GAM Investments

GAM EXPLAINS:
DIVERSITY

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WHAT IS IT?

Diversity is a business principle that has gained prominence in line with social progress and awareness. In the business context, it represents a corporate culture and employee composition that reflects and supports the breadth of human characteristics and identities – including (but not limited to) gender, race, sexuality, class, religion and age.

What actually qualifies as a "diverse" company is dependent on societal and business context, and naturally changes with shifting societal expectations of inclusivity and evolving understanding of human identity. While the definition continues to evolve, a general consensus has emerged that a more diverse and inclusive workforce is beneficial both for business success and for society.

Establishing a corporate culture that embraces diversity depends not only on hiring and managerial practices, training in an effort to remove conscious or unconscious bias, proactively seeking out talent from underrepresented groups, including for leadership and Board positions, but also ensuring the workplace is a positive and inclusive environment for all employees.

WHY IT MATTERS TO INVESTORS

A significant number of studies show that more diverse companies tend to perform better financially. A 2019 McKinsey analysis identified that companies in the top quartile in terms of the proportion of women on their executive board were 25% more likely to have above-average profitability than companies in the fourth quartile. Morgan Stanley and the Harvard Business Review have also found that companies with a diverse workforce produced a higher return on investment.

Underlying this is the belief that a diverse workforce or leadership team brings a variety of perspectives and experiences, giving those companies a potential competitive advantage in decision making and a more representative understanding of their clients and wider stakeholders.

Studies also suggest that more diverse companies tend to consistently attract and retain the best talent, especially among the younger generations. Companies that manage diversity proactively also avoid potential reputational and legal risks.

What is GAM doing?

GAM seeks **to foster to an environment that embraces diverse perspectives** across our organisation and encourages diversity across the companies in which we invest. This includes the establishment of the Equals employee network to champion DEI (diversity, equity and inclusion) in our business, as well as voluntary disclosure of our gender pay gap annually as a way of promoting accountability and demonstrating our commitment to DEI.

GAM has also signed the UK and Ireland Women in Finance Charters with the goal of increasing the proportion of women in senior management positions within GAM globally to 25% by 2022, a goal towards which we continue to strive. In 2023, 24% of our senior managers globally are women, as are 57% of our Board.

GAM is also a member of the **30% Club**, an organisation dedicated to achieving 30% representation of women on all corporate boards, as well as the **Diversity Project** and **InterInvest**, which are creating a more inclusive culture in investment management.

We engage with companies directly on diversity and in 2022 collaborated with the Asian Corporate Governance Association (ACGA) on an engagement to encourage gender diversity within companies listed on the Tokyo Stock Exchange.

Though we still have progress to make as a company, we have taken and will continue to take substantive steps to ensure GAM is an inclusive firm that fosters diversity and embraces the fresh perspectives a diverse organisation offers.

THREE TOP TAKEAWAYS

1- Diversity data and training are elements investors are looking for in responsible companies

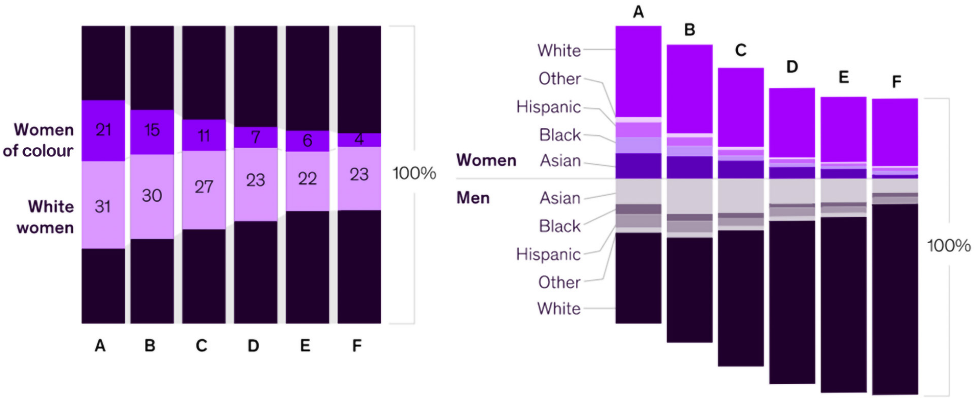
Investors are increasingly looking to see whether companies understand and are acting on the issue of diversity.

Specific training measures, such as anti-racism and anti-microaggression training and unconscious bias training, are important steps to improving recruitment processes and changing attitudes, as is having specific diversity standards implemented by Human Resources departments.

Markets also increasingly expect disclosure of diversity data such as the number of women in senior leadership positions and gender pay gap reporting.

It is also important to note that the finance sector itself has been slow to embrace diversity compared to other sectors, as figure 1 suggests.

Figure 1: Financial-services representation by corporate role, by gender and race at the start of 2021, % of employees



Source: Analysis of 71 financial-services employers that participated in "Women in the Workspace 2021", LeanIn.Org and McKinsey, 2021.

2- Diversity regulation is growing

In many countries, there are significant and growing regulations to institute baseline standards for diversity in the corporate world.

The EU for instance, published its "Women on Boards Directive", a directive aimed at increasing the representation of women on corporate boards. By 2026 the composition of non-executive directors in stock listed companies will need to be 40% female and 33% among all directors more broadly. Given this will need to be transposed into the national law of 15 member states, it is as yet unclear which enforcement mechanisms will be put in place. Nevertheless, these regulations show that it will become increasingly necessary for large companies to think of diversity continuously and systemically.

In the US, the SEC has proposed rules to mandate disclosure of board diversity, opening up companies with a poor diversity track record to a host of reputational risks. It is unclear at this stage whether these measures will become established law, but nevertheless, it is important for companies to be mindful of the potential impact of this regulation.

3- Investors can use their influence to encourage greater diversity in the corporate world

Groups like the 30% Club, which GAM is proud to be a part of, have signed up more than 1000 board chairs and CEOs in 20 countries to commit to delivering 30% female representation at both levels. The 30% Club also runs the world's largest cross-company mentoring program that helps connect women and other individuals from underrepresented groups to share skills and knowledge that will help these groups succeed in the workplace.

Diversity has progressively become a more salient factor in investors' decision making. Mentions of DEI in PRI signatories' proxy voting policies more than doubled from 6% in 2017 to 21% in 2020.

There are also several engagements where investors are having an impact. For example, the Asian Corporate Governance Association is pushing for greater gender diversity within companies listed on the Tokyo Stock Exchange.

WHAT TO LOOK OUT FOR

Public pressure for the finance industry to do better in terms of diversity and inclusion will only grow in the near future, especially as ESG, with its emphasis on diversity, grows in prominence. Forbes reports that growing demands for diversity on corporate boards will be among the most important trends of 2023.

Improving diversity has always been important as a matter of fairness, but now a concrete and compelling financial and business case for encouraging greater representation across gender, race, sexual orientation, class, neuro-diversity and other socio-cultural categories is now more prominent. As the finance industry enters 2023, it should be mindful that embracing diversity could be a deciding factor in its success.

To see more details on what GAM is doing to foster diversity, equity and inclusion, visit our website here.

For more insights from GAM, please visit 'Our Thinking' page here.

GAM's purpose is to protect and enhance our clients' financial future. By attracting and empowering the brightest minds to think beyond the obvious, we strive to provide investment leadership, innovation and a positive impact on society and the environment.

STEPHANIE MAIER

Global Head of Sustainable and Impact Investment

Stephanie Maier is Global Head of Sustainable and Impact Investment, responsible for leading GAM's sustainable and ESG (environmental, social and governance) strategy.

Stephanie joined GAM Investments in January 2021 from HSBC Global Asset Management, where she was Director for Responsible Investment. Prior to that, she spent seven years at Aviva Investors, latterly as Head of Responsible Investment Strategy and Research, and was formerly Head of Research for EIRIS, an ESG research and consultancy firm.

Stephanie holds an MSc in Environmental Technology from Imperial College London, a BA in Biological Sciences from Oxford University and the Investment Management Certificate (IMC). She is based in London.

For more information, please visit GAM.com

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