve access to care by delivering timely, on-demand care anywhere. To ensure that future innovations help erase the stigma associated with seeking sexual, mental and reproductive health assistance, we must make sure that digital platforms are built and influenced by women who understand that stigma."

[21] OECD. *Gender, Institutions and Development Database*, 2014.

[22] Center for Talent Innovation. *The Power of the Purse: Engaging Women Decision Makers for Healthy Outcomes*, available at www.imaginal-labs.com/wp-content/uploads/2015/05/PopHealthcare_ExecSumm-CTI.pdf, 2015.

[23] Bugiardini R, Ricci B, Cenko E, Vasiljevic Z, Kedev S, et al. "Delayed Care and Mortality Among Women and Men With Myocardial Infarction," *Journal of the American Heart Association*, Volume 6 Issue 8 (2017).

[24] Greenwood B, Carnahan S, Huang L. "Patient–Physician Gender Concordance and Increased Mortality Among Female Heart Attack Patients," *Proceedings of the National Academy of Sciences of the United States of America*, Volume 115 Issue 34 (2018), pp. 8569–8574.

[25] Chen E, Shofer F, Dean A, Hollander J, Baxt W, Robey J, et al. "Gender Disparity in Analgesic Treatment of Emergency Department Patients with Acute Abdominal Pain," *Academic Emergency Medicine*, Volume 15 Issue 5 (2008), pp.414–418.

[26] Pennell B, Posada-Villa J, Sampson N, Williams D, Kessler R. "Cross-National Associations Between Gender and Mental Disorders in the World Health Organization World Mental Health Surveys," *Archives of General Psychiatry*, Volume 66 Issue 7 (2009), p.785.

[27] Paula de los Angeles C, Watkins Lewis W, McBain R, Taghi Yasamy M, Aderemi Olukoya A, Morris J. "Use of Mental Health Services by Women in Low and Middle Income Countries," *Journal of Public Mental Health*, Volume 13 Issue 4 (2014), pp.211–223.

05

Financially fit

The gender gap is especially notable when financial wellness is concerned. Globally, only 9% of organizations track financial wellness by gender, and just 8% monitor savings and deferral and investment rates by gender. Many organizations are missing an opportunity to contribute to women's financial security — just 8% offer customized education and training to female employees, and 11% track the use of available financial resources and tools by gender. Greater use of these tools could deliver a big boost in female employees' financial courage and confidence.

The intersection of health and wealth for women

A recent study found that women in particular have more unpaid responsibilities, such as caring for children and relatives. The demands on their time can be compounded by their multiple roles as both users of healthcare themselves and as "chief medical officers" of their families. In one survey, 77% of women don't do what they know they should do to stay healthy; 62% said they lack the time to do so.[28]

Workplace and employment discrimination can be compounded by health and care needs, especially for women, putting their employment at risk. For example, one in five mothers in the UK reported harassment or negative comments from employers or colleagues related to pregnancy or flexible work.[29]

Meanwhile, links between different kinds of work-induced stress and health needs are significant. Data also suggest that health costs are connected to financial insecurity, and this figure is higher for women (64%) than for men (55%).[30]

In addition to having specific healthcare needs, women have unique financial needs. Women are financially stressed: 43% of women responded that they're stressed about their financial situation. Financial stress can shape the path of a woman's career. Women who are financially stressed are more likely to leave their current place of employment.

Being financially savvy matters for women. How women perceive their financial knowledge is also an important indicator of career decisions. Research has shown that perceived knowledge is more important than actual knowledge. Women who are financially savvy are more likely to try to advance themselves in their current organization.

- Higher financial **courage** leads to higher engagement, which leads to higher financial wellness.
- **Financial courage has more bearing** than actual financial knowledge on a woman's ability to improve her financial situation.
- Women spend **more time worrying** about money, especially short-term expenses.
- Women are **less prepared** for retirement.
- Women are **less likely** to have used a financial advisor or participated in an employer-offered financial education program.[31]

Women who have more stress about money also tend to report more frequent engagement in unhealthy or sedentary behaviors to manage that stress; consequently, they are significantly more likely to rate their health as fair or poor, according to the American Psychological Association. By helping women reduce money stress, employers may not only improve productivity, but also reduce healthcare costs and absenteeism related to physical illness.[32]

[28] Center for Talent Innovation, 2015.

[29] HM Government, Equality and Human Rights Commission. *Pregnancy and Maternity-Related Discrimination and Disadvantage: Experiences of Mothers*, 2016, available at www.equalityhumanrights.com/sites/default/files/mothers_report_-_bis-16-146-pregnancy-and-maternity-related-discrimination-and-disadvantage-experiences-of-mothers_1.pdf.

[30] Women's Forum for the Economy and Society: Daring Circles, 2015.

[31] Mercer, Ellevate, InHerSight. "Infographic: The Hidden Effects of Financial Confidence on Women's Careers," 2018, available at www.inhersight.com/research/hidden-effects-financial-confidence-womens-careers?_n=65621449.

[32] Mercer. *Inside Employees' Minds*, 2017.

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Get smart.

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Here's how to put the findings and learnings from this section into action:

Activate

(for organizations just getting started)

Provide differentiated communication and training about available benefits and recommended actions for unique employee segments

Accelerate

(for organizations with a good foundation)

- Offer innovative point solutions geared toward improving women's health and financial wellness
- Adopt plan designs that support the unique needs of different cohorts (i.e. inclusive benefits)

Thrive

(for organizations that have made significant progress)

- Regularly measure the use and outcomes of health and financial wellness programs by employee segments to track progress
- Adjust programs as needed to match the demographics and health and financial status of the population

05

Technology: The missing link

Broadly improving D&I is high on the agenda for the vast majority of organizations globally. In virtually all aspects of D&I efforts — from data analysis, candidate sourcing and selection, learning and development, talent management, employee communication, and health and well-being — technology can drive systematic and scalable change and truly transform organizations. This represents a significant area of opportunity and attainable intervention for many organizations looking to make progress.

Just as organizations leverage technology to improve the efficiency and effectiveness of other strategic business initiatives, technology should be used to enhance D&I by delivering real-time data and insights and empowering leaders to make better people decisions.

— Carole Jackson,
Diversity & Inclusion Research and Consulting, Mercer

The rise of a transformative market

In 2018 and 2019, Mercer partnered with RedThread Research to investigate the D&I technology market and understand how organizations leverage technology to enhance their D&I efforts.

The market for D&I technology has been gaining traction over the past 18 months.[33] The report found that the largest percentage of D&I solutions focus on talent acquisition (43%), supporting organizations with candidate sourcing and selection. Yet numerous technologies exist that can help drive a more inclusive culture and more equality in opportunity, experience and pay.

We believe D&I technology has the potential to be a disruptor to the structural biases (intentional or not) that hide in our processes and behaviors. Applied correctly, technology can enable scalable, consistent decision-making while also alerting users to previously hidden patterns of bias. Much of the technology on the market is designed to change the processes that enable bias or identify that bias exists. Another benefit that customers see in D&I technology is the increased understanding of the current state of D&I throughout the organization. With greater visibility, leaders can better measure and monitor the impact of D&I initiatives.

On the other hand, the use of technology to address D&I issues comes with latent risks, such as the potential for bias in artificial intelligence (AI) algorithms. Research shows people often misunderstand AI and overestimate the power of using such technology in their decision-making.[34,35] Being an informed consumer of these AI technologies is a critical step in ensuring unbiased assumptions and objective outcomes.

[33] RedThread Research, Mercer. *Diversity & Inclusion Technology: The Rise of a Transformative Market*, 2019, available at www.redthreadresearch.com/wp-content/uploads/2019/05/Diversity-and-Inclusion-Technology_The-Rise-of-a-Transformative-Market_low-resolution-file.pdf.

[34] Bezrukova K, Spell CS, Perry JL, Jehn KA. "A Meta-Analytical Integration of Over 40 Years of Research on Diversity Training Evaluation," Cornell University, SHA, 2016, available at www.scholarship.sha.cornell.edu/articles/974.

[35] Dickson B. "Artificial Intelligence Has a Bias Problem, and It's Our Fault," *PC Mag*, 2018, available at www.au.pcmag.com/features/57070/artificial-intelligence-has-a-bias-problem-and-its-our-fault.

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Get smart.

To make true and lasting progress, actions must be *specific, measurable, actionable, relevant* and *time-based.*

Here's how to put the findings and learnings from this section into action:

Activate
(for organizations just getting started)

Analyze workforce data to identify your greatest D&I challenge; e.g. hiring, advancing, retaining, analytics, pay equity, performance management

Accelerate
(for organizations with a good foundation)

- Evaluate D&I technology solutions to assess how they can help you implement more consistent, scalable and less-biased processes
- Become an informed consumer of AI technologies

Thrive
(for organizations that have made significant progress)

Implement a D&I technology strategy and measure the impact the solution has on your D&I outcomes

05

A look back and a call forward

> Five years ago, in this report, we began an important conversation about equality.
>
> At the time, we thought that conversation, and our work, would focus primarily on pursuing gender equality in business. We thought we would show leaders how enabling women to succeed and achieve parity at work would positively impact outcomes for companies. And we did.

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We went on to work collaboratively with businesses across industries to execute strategies that would accelerate gender equality in the workplace. As a result — as shown in this year's report — we are now able to identify the strategies companies need to move the needle on gender equality. Passion, personal leadership and perseverance — matched with analytics, proof, culture and the right mix of programs — have emerged as true accelerators of gender equality.

What we could never have known in 2015 was how transformative this conversation — and the work it would inspire — would be, not only to our client companies, but to society at large. We knew we'd prove that when women thrive, businesses thrive. What we discovered is that when women thrive, the world thrives.

Companies have risen to that challenge. They have committed to bringing equality not only to their employees, but to their entire value chain. These organizations are investing, executing and reaping the benefits of equality not only in their own workforces, but in their entire ecosystem — from female suppliers or farmers, to distributors and shop owners. Boards and shareholders are also applying new, external pressure for accountability , which is becoming an accelerator for equality inside and outside companies.

The effect has been a profound and sustaining change. When companies strive toward equality, they influence and change the societies around them.

The intersection of business change and societal change will be critical to meeting the challenges we still face. This year's report makes clear that we still have much work to do. If business leaders want to achieve equal representation of women in the workforce, with equal participation in the economy, at equal pay, they will need to lead the way. That last mile will require creating even more purposeful and disruptive changes, not just within company walls, but in society.

It won't be easy, but we're confident that business leaders are up to the task. We certainly saw that this year in the excitement, hope and energy they brought to the **When Women Thrive** breakfast session at the World Economic Forum in Davos in January. We saw the largest-ever percentage of male leaders joining the influential female leaders on our panels and in our audience. There was also a broader diversity of voices and geographies, including from Latin America, Asia, the Middle East and Africa.

We also take this opportunity to thank Pat Milligan, **When Women Thrive** founder, for her profound support and commitment to gender equality — and driving important thought leadership on this imperative. Her passion has inspired many individuals and organizations to undertake and persevere in the pursuit of gender equality.

We have a huge amount of confidence that organizations globally will continue with this same level of passion and commitment, and we look forward to what the next decade has in store.

The future is very bright.


Let's get real about equality
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Participating organizations

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Mercer extends a sincere thanks to the nearly 1,200 organizations that participated in our research. Those listed below have agreed to be recognized in this report. This is not a comprehensive list of all participants, as some organizations chose not to be recognized.

- A&L Goodbody
- a1 Telekom Austria
- Abastible
- ABB
- Abbvie
- ABC Deterjan San ve Tic. A.Ş.
- Abilities
- AC Nielsen do Brasil LTDA
- Accenture
- Acciona
- Acindar
- Activision Blizzard Spain, SL
- Adama
- Adecco Group
- Adelaide Brighton Ltd.
- Adidas
- Admiral Group
- Adobe
- Adult Education Ingredients and Research
- AECI Limited
- Aegea Saneamento
- Aequales
- African Solution
- AGCO Corporation
- Agibank
- AIG Seguros
- Air Liquide España
- Airbus
- Ak-Kim Kimya San. ve Tic. A.Ş.
- Al Masaood
- Albemarle
- Alberta School Employee Benefit Plan
- Aldar PJSC
- Alfa
- Alinta Energy
- Allianz Life Insurance of North America
- Altán Redes
- Alternatif Bank A.Ş.
- Altice
- Amadeus IT Group S.A.
- Amazon Logistics
- AMP Capital
- Amundi SGR S.p.A
- Anthem Inc.
- Applied Viability
- Applus+
- ARAUCO
- ARaymond
- ARC Resources Ltd.
- Arca Continental
- Arcosa Inc.
- Argus Data Insights
- Arkas Holding A.Ş.

06

- Arla Foods
- Arriva
- Arvato CRM Turkey
- AstraZeneca
- ATB Financial
- ATCO
- Athene
- Atlantic Lottery Corporation
- Atlas Copco
- ATNCARE
- Australian Military Bank
- Australian Red Cross Blood Service
- Auto Avaliar
- AutoZone Mexico
- Avery Dennison Ireland
- Avianca
- Aviva SA Emeklilik ve Hayat
- AVL Japan K.K.
- Avon Kozmetik
- Axalta FZE
- Axtel
- Badger Meter
- Baker McKenzie
- BAMIN
- Banca Mediolanum SpA
- Banco Bradesco S.A.
- Banco Inter
- Banco Itau Argentina
- Banco Regional
- Bancolombia
- Bank of America
- Banner Bank
- Banque Nationale du Canada
- Baptist Health
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- Yves Rocher
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- Zurich Seguros


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Let's get real about equality
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Glossary of terms

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Adjusted pay gap	Adjusted pay gap is the estimated difference in pay between two groups after accounting for factors such as job, level in the organization, etc. Gaps that remain after accounting for such factors may indicate the presence of pay inequities in an organization.
Bias	Bias refers to the practice of favoring a person or a group of people based upon attributes such as gender, race or ethnicity, religion, sexual orientation, age, or any other class.
Business resource groups (BRGs) or employee resource groups (ERGs)	BRGs and ERGs are communities of employees organized around a common dimension (e.g. those who share similar backgrounds, experiences or interests) to network, share views, learn from others, further professional growth and development, and drive business.
Diversity	Diversity refers to a variation in backgrounds, attitudes, values, beliefs, experiences, behaviors and lifestyle preferences with respect to gender; race; ethnicity; nationality; language; age; cognitive and physical abilities and characteristics; sexual orientation; education; religion; socioeconomic situation; marital status; social roles; personality traits; and ways of thinking.
Environmental, social and governance (ESG) investing	Environmental governance investing is a part of a responsible investment approach that includes ESG factors and broader systemic issues — for example, climate change and sustainable development — along with active ownership (stewardship). These considerations can have a material impact on financial performance, and their inclusion is more likely to lead to sustainable investment outcomes in the future.
Equality, equity or parity and gender balance	Equality, equity or parity is the state of being equal across all aspects in an organization (e.g. pay, promotions and fair treatment of people), representation of men and women at all levels, and like pay for like work, without any bias. Mercer POV: Equality, equity and parity can be used interchangeably. The term "gender balance" refers specifically to the pursuit of achieving a 50:50 ratio between women and men.
Equal pay	Equal pay is achieved when the raw gender pay gap, the difference in average pay of women and average pay of men across the entire organization, is zero.

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Experienced worker	Experienced workers are mature workers aged 55 and older. Mercer POV: "Experienced worker" is preferred terminology to "older" or "seasoned" worker references, as these terms have inherent bias and negative connotations.
Gender	Mercer encourages organizations to be inclusive of all genders, including cisgender women and men, transgender women and men, and non-binary individuals. Although some organizations are beginning to track the broader spectrum of gender identity in their workforces, most still exclusively track employee gender as male and female, which is reflected in the binary data collected in this research.
Inclusion	Inclusion refers to practices that provide an equitable and fair distribution of resources, such as jobs, income and access to opportunities and information. Such acts and practices enable all members, including those from underrepresented groups, to be respected and appreciated for their unique contributions and to be fully integrated into the formal and informal networks of an organization.
Internal Labor Market (ILM) Analysis®	Mercer's ILM Analysis is a proprietary tool that provides a fact-based platform for human capital decision-making. At a basic level, it examines the flow of people into, through and out of an organization to answer fundamental questions about a firm's workforce: who gets hired, who performs well, who advances and who stays.
Intersectionality	Intersectionality is the complex and cumulative way that the effects of different forms of discrimination (such as racism, sexism, classism, socioeconomic status) combine, overlap and intersect.
Pay equity	Pay equity is the state of receiving equal pay for equivalent work.
Raw pay gap	The raw pay gap or "unadjusted pay gap" refers to the actual difference in pay between two groups, such as between men and women. Raw pay gaps can be influenced by many factors such as job, level in the organization and location. Mercer POV: "Unadjusted pay gap" is interchangeable with "raw pay gap."
Unconscious bias	Unconscious or implicit bias is the subliminal tendency to favor certain people or groups of people based upon learned stereotypes. Mercer POV: "Unconscious bias" is interchangeable with the term "implicit bias."

World Economic Forum	The World Economic Forum engages the foremost political, business, cultural and other leaders of society to shape global, regional and industry agendas. Its activities are shaped by a unique institutional culture founded on the stakeholder theory, which asserts that an organization is accountable to all parts of society. The Forum carefully blends and balances the best of many kinds of organizations, from both the public and private sectors, international organizations and academic institutions. Mercer and the World Economic Forum have forged a long-standing partnership and host cutting-edge events at annual meetings in Davos, Switzerland. The events bring together global thought leaders who aim to explore disruptive strategies that are creating more sustainable futures.

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Acknowledgements

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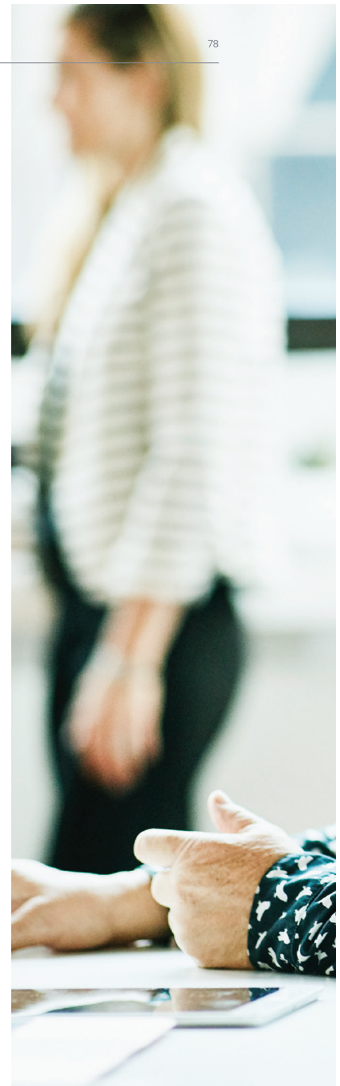

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When Women Thrive 2020 global report
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MARSH & McLENNAN COMPANIES

Response to Questions for the Record from Chairwoman Maxine Waters Subcommittee on Diversity and Inclusion Hearing: "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion" March 18, 2021

We are pleased to respond to Chairwoman Maxine Waters' Questions for the Record from the March 18, 2021 Financial Services Subcommittee on Diversity and Inclusion Hearing entitled, "By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion". We offer our sincere apologies for the delay in responding.

CalPERS' diversity and inclusion efforts focus on improving our funded status to meet our long-term obligations to nearly two million beneficiaries. Our core Investment Beliefs (see Attachment I) state that strong processes, teamwork, and deep resources are needed to achieve CalPERS' goals and objectives, and highlight the importance of diversity of talent in this process. A culture that promotes diversity is vital to improving the performance of our organization and the businesses and markets in which we invest.

Because diversity and inclusion is important to our own success, we have built a diverse leadership team with women and people of color serving in key roles, including our CEO and our new Chief Diversity, Equity & Inclusion Officer. We are also proud to state that eight of our 13 board members are women, including the first transgender person to be elected in California to a non-judicial office, and our Board President is a man of color.

Please find our response to your questions below.

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CalPERS Response to HFSC Chairwoman Waters
Questions for the Record, D&I Subcommittee Hearing
July 26, 2021

Elimination of CalPERS' Emerging Managers Program

1. *Why was the emerging managers program eliminated and what has been put in its place to ensure that largest fund in the country is exercising real diversity and intentionally including diverse firms in its asset management?*

To clarify, CalPERS has not eliminated its Emerging Manager Program. Rather, CalPERS continues to invest with Emerging Managers, which we generally define as newer and smaller firms. Approximately 50% of our Emerging Managers are diverse. CalPERS also invests with other high-performing private equity firms such as Vista, Clearlake, Valor and Stellex.

In late 2019, CalPERS reduced investments with all external public market investment managers in light of risk and opportunities in all asset classes and the potential value add of active management. These reductions will generate a cost savings of more than $100 million and provide further alignment with our performance goals at the required scale. This process reduced the total number of external public market investment managers engaged by CalPERS, but the percentage of active public market managers represented by the Emerging Manager Program has not been reduced. In November, the CalPERS Board will review the Emerging Manager Program and discuss ways we can improve the program's effectiveness.

Additionally, CalPERS is working to complete a D&I Survey of its external investment managers. The survey will provide us with greater insight into the investment industry workforce, leadership, and decision-making practices. These insights are important because we integrate human capital management across asset classes. We have a responsible contractor policy in real assets, we are using the ILPA model templates for private equity and use ESG and diversity factors in manager due diligence. We also curate and promote market leading research on emerging trends and insights in human capital management and diversity. Just this month we completed evaluating Requests for Proposals (RFPs) to review work on both human capital management and climate change.

Research is a core pillar of CalPERS' sustainable investment strategy which reflects CalPERS Investment Belief #4 referenced earlier: Long term value creation requires effective management of three forms of capital: financial, physical and human. We recently closed our Request for Information (RFI) which seeks to identify providers that can assist CalPERS in sourcing and evaluating a new round of analysis and research related to climate change risk and human capital management in what will be the third phase of our Sustainable Investment Research Initiative. This curated and peer-reviewed research will inform our strategy on sustainable investment and help ensure CalPERS' investment decisions are grounded on cutting-edge, evidence-based economic insights.

2. *You mentioned during the hearing that CalPERS adopted a new diversity, equity, and inclusion framework. How is this linked to the fund's previous emerging manger program that provided opportunities to minority-owned firms and what else has CalPERS done since the elimination of emerging managers to promote more diversity in CalPERS' workforce, board and other efforts?*

CalPERS has recently appointed Marlene Timberlake D'Adamo as its Chief Diversity, Equity and Inclusion Officer. In that role, she will focus on organizational strategic objectives and further develop CalPERS' Diversity, Equity, and Inclusion best practices across the enterprise, including our Investment Office. Moreover, she will establish a framework for fair and equitable processes internally and externally for hiring practices and employee training. In March, the CalPERS Board adopted a DEI framework of strengthening diversity in five priority areas:

- **Culture:** Integrating diversity, equity, and inclusion best practices into CalPERS' culture to increase awareness, build mutually rewarding relationships and foster teamwork.

- **Talent Management:** Support and retain a high-performing, equitable and diverse workforce by ensuring human resource processes strengthen diversity in recruitment, retention, and succession.

- **Health Equity:** Fostering equitable health outcomes for members and their families by ensuring all health members can attain the highest possible level of wellbeing.

- **Supplier Diversity:** Building relationships with a diverse group of businesses, recognizing the unique value of partners with a shared commitment to equity and inclusion.

- **Investments:** Achieving stronger investment returns, with the belief that diverse boards and companies that value diversity perform better.

3. *CalPERS and CalSTRS announced that they will host a Diversity Forum on June 22, 2021 "focusing on diversity, equity, and inclusion in the investment industry."[1] What are the goals of this forum and how do you plan to increase opportunities for diverse firms through this event?*

[11] CalPERS, "Coming Soon: 2021 CalPERS and CalSTRS Diversity Forum," release, February 12, 2021, https://www.calpers.ca.gov/page/investments/sustainable-investments-program/human-capital/diversity-forum.

CalPERS co-hosts a biennial Diversity Forum. This year's Forum was held on June 22, 2021 and had a number of goals, including:

- Educate the finance community on the enhancements and approaches to diversity, including expansion of the term to "diversity, **equity** and inclusion" and to encapsulate the additional concepts of access, liberation and belonging;
- Make the finance community aware of what CalPERS and CalSTRS are doing to promote DEI in the investment industry and their own portfolios; and
- Hear from leaders in diversity on their views of what the finance community needs to do better.

We believe that the above objectives were accomplished during the forum.

The Chief Investment Officers of both organizations discussed their respective plans for increasing opportunities for diverse firms. Because both organizations have relied heavily on index-based investment strategies in public markets, future opportunities for emerging managers are more likely in private investments.

Diverse private investment managers were featured during the forum (Marc Brown of EQT and Jose Feliciano of Clearlake Capital). They shared their views and informed CalPERS and CalSTRS on what the two pension funds should do to further promote diversity. It is important to note that the diverse participants in the forum were not all emerging managers. They are also diverse managers serving at majority firms. For structural reasons, including the focus on size and long-term track records, diverse participation often comes from within majority and long-standing firms.

We also heard from regulators, notably SEC Commissioner, Allison Herren Lee. The Commissioner noted that we have a long way to go regarding diversity, citing the work of Dr. Chris Brummer regarding the historical and significant absence of Black financial regulators in the United States.

TIAA's Chief Executive Officer, Thasunda Brown Duckett, headlined the conference. She informed the participants, as well as CalPERS and CalSTRS, about the importance of diversity and its contributions to performance.

As mentioned earlier, we will discuss the next phase of our emerging manager program at our November Board meeting.

<u>Request for Diversity and Inclusion Data</u>

This year, CalPERS implemented a new employee survey tool to receive self-identifying information including ethnicity (8 new categories) and sexual orientation and gender. Also, this year, 520+ team members in 13 different divisions participated in diversity and inclusion training, including 1,960 team members who participated in enterprise-wide unconscious bias training, facilitated by Dr. Tyrone A. Holmes, Ed.D.

CalPERS publishes a D&I newsletter on a variety of topics to help cultivate a high-performing, risk-intelligent, and innovative workplace. We have provided guidance and shared best practices with other state agencies for Diversity and Inclusion program development. We have also helped develop the Statewide Committee on Diversity, Equity, and Inclusion.

At this time, we do not have all of the diversity and inclusion data you request, in part because we rely on self-reporting information from both our employees and our external investment managers. We are also retaining an external service provider to provide a diversity equity and inclusion profile of all of our external managers.

As requested, we have attached information on the CalPERS diversity and inclusion data in Attachment II.

Attachment I

CALPERS' INVESTMENT BELIEFS

In September 2013, the CalPERS Board of Administration adopted a set of ten Investment Beliefs intended to provide a basis for strategic management of the investment portfolio, and to inform organizational priorities.

The Investment Beliefs are not a checklist to be applied to every decision. They are a guide for making decisions that often require balancing multiple, inter-related decision factors. They provide context for CalPERS actions, reflect CalPERS values, and acknowledge CalPERS responsibility to sustain its ability to pay benefits for generations.

Each Investment Belief also contains several sub-beliefs that are actionable statements that provide insight as to how the Investment Beliefs will be implemented.

1. Liabilities must influence the asset structure
    - Ensuring the ability to pay promised benefits by maintaining an adequate funding status is the primary measure of success for CalPERS
    - CalPERS has a large and growing cash requirement and inflationsensitive liabilities; assets that generate cash and hedge inflation should be an important part of the CalPERS investment strategy
    - CalPERS cares about both the income and appreciation components of total return
    - Concentrations of illiquid assets must be managed to ensure sufficient availability of cash to meet obligations to beneficiaries
2. A long-time investment horizon is a responsibility and an advantage
    - Long-time horizon requires that CalPERS:
        - Consider the impact of its actions on future generations of members and taxpayers
        - Encourage investee companies and external managers to consider the long-term impact of their actions
        - Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives
        - Advocate for public policies that promote fair, orderly and effectively regulated capital markets.
    - Long-time horizon enables CalPERS to:
        - Invest in illiquid assets, provided an appropriate premium is earned for illiquidity risk
        - Invest in opportunistic strategies, providing liquidity when the market is short of it
        - Take advantage of factors that materialize slowly such as demographic trends
        - Tolerate some volatility in asset values and returns, as long as sufficient liquidity is available

3. CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries
    - As a public agency, CalPERS has many stakeholders who express opinions on investment strategy or ask CalPERS to engage on an issue. CalPERS preferred means of responding to issues raised by stakeholders is engagement
    - CalPERS primary stakeholders are members/beneficiaries, employers, and California taxpayers as these stakeholders bear the economic consequences of CalPERS investment decisions
    - In considering whether to engage on issues raised by stakeholders, CalPERS will use the following prioritization framework:
        - Principles and Policy - to what extent is the issue supported by CalPERS Investment Beliefs, Principles of Accountable Corporate Governance or other Investment Policy?
        - Materiality - does the issue have the potential for an impact on portfolio risk or return?
        - Definition and Likelihood of Success - is success likely, in that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
        - Capacity - does CalPERS have the expertise, resources, and standing to influence an outcome?
4. Long-term value creation requires effective management of three forms of capital: financial, physical, and human
    - Governance is the primary tool to align interests between CalPERS and managers of its capital, including investee companies and external managers
    - Strong governance, along with effective management of environmental and human capital factors, increases in the likelihood that companies will perform over the long-term and manage risk effectively
    - CalPERS may engage investee companies and external managers on their governance and sustainability issues, including:
        - Governance practices, including but not limited to alignment of interests
        - Risk management practices
        - Human capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity
        - Environmental practices, including but not limited to climate change and natural resource availability
5. CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution
    - A key success measure for the CalPERS investment program is delivery of the long-term target return for the fund
    - The long-term horizon of the fund poses challenges in aligning interests of the fund with staff and external managers

   - Staff can be measured on returns relative to an appropriate benchmark, but staff performance plans should include additional objectives or key performance indicators to align staff with the fund's long-term goals
   - Each asset class should have explicit alignment of interest principles for its external managers
6. Strategic asset allocation is the dominant determinant of portfolio risk and return
   - CalPERS strategic asset allocation process transforms the fund's required rate of return to the market exposures that staff will manage
   - CalPERS will aim to diversify its overall portfolio across distinct risk factors return drivers
   - CalPERS will seek to add value with disciplined, dynamic asset allocation processes, such as mean reversion. The processes must reflect CalPERS characteristics such as time horizon and size of assets
   - CalPERS will consider investment strategies if they have the potential to have a material impact on portfolio risk and return
7. CalPERS will take risk only where we have a strong belief we will be rewarded for it
   - An expectation of a return premium is required to take risk; CalPERS aims to maximize return for the risk taken
   - Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs
   - CalPERS will use index tracking strategies where we lack conviction or demonstrable evidence that we can add value through active management
   - CalPERS should measure its investment performance relative to reference portfolio of public, passively managed assets to ensure that active risk is being compensated at the Total Fund level over the longterm
8. Costs matter and need to be effectively managed
   - CalPERS will balance risk, return and cost when choosing and evaluating investment managers and investment strategies
   - Transparency of the total costs to manage the CalPERS portfolio is required of CalPERS business partners and itself
   - Performance fee arrangements and incentive compensation plans should align the interests of the fund, staff, and external managers
   - CalPERS will seek to capture a larger share of economic returns by using our size to maximize our negotiating leverage. We will also seek to reduce cost, risk, and complexity related to manager selection and oversight
   - When deciding how to implement an investment strategy, CalPERS will implement in the most cost-effective manner
9. Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error
   - CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk
   - The path of returns matters, because highly volatile returns can have unexpected impacts on contribution rates and funding status

- As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability, that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

10. Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives
    - Diversity of talent (including a broad range of education, experience, perspectives, and skills) at all levels (board, staff, external managers, corporate boards) is important
    - CalPERS must consider the government agency constraints under which it operates (e.g., compensation, civil service rules, contracting, transparency) when choosing its strategic asset allocation and investment strategies
    - CalPERS will be best positioned for success if it:
        - Has strong governance
        - Operates with effective, clear processes
        - Focuses resources on highest value activities
        - Aligns interests through well designed compensation structures
        - Employs professionals who have intellectual rigor, deep domain knowledge, a broad range of experience, and a commitment to implement CalPERS Investment Belief

Attachment II

Enterprise Ethnicity Demographics

Race	% to Total	Race	% to Total
Chinese *	6.0%	Black or African American	4.0%
Filipino	3.0%	Hispanic or Latino	11.0%
Indian *	4.0%	Native American or Alaska Native	0.2%
Japanese *	1.0%	Pacific Islander, Other, or Multiple	1.0%
Korean *	0.3%	White	32.0%
Laotian *	0.3%	Other or Multiple Race	6.0%
Other Asian or Multiple *	2.0%	Unknown **	27.0%
Vietnamese *	3.0%		

Source: CalPERS Engagement Survey, as of January 2021

*New reporting categories

**Unknown category represents employees who chose not to respond

Attachment II

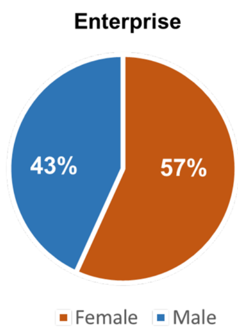
Ethnicity by Classification Group

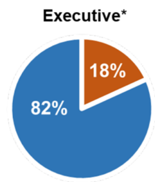
Employee Type	Asian	Black	Filipino	Hispanic	Other	Unknown	White	Native American	Pacific Islander	Two or More Races
Executive	9.09%	9.09%	0.00%	0.00%	0.00%	0.00%	81.82%	0.00%	0.00%	0.00%
Senior Leader	19.26%	4.92%	2.46%	9.02%	0.41%	0.00%	61.48%	0.41%	0.41%	1.64%
Team Leader	15.97%	7.85%	4.45%	14.40%	1.83%	0.00%	51.83%	0.26%	0.79%	2.62%
Rank and File	25.23%	8.88%	4.37%	16.84%	0.53%	1.12%	38.72%	0.39%	1.21%	2.72%
Grand Total	**23.31%**	**8.38%**	**4.19%**	**15.72%**	**0.70%**	**0.85%**	**42.81%**	**0.37%**	**1.07%**	**2.59%**

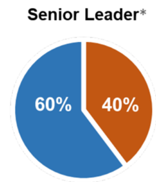
Source: SCO MIRS as of July 1, 2020

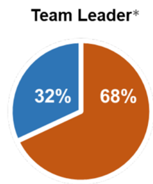
Attachment II

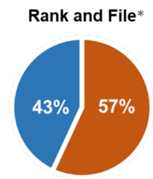
Gender Demographics











Source: SCO MIRS as of July 1, 2020

* Executive: DEO and above. Senior Leaders: DC's, SSMIII, Team Leader: SSM I/II