Investors' Role in Race Equity: **UK Investment Management Roundtable**

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Attendees

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Introduction

Research suggests there is a £3.2bn[1] pay gap between ethnic minority workers in the UK versus their white peers, but with a persistent lack of transparency among UK employers on ethnicity pay, and given the accepted under-representation, that figure could be higher.

In 2020, the number of UK companies voluntarily disclosing their ethnicity pay gap was around 10%[2]. That figure was significantly lower for financial services at just 4%.

Against this backdrop, to date, the pace of progress in benchmarking diversity beyond gender in business generally remains painfully slow.

With this theme top of minds, Reboot brought together a group of prominent investment industry decision makers to discuss the benefits and challenges to long-term investors of portfolio companies adopting policies to improve DE&I generally and the disclosure of demographic and pay data in particular. The following points framed the discussion:

- **Testing economic and racial inequities**
- **Investors taking action**
- **Barriers to reporting the ethnicity pay gap**
- **Learning from others**
- **Investor engagement starts with a diverse financial services industry**
- **Understanding the data and creating an action plan**
- **Benefits**
- **Next steps**

1 Resolution Foundation

2 PWC report on ethnicity pay gap reporting, September 2020

Testing economic and racial inequities

Runnymede Trust's 'Colour of Money' report in 2020[3] showed ethnic minority workers were far more likely to be in the lowest paid jobs, living in poverty and earning less than white British employees. Furthermore, it demonstrated significant evidence of labour market discrimination and an 'ethnic penalty' in earnings even when controlled for qualifications and other factors.

Despite considerable talk and good intentions, studies indicate that while many organisations are on the right track, progress is not linear, and the pace is slow. According to the 2021 Census, 82% of people in England and Wales are white, and 18% belong to black, Asian, mixed or other ethnic group, but according to BITC[4], only 6% are represented in senior positions. A survey of FTSE 100 firms, conducted by Green Park in 2021, found that collectively just 11 'top tier' leadership roles – CEO, CFO and chair – were held by individuals from an ethnic minority background.

While these surveys show some indicative trends, it is difficult to uncover the full magnitude of ethnic pay differentials in the corporate world. There is not only a lack of robust statistical data available, but often a lack of leadership in spearheading the development of a more diverse workforce across the corporate spectrum.

Since the recent and growing awareness of the importance of tackling racial inequality, the investment and corporate world has responded with increased attention on diversity, equity and inclusion (DEI) initiatives and commitments.

To make further progress, transparency is key. Ethnicity pay gap reporting is a metric that can help uncover and showcase how diverse a business is at different levels. Reporting could also help reveal some of the fundamental nuances of DE&I by disaggregating the data by different minority groups.

"We should seek to **ensure talent is recognised**, rewarded accordingly, and able to progress"

Sachin Bhatia
EMEA Head of Consultants & UK Pension at Invesco and Reboot ambassador

3 The Colour of Money', Runnymede Trust, 2020.

4 Business in the Community, (2015) Race at Work 2015 Report

The UK government has stated it will not be legislating for mandatory ethnicity pay gap reporting yet.[5] It said that, as a tool, it cannot be consistently and fairly applied across all employers. Reporting would also impose burdens on companies recovering from the pandemic, it said. Therefore, reporting ethnic pay figures remains voluntary. However, the government did publish guidelines in April 2023, for companies wishing to voluntarily report on their ethnicity pay gap.

"Ethnicity pay gap reporting will bring to light the discrepancies on a wider scale, but it is how we respond to it – **through quotas, practical actions, tone from the top, better integration between minorities and the majority** etc – that we will start seeing tangible change."

Noreen Biddle Shah
Head of Corporate Communications at Numis and Founder, Reboot

5 Make ethnicity pay gap reporting mandatory – TUC', BBC report, 25 April 2023.

Investors taking action

The financial services industry is at the heart of our economic system. It provides products and solutions to savers, investors and those in need of short and long-term capital. As such, it is particularly important to understand how it can be effective to help establish change and improve outcomes for all in line with improving long-term returns and performance for clients.

Listed UK companies are owned by private individuals and institutional investors from around the world, who either directly invest, or, more frequently, employ asset managers to allocate their capital. These managers compete to manage investor capital by demonstrating good long-term performance, which may be helped by engaging with companies on material issues that may impact investment outcomes, such as climate change, DE&I and other sustainability issues.

Additionally, since 2022, ShareAction, the campaign group working with many UK asset managers and owners, has been campaigning for all FTSE 100 companies to report on their ethnicity pay gap[6], with an initial focus on financial services. Using a combination of AGM questions and investor engagement, ShareAction is encouraging companies to disaggregate their data, conduct an analysis of any potential gaps and publish a strategy to reduce the gap.

"There is a growing awareness in the financial sector that **more light needs to be shed on pay equity in order for better practices to develop quicker.** This has the potential to improve corporate performance, investment returns and the credibility of the financial industry in the UK overall".

Rick Lacaille
Global Head of ESG, State Street and Reboot Advisory Council member

6 'ShareAction targets financial sector to fully disclose ethnicity pay gap data', ShareAction press release, 1 9 July 2022.

Barriers to reporting the ethnicity pay gap in the UK

Aside from a lack of regulatory requirements to disclose ethnicity pay data, ethnicity is not uniform, nor can ethnicities be reduced to a few different categories. Participants highlighted that where companies run internal ethnicity pay surveys, completion rates vary. The majority of firms have disclosure rates below 60%. Not all ethnic minority colleagues are willing to self-identify, often because they fear it could work against them. A narrative and action plan could allay such fears.

While this is a challenge for all sectors, financial services has some of the lowest percentage of responses, according to a global survey of more than 500 firms around the world. Reward consultancy 3R Strategy found only[7] 11% in this cohort published data on salary range, which put the industry at the bottom of a list of professions with only engineering, life sciences and technology sectors disclosing the information.

Anecdotally, ShareAction and Reboot cited reputation and brand management came up as an issue for some companies, as they were concerned that the data on ethnicity pay gap may lead to bad press and unintentionally backfire on their good intentions. Alternatively, a narrative and action plan could allay such fears. In discussions between ShareAction and listed companies some noted they were waiting for government guidelines on ethnicity pay gap reporting. These guidelines were published by the Department for Business, Energy & Industrial Strategy in April 2023, enabling a pathway for UK businesses. Some companies were also concerned about a low representation of ethnic minority staff, leading to low levels of statistical significance.

"Ethnicity pay gap reporting is an important metric which we'll be using to understand how diverse a business is. **Any company unwilling to share data on their diversity is a red flag for us."**

Diandra Soobiah
Nest and Reboot ambassador

7 M3R Strategy Global Salary Report - 2022

"The CIPD encourages employers with more than 250 staff to ensure that **as part of their wider equality, diversity and inclusion strategy, ethnicity pay gap reporting is used to tackle workplace inequalities.**"

Lutfur Ali
Senior Policy Advisor, CIPD

Learning from others

The asset managers on our panel had insight into practices from around the world, including where greater disclosure of diversity metrics is helpful in investment and engagement decisions.

However, global initiatives have had varying success.

In the US, the Equal Employment Commission requires all companies with 100 or more employees to confidentially submit a report, known as the EEO-1, which includes defined categories for gender and race/ethnicity. It also requires data on the organisational hierarchy and diversity patterns at each level. The aim is to provide greater uniformity to companies’ demographic data and many typically supplement their EEO-1 reports with additional narrative and data using company-specific job categories.

In addition to civil society groups, a number of large asset managers and asset owners have been asking companies to routinely disclose this data and, between August 2020 to October 2022, the number of S&P 100 companies releasing EEO-1 data quadrupled.[8]

US shareholder action

According to the Bloomberg Proxy Database, a record number of diversity-focused shareholder proposals were floated in 2021. Bloomberg found a new type of proposal is finding its way into more proxies: a request to prepare a report on racial justice, or a third-party “racial equity audit”.
JPMorgan, Wells Fargo and Amazon have all been the focus of such proposals, with many receiving more than one-third of shareholder support. This includes efforts to encourage corporations to release

> There is no doubt that **a more diverse and inclusive asset manager will be in a stronger position** to serve its clients and deliver better outcomes.”

Stephanie Butcher
Senior Managing Director &
Co-Head of Investments at Invesco

8 https://www.asyousow.org/reports/workplace-diversity-and-financial-performance

the annual EEO-1 report. While none were passed in 2021, eight were passed in 2022, with many receiving around 62% support.

The unadjusted gender pay gap measures the differences in pay between all men and women within a company. It is unaffected by differences such as education and experience which themselves may be as a result of discrimination. A company with no adjusted gender pay gap might nevertheless have substantial inequity in pay due to the structure of roles women have within the organisation, for example seniority or job function. Although the metrics may vary, the experience is can be similar for people from ethnically diverse backgrounds.

UK Asset Owner Diversity Charter

The Asset Owner Diversity Charter brought together asset owners and consultants in the UK to agree a consistent set of metrics for collection across fund managers. A quantitative and qualitative questionnaire asks for a breakdown of the board, executive, senior management, front office roles, named portfolio managers, promotions, new hires, graduates and turnover by race. This has helped standardise the framework for disclosure of diversity within asset managers. The panel discussed this as an example of asset owners putting consistent pressure on their asset managers and could be replicated by these managers to ask of their portfolio companies to help standardise the industry's approach.

Diversity Project – UK Savings and Asset Management industry initiative

Some financial services companies aim to increase the self-identification rate, including employing the following initiatives as recommended by the Diversity Project's Race and Ethnicity stream:

- Ensuring they have leaders within the business championing DE&I.
- Explaining to employees why they need the data, and how they will protect confidentiality.
- Looking at collecting the data at different points in the employment life cycle.
- Working with employee networks and forums.
- Developing specialist apps to streamline data collection.

> "**The Asset Owner Diversity Charter could offer companies a valuable blueprint for consistent reporting**, helping remove the often difficult and complicated process of collecting data in multiple ways."

Mitesh Sheth
Multi-Asset CIO at Newton Investment Management and Reboot ambassador

Investor engagement starts with a diverse financial services industry

While investors can have a positive impact on the broader society, it is key for them to also be part of an industry that reflects the diversity of the people it serves.

Reboot’s Race to Equality: UK Financial Services report found seven out of 10 or 68% of ethnic minorities had experienced bias at work in the last year and eight out of 10 or 82% suffered unwelcome comments based on their background. In addition, a quarter of survey respondents believe that racial jokes are still tolerated where they work. Nearly half of those surveyed, believe those from ethnically diverse backgrounds are not offered as many career opportunities as white colleagues, with 31% of those from an ethnic minority background saying this had made them consider leaving financial services.

Investment consultancy group Willis Towers Watson’s Diversity in the Asset Management Industry report, which canvassed 407 asset management firms and over 1,500 investment strategies, noted that many asset managers are failing to measure gender and ethnicity pay gaps. They are also not implementing targeted diversity, equity and inclusion policies within their organisations. While around 80% of managers have a formal DEI policy, only 42% have measurable objectives.

There is not one solution to this challenge, but by evolving their training programmes, reviewing their recruitment practices, and developing role models, asset managers can improve practices and outcomes.

The increasing tendency of asset owners to require asset managers to focus on both diversity at portfolio companies and within its own ranks creates a competitive business need. For example, the UK defined contribution pension provider Nest, which manages £29bn of assets for 11.7m people, requires its asset managers to disclose diversity metrics for their workforce during the selection and monitoring process.

Nest pays particular attention to portfolio management as it wants the team responsible for managing its mandate to possess a range of experiences, backgrounds and skillsets as well as encourage a shift away from fund management roles traditionally being comprised of one demographic.

Understanding the data and creating an action plan

Industry initiative TalkAboutBlack has identified the key obstacles (see page 13) to the sector's challenges around ethnicity. These kinks have a cumulative effect: children who have no role model, who don't get the mentoring they need and who never make it onto the corporation's radar or wish list, do not get hired and, 25 years later (no surprise), there's no-one to promote.

While corporations cannot solve all these issues, tackling them as early as possible may not just empower new talent, but also improve a company's outcomes and help pave the way for an action plan that will allow gaps to be identified in ethnicity pay gap reporting. This well established set up could help pave the way of what an action plan could look like where gaps are found in ethnicity pay gap reporting.

"There is not one solution to this challenge, it is complex. **#TalkAboutBlack** has identified the kinks in the hosepipe. If you're going to help un-kink the hose, you need to know what the kinks look like."

Justin Onuekwusi
Co-Founder of
TalkAboutBlack

TalkAboutBlack has established five key initiatives to improve racial diversity and equity in financial services

1. The Catalyst Education Programme

Designed to introduce 16 to 18 year olds from lower socio-economic backgrounds to the possibilities of the savings and investment industry, the multiyear education programme provides skills sessions, mentoring and industry insight days.

2. The Skills Workshop

Helping young people break into the industry. Created by industry professionals, this free five-month virtual programme targets the intersectionality between gender, social mobility and race, offering students, graduates and young people aged 18+ the vital first-hand insight, education and direction needed to pursue a career in the investment and savings industry.

3. EnCircle Mentoring Circles

Led by senior ethnic minority professionals, EnCircle mentoring circles provide virtual and in-person mentoring sessions to those in the early stages of their career. Mentors share their experiences, and discuss the tools, skills and knowledge needed to navigate the barriers faced by minority professionals in corporate spaces.

4. City Hive Cross Company Mentoring Scheme

Designed to cultivate the career development pipeline for women and ethnic minorities, the City Hive mentoring programme targets those in the middle of their careers, supporting and empowering mentees through 1-2-1 mentoring to better recognise the next steps needed to progress their careers.

5. Black Leaders Programme Scheme

Using high-level mentoring and reverse mentoring, the programme targets established Black professionals with 10+ years industry experience, supporting their transition to senior leadership and developing a pipeline to C-suite.

Civil society and professional bodies pressure for action

Campaign organisations, employee groups and other stakeholders are putting pressure on the UK government to promote greater fairness and opportunities in workplaces. In March 2023, the BITC called on prime minister Rishi Sunak and Labour opposition leader Sir Kier Starmer to introduce mandatory ethnicity pay gap reporting for UK employers with more than 250 employees[9].

ShareAction has been specifically targeting financial services companies in the FTSE 100 since July 2022, for which Reboot, 30% Club, Runnymede Trust are part of a steering group alongside other minority-led organisations. It used a combination of annual general meetings questions, follow-up meetings and investor engagement to encourage companies to disaggregate their data, conduct an analysis behind any potential gaps and publish a strategy to reduce the gap. More specifically, it questioned 17 big firms at their AGMs and secured commitments from players such as NatWest, Phoenix Group,

9 Source: 'BITC writes to PM urging for mandatory ethnicity pay gap reporting to be introduced', BITC press release, 13 March 2023. https://www.bitc.org.uk/news/bitc-writes-to-pm-urging-for-mandatory-ethnicity-pay-gap-reporting-to-be-introduced/

St. James Place Wealth Management, Hargreaves Lansdown, and Admiral Group to publish data or break it down in order to compare data across different ethnic groups.

In 2023, ShareAction expanded its focus to food sector companies, and 24 investors worth £2.7trn in assets under management and advisory signed company letters to 16 of these companies.

"Positively, we see DE&I action and leadership emerging in the investment sector. **There's much to celebrate, but still far more to do.**"

Catherine Haworth
CEO of ShareAction

Benefits

Using data from the McGregor-Smith Review, BITC has predicted that if this diverse ethnic talent is fully used, it could boost the UK economy by £36bn by 2051. Participants highlighted that companies should strive to create diverse and inclusive organisations. Diversity across multiple dimensions brings a valuable range of outlooks and opinions, and when paired with an inclusive culture, can lead to higher-quality work, better decision-making and problem-solving, and greater team satisfaction. Inclusion is what allows diversity to thrive.

CASE STUDY

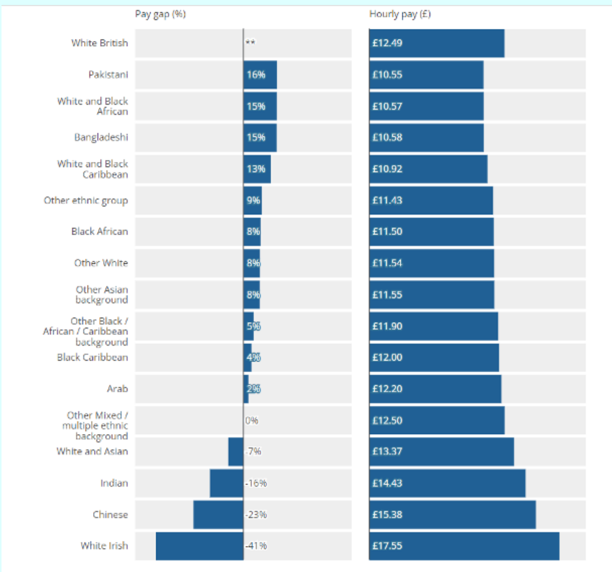
Why granular data reporting is key and should be supported by an action plan

According to ONS data, children in Bangladeshi and Pakistani households are the most likely to live in low income and material deprivation out of all ethnic groups, while children in Indian households are the least likely. Despite this, Pakistani and Bangladeshi children who are eligible for free school meals (FSM) – the proxy for poverty in educational analysis – achieve Progress 8 scores higher than average, indicating that they make more progress than pupils from other ethnic groups who started at a similar level.

Despite making progress and gaining higher education levels above the average rate, across 2012 to 2019, Bangladeshi, Pakistani groups are the lowest paid by any group. Because these groups fall under the broader "Asian" bucket by the much used "Black, Asian, Minority Ethnic" categorisation, this masks serious issues for certain ethnic groups in the UK, making it difficult to adequately address these issues.

Granular data and reporting of ethnicity pay gap data will help see the facts at a comprehensive level.

An action plan – including practical solutions, data, quotas etc – will help close the gap through more accountability and greater transparency.



Source: Office for National Statistics

Conclusion

Our expert panellists discussed if and how the disclosure of raw metrics can provide insight into corporate practices and approaches to human capital management.

The CIPD guide advises employers to publish annual ethnicity reports based on three key components:

- A uniform set of eight commonly defined statistics to profile pay by ethnicity
- A supporting narrative to explain the nature and causation of any pay differentials and gaps by ethnic group evident in their statistics
- An action plan of clearly defined initiatives to reduce and remove any such gaps over time.

Our panellists also acknowledged that data collection is problematic and that the sector should be cautious about drawing conclusions from small sample sizes. Nevertheless, there is enthusiasm for making progress in the collection and dissemination of data to improve diversity across the financial services sector.

The asset management industry has a unique role to play in fostering greater diversity, influencing not only the portfolio companies they own, but also the wider industry.

Recent initiatives like the Asset Owner Diversity Charter can help nudge the industry towards making high-quality disclosures and ensuring diverse representation.

Currently, there is no political or regulatory pressure to report and some companies will not report information voluntarily. But as more financial services firms willingly publish data on pay gaps, we can begin to build momentum and demonstrate the feasibility of reporting. In doing so, the sector could showcase the value of reporting for all industry sectors and potentially help pave the way to a fairer society, better businesses and a more successful economy.

Next (six) steps

To ensure momentum continues, here are 6 steps asset managers can take to tackle racial inequality in their organisations.

1. **Use your role as shareholders to actively engage with portfolio companies on their DEI data, including ethnicity pay gaps.** Where relevant and material, shareholders can engage on ESG issues with holdings in order to drive long-term performance.
2. **Be consistent with the data/metrics you ask for:** the approach should not be fragmented or burdensome on the company. The Asset Owner Diversity Charter is an example of asset owners, consultants and other fund selectors working together in a coordinated way to improve the quality and consistency of disclosures from asset managers. This could offer a valuable blueprint for investment managers to agree on a consistent approach to receiving data from portfolio companies removing fragmentation and the burden on companies having to collect data in multiple ways.
3. **Make it a board level priority.** Gender pay gap reporting has been embraced by UK board rooms. Ethnicity challenges should be assessed and measured in the same way and with the same level of commitment.
4. **Engage and educate your own employees on the role of data collection.** Ensure employees know the benefits of self-identification and that they feel comfortable doing so. According to Reboot research, one-fifth (17%) of Financial Services employees report feeling that they were unable to self-identify within their workplace, with almost half (45%) claiming that the lack of purpose is preventing them from doing so.
5. **Maximise the data you have available to identify and tackle the gaps.**Understand and research resources available (see below). It is important to produce and publish an accompanying narrative and action plan as to how you will address the pay gap. While this may seem implicit or obvious, experience and research suggest that unless it's emphasised and highlighted, companies are likely to just to publish the data with no action to address the problem.
6. **Lead from the top, and do not be afraid to talk about race and ethnicity.** Many companies fear that if they are proactive to support this cohort, they will have a reputational issue because their numbers do not reflect a diverse employee base. This is counterproductive as not many organisations have a truly diverse employee base at all levels. We encourage corporates to be allies and take real action by reporting on it as this a step in the right direction.

Resources/Signposting

Ethnicity pay gap guidelines:
ShareAction has launched its investor briefing and toolkit on ethnicity pay gap reporting. The toolkit describes the measures companies have used to overcome challenges in voluntary reporting, and it recommends what actions investors can take to increase voluntary disclosure. See here for more detail.

Consistent reporting to remove fragmentation:
The Asset Owner Diversity Charter is an example of asset owners, consultants and other fund selectors working together in a coordinated way to improve the quality and consistency of disclosures from asset managers. This could offer a valuable blueprint for investment managers to agree upon a consistent approach to receiving data from portfolio companies removing fragmentation and the burden of companies having to collect data in multiple ways.

Action plan
TalkAboutBlack's well established set up could act as a guide of what an action plan could look like where gaps are found in ethnicity pay gap reporting.

Further reading

- The **Parker Review** recommends businesses improve the ethnic and cultural diversity of UK boards to better reflect their employee base and the communities they serve. The recommendations fall under 3 areas.

- In April 2022, the Financial Conduct Authority (FCA) published a policy on **'Diversity and inclusion on company boards and executive committees'**. It sets out new Listing Rules to require issuers to include a statement in their annual financial report setting out whether they have met specific board diversity targets.

- In 2017, the **McGregor-Smith Review** set out recommendations for employers in the public and private sectors to improve diversity within their organisations. It estimated the potential benefit to the UK economy from full representation of BME individuals across the labour market through improved participation and progression to be £24bn a year, representing 1.3% of GDP.

- **BITC's Race at Work 2018: The Scorecard Report** was published one year after the McGregor-Smith Review. It looked at how UK employers were performing against the recommendations outlined in the review. The findings led Business in the Community (BITC) to create the Race at Work Charter, five calls to action for organisations committed to improving equality of opportunity in the workplace. In 2021 the Charter was expanded to include allyship and inclusive supply chain commitments.

- **CBI's Change the Race Ratio** is a business-led campaign to increase racial and minority ethnic representation in UK business. The campaign calls on business leaders to publicly make four commitments.
    - → Increase racial and ethnic diversity among Board members
    - → Increase racial and ethnic diversity in senior leadership
    - → Disclose ethnicity pay gaps within 2 years of joining and publish a clear action plan
    - → Create an inclusive culture in which talent from all diversities can thrive

To find out more about Reboot, please contact us on **hello@rebootequality.org**

With special thanks to our probono partners:

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