

# 5 Ways to Put Diversity, Equity and Inclusion at the Centre of Your Investing

Business can be a force for good. Consider how corporate divestment campaigns contributed to the abolition of the Apartheid regime in South Africa in the 1980s and 1990s. But when it comes to promoting diversity, many organizations remain stuck in the past, with leadership and governance structures still dominated by white men. According to a recent report, in the U.S. just 32% of all S&P 500 directors are women, while 22% are from underrepresented racial and ethnic groups.<sup>1</sup>

Consumers are pressuring businesses to adopt diversity, equity and inclusion (“DEI”) policies and put more underrepresented people on boards, management teams and overall staffing. But investors have a role to play, too. Whether through proxy voting or asset allocation within a portfolio, shareholders have a say in how companies are run. Further, the uptake in Responsible Investing (“RI”) is spurring many public companies to start measuring their performance according to environmental, social and governance (“ESG”) criteria.

## DEI offers social and economic benefits

The growth of DEI is a natural extension of the ESG criteria. DEI is concerned with an organization’s commitment to tracking the diversity of its workforce, providing equal pay for people in positions of equal value and developing pathways for more women, people of colour, people with disabilities and diverse gender identification to rise to the top.

As with ESG, layering DEI into your investment decisions helps align your economic impact with your values. There’s also growing evidence that DEI also reduces a company’s risk by avoiding potentially costly human-resources mistakes, while many perform better than their peers by challenging biases in decision-making and adopting a broader perspective. A McKinsey & Company study indicated that companies ranking in the top quartile for racial and ethnic inclusion had 36% higher profitability than those in the bottom quartile.<sup>2</sup>

How can you incorporate DEI into your investment decisions? The options are more limited than with ESG, but there are ways to steer your investments in the direction of greater inclusion.

### 1. Do your own screening

When considering whether or not to purchase a stock, make DEI part of the selection criteria by reviewing or confirming the DEI statements of the company. As with

ESG, more companies are starting to report these kinds of non-traditional performance metrics, while the information they’re sharing is getting more comprehensive, especially among large-capitalization companies. According to Bloomberg,<sup>3</sup> in 2021, more than 400 S&P 500 companies mentioned DEI in the annual 10-Ks they file with the Securities and Exchange Commission, a big increase from 2020, when just 72 companies discussed DEI. The absence of such documentation may be an indication that the organization doesn’t place a high priority on DEI.

### 2. Follow third-party rankings

Many investors won’t want to screen every company on their own. They can instead consult the growing number of independent rankings and awards programs that recognize excellence in DEI. Canada’s Best Diversity Employers, *Forbes Magazine’s* Best Employers for Diversity and Diversity for Social Impact all publish annual lists of organizations that excel on the DEI front. Each ranking will have its own methodology, so make sure you understand how different lists are constructed before making any investing moves based on this data.

### 3. Invest in RI products

Currently, there are very few investment funds that specifically target DEI – although BMO does have a Women in Leadership Fund, which is offered as both a mutual fund and exchange-traded fund (“ETF”), that seeks to increase the value of your investment over the long term by investing primarily in North American companies that promote a gender diverse leadership environment. The responsible investing universe, however, is more developed. Look for mutual funds and/or ETFs that go beyond screening for traditional ‘sin sectors’ and include DEI factors in a meaningful way.

### 4. Invest with women—and minority—led investment firms

Another option is to invest in funds managed by women or minorities. Most funds are still run by men,<sup>4</sup> but there are a growing cohort of asset managers both in Canada and abroad that have put DEI at the forefront of their operations. If you truly want to diversify your portfolio, then consider asset management firms with a strong commitment towards achieving diversity on their teams. Studies show that a diverse and inclusive culture within an investment team can enhance investment performance by increasing diversity of thought, which improves decision-making and investment idea generation while driving innovation.<sup>5</sup>

### 5. Be an activist investor

Investing with DEI doesn't end with stock or fund selection. As a shareholder in a company or a unitholder in a fund, you can play a proactive role by pushing for positive change at the shareholder relations level, sending letters to management, voting for director candidates committed to DEI and participating in related resolutions at annual and extraordinary general meetings. The Principles for Responsible Investment has [found](#) that investors are becoming more

proactive around DEI issues, with mentions of DEI in signatories' proxy voting policies rising to 21% in 2020 from 6% in 2017.<sup>6</sup>

With DEI becoming an increasingly more important issue, now's the time for investors who want change to put their money to work. There are a growing number of ways to invest with your values, and more will open up as people put diversity, equality and inclusion at the forefront of their purchasing and investing habits.

**For more information, please speak with your BMO financial professional.**



- 1 Bloomberg. "Women reach 32% of S&P 500 board seats for the first time." <https://www.bloomberg.com/news/articles/2022-12-21/women-reach-32-of-s-p-500-board-seats-for-the-first-time?leadSource=uverify%20wall>
- 2 McKinsey. *Diversity wins: How inclusion matters.* <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>
- 3 Bloomberg. "S&P 500 Opens Up on Diversity After Floyd as Investors Seek More." <https://news.bloomberglaw.com/securities-law/s-p-500-opens-up-on-diversity-after-floyd-as-investors-seek-more>
- 4 Citywire. "Fund managers make 'appalling' progress on gender parity." <https://citywire.com/ria/news/fund-managers-make-appalling-progress-on-gender-parity/a2397075>
- 5 McKinsey & Company. *Diversity wins: How inclusion matters* <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>
- 6 Principles for Responsible Investment. *Diversity, equity & inclusion: Key action areas for investors.* <https://www.unpri.org/human-rights/diversity-equity-and-inclusion-key-action-areas-for-investors/9393.article>

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