QUILTER CHEVIOT

RESPONSIBLE INVESTMENT

Exploring diversity beyond the data

Across Quilter we have identified three thematic engagement priorities. This is part of our human rights theme.

Human rights are rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination[1].

SDG Alignment

> *"Groups that contain diverse views have a huge, often decisive, advantage."*
>
> Matthew Syed

1 United Nations

Objective and scope

Our research explores both quantitative and qualitative diversity and inclusion disclosures across our centrally monitored universe of 342 companies[2]. The goal is to gain further insight into best practices and to identify trends. We use company annual reports and website disclosures as source material rather than direct interaction with the underlying companies, which was limited to the case studies within this document.

We identified 21 data points related to qualitative and quantitative factors linked to diversity and inclusion (D&I). Quantitative data provide a high-level entry point for analysis and qualitative data are useful additional insights into a company's approach to diversity and inclusion. The objective is to identify and assess areas where companies are performing well, or underperforming, and what actions are successfully being put in place to attain a more diverse and inclusive workforce.

Quantitative factors	**Qualitative factors**
Board size	Diversity training
Female representation on the board	Inclusion training
Board ethnic diversity	Maternity
Workforce female representation	Paternity
Women in managerial positions	Employee satisfaction
Executive female representation on the board	Accessibility
Executive level women	Programmes
Mean gender pay gap	Mentorship schemes
Median gender pay gap	Employee networks
Ethnic median pay gap	Recruiting
Employee voluntary turnover	

Quilter's approach to D&I

Tosin James-Odukoya
Head of Diversity & Inclusion, Quilter

Our conversation with Quilter's Head of Inclusion & Diversity allowed us to see diversity beyond the data and appreciate the first-hand challenges associated with addressing workplace D&I. For example, it is best practice for companies to publish policies such as family leave, but for many, they are not accessible. An emphasis is placed on ensuring Quilter fosters a culture of diverse thought and openness. Therefore, cognitive diversity should be encouraged alongside cultivating a workforce which includes people of underrepresented backgrounds.

Alongside this, meaningful long-term policies are required, which is reflected in the Quilter D&I Action Plan. As part of this plan, Quilter no longer includes the requirement of degree qualifications on job descriptions and encourages diverse hiring panels for its senior-level roles. Without government intervention addressing diversity and inclusion issues is challenging, data collection is crucial to provide a starting point, but much of the data is self-disclosed, Quilter's current disclosure rate for ethnicity is at 89%

2 Centrally monitored universe as of October 2022.

Main findings

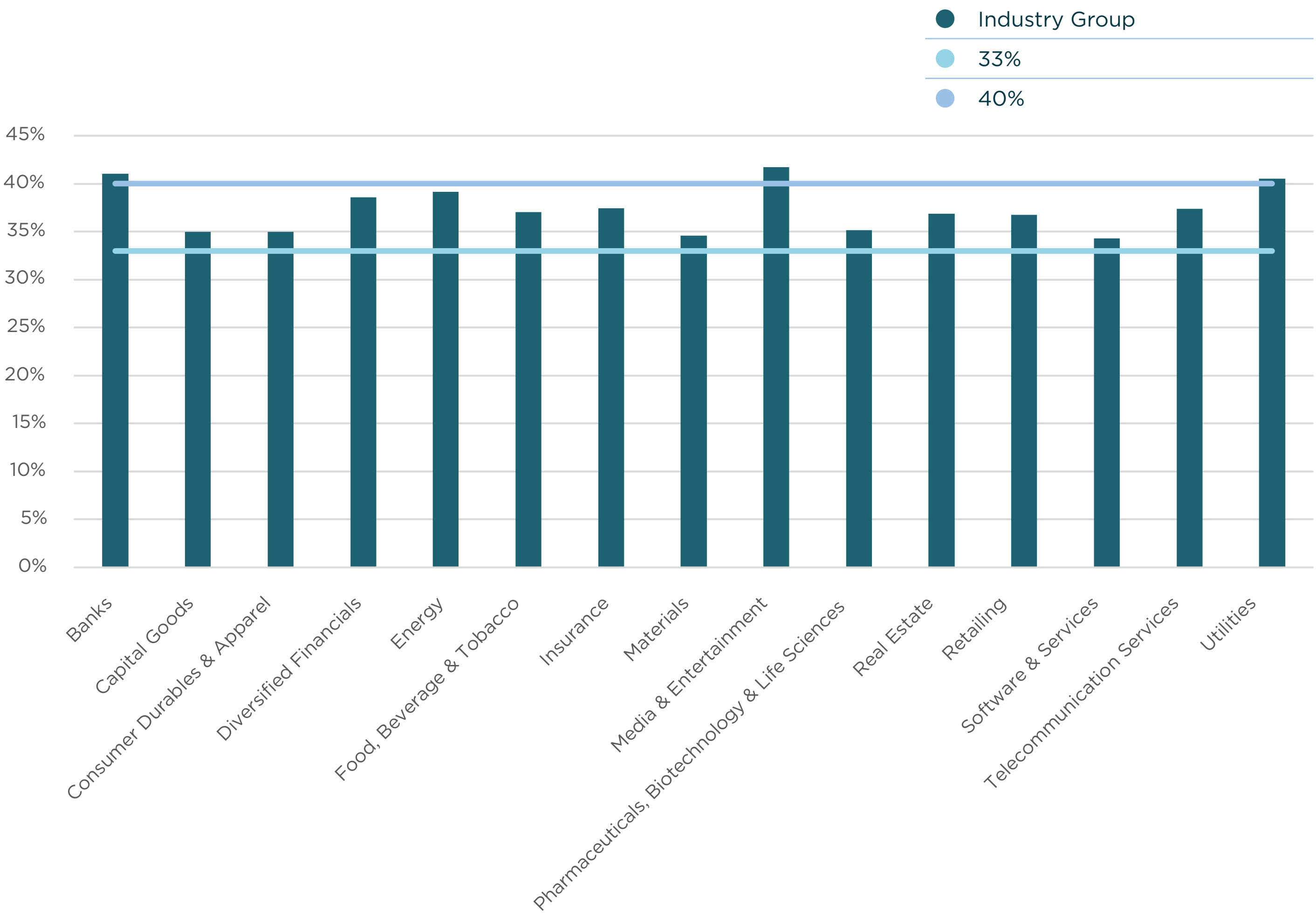
Quantitative data: we aggregated the data into industry groups. To have a reasonable sample for each industry group, we excluded those with fewer than ten companies within our centrally monitored universe. The industry groups highlighted in italics failed to meet that threshold.

Industry Group	Number of companies
Capital Goods	45
Real Estate	25
Diversified Financials	23
Materials	22
Banks	20
Energy	19
Food, Beverage & Tobacco	19
Pharmaceuticals, Biotechnology & Life Sciences	19
Utilities	16
Retailing	15
Media & Entertainment	13
Consumer Durables & Apparel	12
Insurance	12
Software & Services	11
Telecommunication Services	10
Consumer Services	9
Food & Staples Retailing	8
Health Care Equipment & Services	8
Semiconductors & Semiconductor Equipment	8
Automobiles & Components	7
Household & Personal Products	7
Commercial & Professional Services	6
Technology Hardware & Equipment	6
Transportation	2

All industry groups (excluding the ones with fewer than 10 companies) have, on average, boards with 33% or more gender board diversity, which meets the UK 2020 Hampton - Alexander target. However, only three have an average board diversity above the 40% target set by the FCA for UK companies to achieve by 2023, namely banks, media & entertainment, and utilities (Table 1).

The universe of companies is not just UK-focused. However, we have used the UK standards as a benchmark for this exercise

Table 1: Gender diversity at board level



Source: Company annual reports and website disclosures

Materials, capital goods and utilities have the lowest percentages of female representation within their workforce ranging from 22% to 26%. There is a positive correlation of 0.82 between industry groups that have higher levels of women in the wider workforce and those with higher levels of women in managerial positions. Usually, a strong correlation is considered to be higher than 0.73[3] (Table 2).

3 Correlation measures the relationship between two variables. A correlation coefficient of 0 means that variables have no impact on one another therefore increases or decreases in one variable have no consistent effect on the other. A correlation coefficient of +1 indicates a "perfect positive correlation", which means that as variable X increases, variable Y increases at the same rate. A correlation value of -1, meanwhile, is a "perfect negative correlation", which means that as variable X increases, variable Y decreases at the same rate. Correlation analysis may also return results anywhere between -1 and +1, which indicates that variables change at similar but not identical rates. Correlation is considered to be strong above 0.7

Table 2: The percentage of women in the workforce versus women in managerial positions[4]

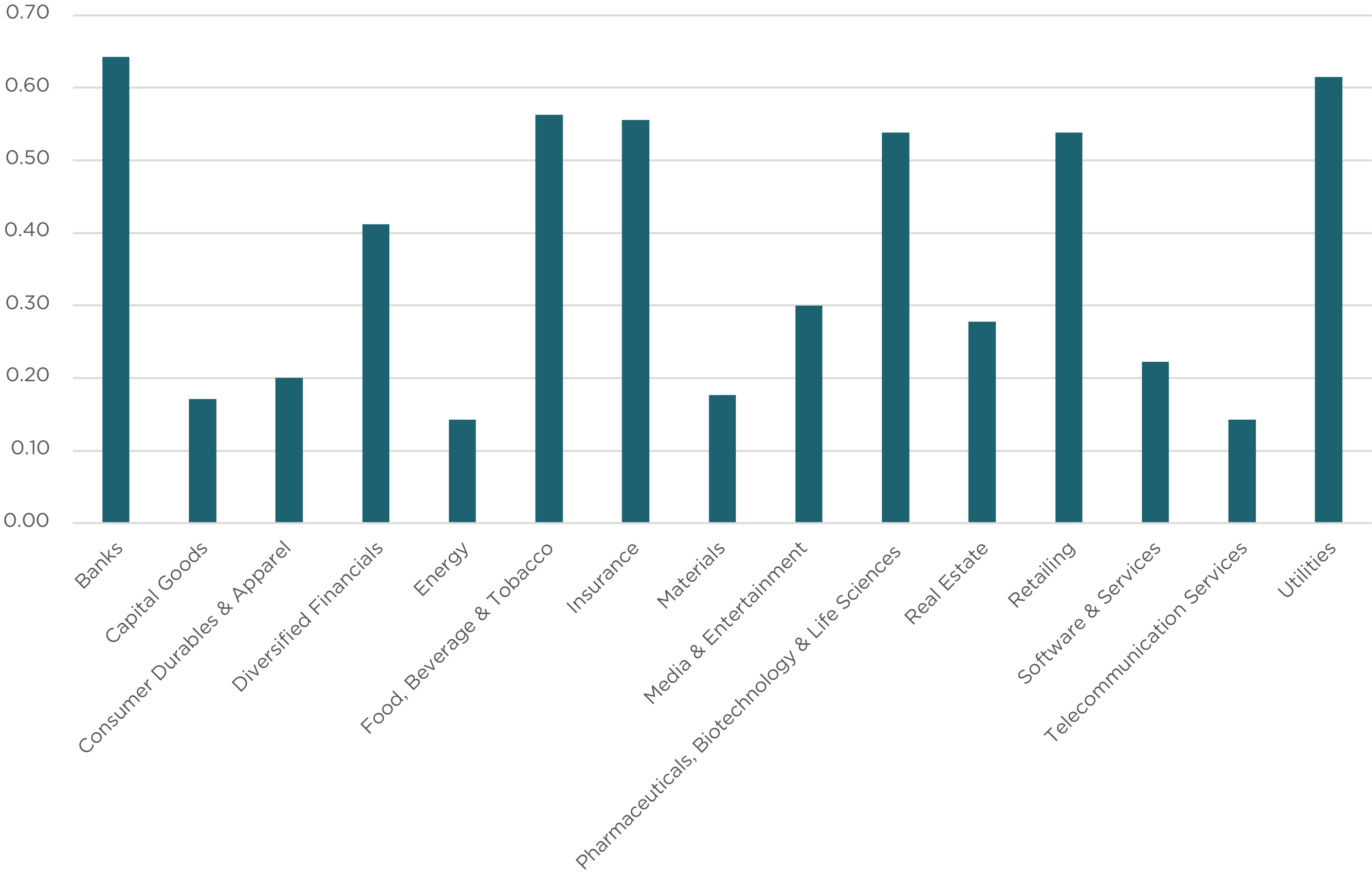
Industry Group	Female workforce representation (%)	Women in managerial positions (%)
Materials	22%	24%
Capital Goods	25%	23%
Utilities	26%	28%
Energy	28%	25%
Software & Services	34%	32%
Food, Beverage & Tobacco	36%	36%
Telecommunication Services	37%	29%
Diversified Financials	42%	32%
Pharmaceuticals, Biotechnology & Life Sciences	47%	40%
Media & Entertainment	48%	42%
Real Estate	50%	37%
Insurance	50%	32%
Retailing	50%	42%
Banks	52%	35%
Consumer Durables & Apparel	53%	47%

Source: Company annual reports and website disclosures

Overall, the number of boards with executive female representation (CEO or CFO, in most cases) is low, with all the industry groups having an average of less than one (1.0) executive woman on the board. The banks industry group has the highest average with 0.64 (see Table 3) female representation on boards is skewed towards non-executive directors rather than executives

4 Women in managerial positions is defined by the company, therefore there will be different cohorts which are represented in these numbers on a company by company basis.

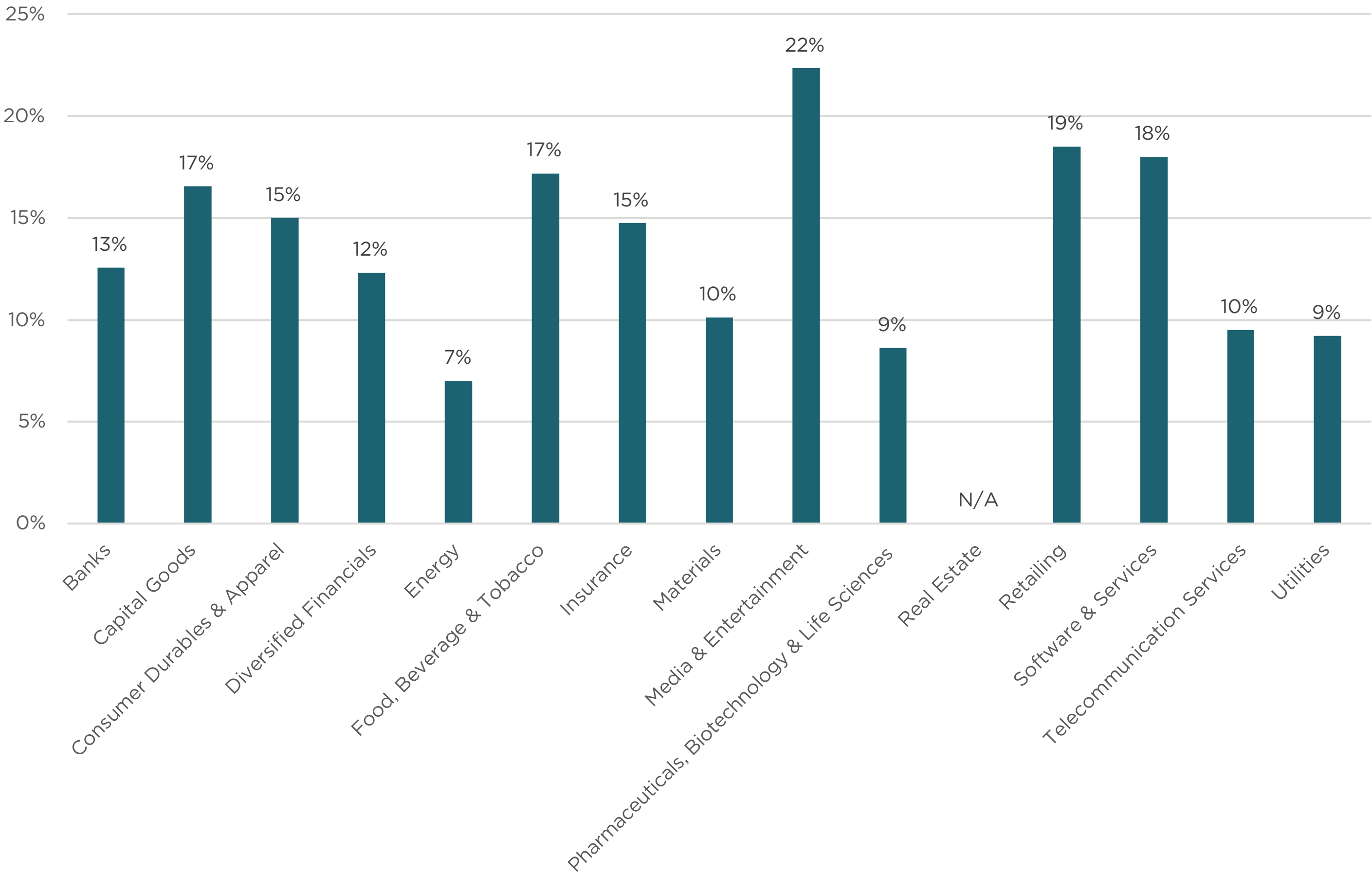
Table 3: Executive women on boards



Source: Company annual reports and website disclosures

Turnover varies greatly among industry groups. In many cases, the figures disclosed were influenced by the Covid-19 pandemic. Unsurprisingly, the media & entertainment and retailing industry groups saw the biggest turnover with 22% and 19%. On the other hand, energy and the pharmaceutical, biotechnology and life sciences industry groups saw the highest retention rates (see Table 4). Further research is required, however, to understand the link between turnover and employee satisfaction.

Table 4: The percentage of employee turnover



Source: Company annual reports and website disclosures

Gender pay gap (UK only): the gender pay gap is the difference in the average hourly wage of all men and women across the workforce. Companies with 250 or more staff in the UK are required to publish their gender pay gap. The gender pay gap is not the same as unequal pay, which is paying men and women differently for performing the same (or similar) work. Unequal pay has been unlawful since 1970[5]. The UK median gender pay gap was 15.4% in 2021 and in 2020 only 8% of companies reported that their median pay was the same for men and women[6].

Within the US, it is common for companies to focus not just on gender but to provide a breakdown of the ethnic pay gap alongside the ethnic composition of the workforce. Overall, disclosure on ethnicity is more common across US companies than in EU and UK markets. This perhaps reflects the demographic of each location. Gender diversity reporting standards are most consistent in the UK.

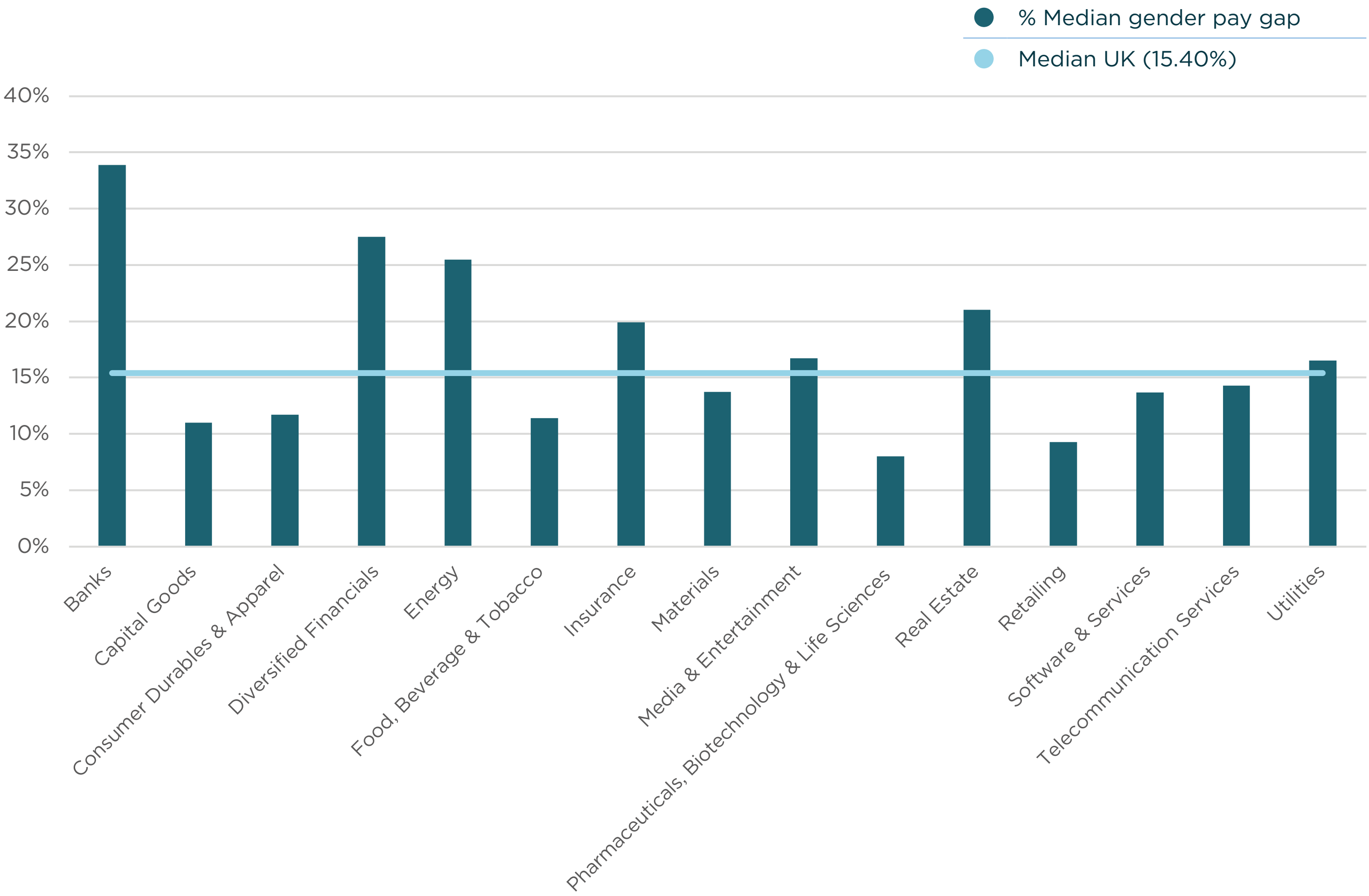
Banks and diversified financials have the biggest median gender pay gap with 34% and 28% respectively (see Table 5). Banks, energy and diversified financials have the highest mean gender pay gap, and in the case of banks, it quadrupled the national median gender gap average of 7.9%, according to the Office of National Statistics[7] (see Table 6).

5 gender-pay-gap-explained.pdf

6 The gender pay gap - House of Commons Library (parliament.uk)

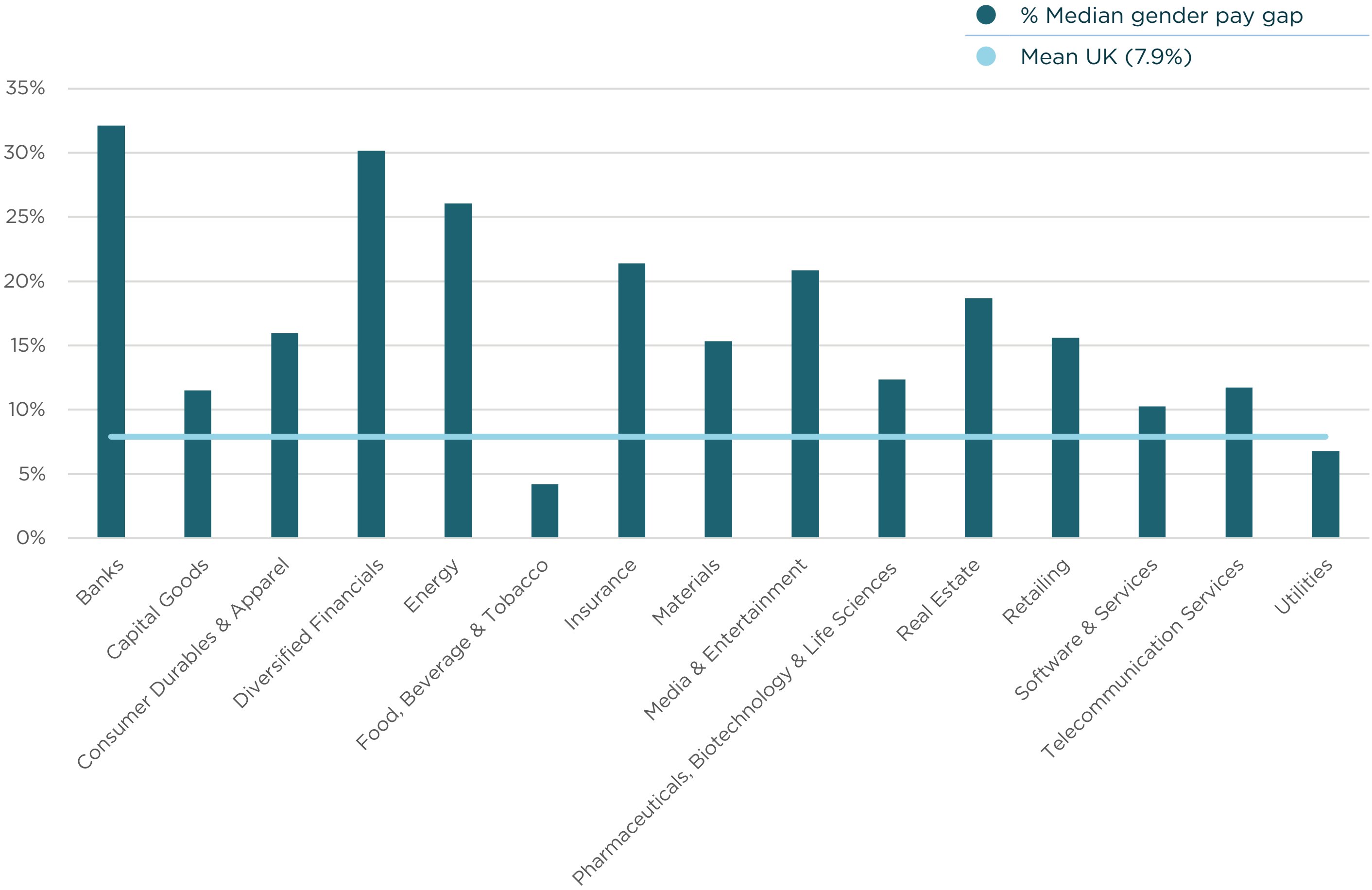
7 Gender pay gap in the UK - Office for National Statistics (ons.gov.uk)

Table 5: Median gender pay gap



Source: Company annual reports and website disclosures

Table 6: Mean gender pay gap



Source: Company annual reports and website disclosures

D&I training: most companies operating globally have established diversity training. This training is primarily in the form of online modules and working groups. Diversity training has an anti-racism awareness and an unconscious bias focus. While this is a starting point for conversations about workplace diversity, the long-term impact and value of these modules are yet to be seen.

Lloyds Banking Group has ongoing events to build relationships and trust within the communities it operates in.

Severn Trent recently introduced an inclusion programme which aims to better enable career progression for ethnic minority colleagues.

There are challenges associated with assessing the efficacy of companies' internal D&I policies. An example of this is D&I training. Unconscious bias training (UBT) is the most common, especially among US companies. There is conflicting evidence on the effectiveness of UBT. The UK government, in 2020, decided to phase out UBT training in its departments. The UK government wrote in a statement to the House of Commons that "evidence also suggests that even the broader category of 'diversity training' as a standalone exercise can undermine such efforts if it appears to be a 'tick box exercise'".[8]

UBT however, is just one example of D&I training. Other examples include inviting external speakers to talk on topics such as LGBTQ+ Allyship, inclusive leadership, responding to microaggression or addressing racism. This can expose employees to new perspectives. However, how training translates to enhancing broader diversity and inclusion is difficult to measure.

Parental policies: a company's parental leave policy can provide insight into how inclusive the company is. Parental leave varies greatly across different geographies and the data include instances where companies' parental policies extend beyond statutory leave. Parental leave is mostly split between the primary caregiver and secondary caregiver leave.

Best practice is seen in instances where companies have comprehensive maternity cover, often between 16-26 weeks of fully paid leave, and shared parental leave as an option. Shared parental leave is becoming more common across UK companies. This is positive because it allows for bonding time for the secondary caregiver and enables the primary caregiver to re-enter the workforce at a sooner date. Some countries, including the US and Canada, have fewer legal requirements related to maternity policies in comparison to the UK. And companies that operate globally often have different policies for the jurisdictions they operate in.

Best performers in the US include Invesco and Marsh & McLennan. In these companies, new parents, regardless of gender, can take up to 26 weeks of paid leave. BorgWarner sits at the lower end of the list with the standard of 20 days of paid parental leave. Most companies on the list do not publicly disclose their parental leave policies.

Overall, company disclosure on parental leave is lacking. Best practice involves disclosing the parental leave policies. Making these policies more accessible can attract and retain female talent. Other notable practices include onsite nursery facilities to lessen the childcare burden and offering grandparent leave.

Employee satisfaction: almost all the companies analysed conduct employee surveys at least yearly. Employee feedback provides insights into workplace satisfaction and areas for improvement. However, the data collection process can be flawed. Employees may only be motivated to provide polarising levels of feedback, resulting in a skewed data set. Some employees may be reluctant to leave negative feedback if they believe the answers are not anonymous. Companies inevitably cherry-pick the data they disclose publicly, so it is impossible to ascertain the true levels of employee satisfaction across the workforce.

Best-in-class disclosure includes disclosing the percentage of employees that participated as well as the results of the topics covered. Additionally, companies that keep the surveys consistent and compare them against previous years have the benefit of identifying trends in employee engagement. One alternative is to use external ratings such as Glassdoor. While this has its flaws, it has the benefit of not being manipulated by the company.

8 Written Ministerial Statement on Unconscious Bias Training - GOV.UK (www.gov.uk)

Accessibility: The UK Disability Confident employer scheme is the biggest government-run initiative within our equity universe. The goal is to encourage employers to think differently about disability and take action to improve how they recruit, retain, and develop disabled people[9]. The scheme has three levels:

- Level 1: Disability Confident Committed
- Level 2: Disability Confident Employer
- Level 3: Disability Confident Leader

Globally, there are non-governmental initiatives of which Valuable 500[10] is most supported initiative. Valuable 500 is a global initiative that consists of CEOs committing to acting for disability inclusion. Also popular is the initiative Disability: IN[11] which provides a comprehensive benchmarking tool to rate companies against their accessibility efforts.

Some companies include policies directed at the customer. For example, Samsung Electronics offers sign-language customer support in 57 countries.

UK companies fall behind their US and European peers in disclosing the percentage of disabled employees within the workforce and accessibility-based initiatives. This is far more common among European companies where there is a legal requirement to fill a quota of disabled employees[12]

Mentorship, and employee groups: companies that sit in traditionally male-dominated industries are more likely to invest in programmes and networks targeting under-represented groups. This is often seen at companies that rely on STEM (science, technology, engineering and mathematics)-based workforces. Best practice is seen in where companies run both internal and outreach programmes, and track progress over time to evaluate success.

Internally, United Utilities runs The Aspiring Talent programme, which is focused on areas such as operations where there has been persistent under-representation of female leaders (64% of employees currently on the Aspiring Manager Programme are female.) Externally, it runs an 'Engineering your future' competition with secondary schools from the local area (67% of participants are female). SSE tracks the intake of women on its apprenticeships and graduate programmes, which guides where the company can best allocate its diversity efforts going forwards.

Case study: Investment 20/20

Nicholas Omale
Responsible Investment Analyst

We spoke with Nicholas Omale, a member of the responsible investment team who took part in the Investment 20/20 scheme before joining the workforce. With a focus on creating a more diverse and inclusive investment industry, Investment 20/20 has helped more than 2,200 young professionals to start their careers in investment management. While studying for his Master's degree, Nicholas was initially introduced to Investment 20/20 as part of an outreach programme targeting universities across the UK. The company encourages candidates who are underrepresented within the investment space to apply for trainee roles and internships through its website. Through this scheme, Nicholas joined BNP Paribas on a rotation trainee scheme spending time with the high-yield fixed income, sustainable equities, and digital marketing teams.

Nicholas highlights two key areas where being part of Investment 20/20 benefited his early career development. First, the networking opportunities allowed Nicholas to gain insight from former trainees, which was useful to pull experience from. Second, Investment 20/20 provides training on interview skills and prepares candidates to work in a corporate environment.

Within our universe, companies such as Invesco, Legal & General and Santander participate in the Investment 20/20 initiative.

9 Disability Confident employer scheme - GOV.UK (www.gov.uk)
10 Home - The Valuable 500
11 Homepage - Disability:IN (disabilityin.org)
12 Removing the disability quota system; can this provided a different context for understanding the requirements for integrating persons with disabilities into the labour market? – Tonio Axisa

Recruitment: some companies address recruitment from underrepresented groups through outreach efforts such as supporting historically black universities or holding woman-only networking campus events. We have also seen companies making efforts to balance the short/long list of candidates. Sometimes, this is done in collaboration with third-party recruiters. Once the candidate list is set, some company policies include having diverse interview panels to avoid bias in the hiring process. Not all companies disclose what percentage of new hires are women or have diverse backgrounds. This information is critical to assess whether the current recruitment policies are yielding a diverse workforce.

Legal & General has supported the initiative 10,000 Black Intern[13], and discloses that through this programme it has hired 17 interns whilst BP has disclosed that 45% of the 2021 graduates are female.

Conclusion

From our research, reporting high-level diversity metrics is standard practice across all geographies and industries within our centrally monitored direct equity universe. Disclosure is less consistent across all ten qualitative data points, of which company disclosure on accessibility within the workplace is very limited. As mentioned, company disclosure on parental leave largely depends on geographical location.

The level of D&I data and disclosure is heavily reliant on the regulatory requirements of the country a company is operating in. The EU and the UK have more stringent reporting requirements than the US. However, US companies tend to disclose a broader range of diversity data outside of gender, such as ethnic background. There are also differences in how each jurisdiction considers diversity. In the UK, the term ethnic diversity is most often used, but in Europe there is a focus on nationality rather than diversity, while in the US, gender and ethnic diversity data is often disclosed as a combined metric. While providing intersectional data is useful, we welcome base-level gender and ethnic data points to use as a starting point and comparator across industry groups.

Considering there is no globally agreed definition of diversity when it comes to company disclosures, the lack of standardised reporting is challenging when attempting to compare and analyse diversity disclosure across a range of companies. In terms of improving diversity and inclusion disclosure and practices, we welcome defined and measurable goals, alongside actional steps to achieve them. We use this data to inform our ongoing engagements with the companies we invest in.

We engaged with the following companies, which exhibit best practice, to understand more about the motivation and outcome of their approach.

13 10,000 Black Interns (10000blackinterns.com)

CASE STUDY 1 - NATWEST

Objective:

From our centrally monitored universe, we identified the companies that have more advanced paternity leave policies (where policies extend beyond statuary regulations), to gain additional information on areas such as shared parental leave and flexible working.

NatWest's new Partner Leave policy commences in January 2023. This will provide the opportunity for new parents, irrespective of gender, to take leave for a whole year, half of which will be fully paid (with an additional 15 weeks being covered at statutory maternity or paternity pay rates). This represents a significant move in gender equality in the workplace. We explored the motivations behind these new policies and the expected outcome on workplace culture.

Traditionally, efforts have been focused on maternity policies. To formulate the Partner Leave policy, NatWest engaged with several stakeholders across the group. NatWest is undergoing a digital transformation integrating the use of Workday. The company is building workflow tools to enable employees to access information on how maternity leave may impact holiday leave, pay, and benefits, and includes additional links to flexible working policies.

NatWest has integrated a flexible working policy that goes above statutory entitlements, and that focuses on term-time working and compressed working hours. The pandemic has been a turning point in the way the company approaches working frameworks. NatWest focused on the expected employee benefits resulting from the incoming policy update. With effective resource planning, this gives employees the chance to partake in secondments and develop skills in business areas they may otherwise not have exposure to. The company provided a long lead time between announcing the policy and the go-live date to facilitate as many employees as possible to benefit from the policy

Outcome:

Unsurprisingly, the feedback so far has been overwhelmingly positive. NatWest acknowledges that social agendas are rising in priority and being ahead of the curve allows for increasing employee expectations to be met and even exceeded. Senior leadership has widely promoted the incoming policies and by providing this opportunity it hopes to lead to increased employee engagement and better retention. The company currently does not have plans to measure the success/ progress of the policy. We would encourage the company to keep track of the implementation and effect of this policy on employees and the business.

CASE STUDY 2 – AVIVA

Objective

from our centrally monitored universe, we identified the companies that had more advanced paternity leave policies (where policies extend beyond statuary regulations), to gain additional information on areas such as shared parental leave and flexible working.

Aviva's family leave policy has been in place for four years. The policy allows for twelve months off with the first six months keeping the same pay and benefits. The policy applies to both partners irrespective of gender and includes birth, adoption, and surrogacy. Additionally, there is no requirement for partners to share parental leave.

Family leave is a popular benefit. Aviva's workforce has an even split of men and women, and the policy has been taken by over 2,500 people of which almost half were men. However, there is a difference in the time taken. The average time taken is six months for men and twelve for women. The company has received feedback that men are concerned that the company won't cope without them and that taking time off will impede career progression. These are worries that women have always had to cope with.

Since Aviva introduced the policy in 2017, it has always been viewed positively and it has now become part of the brand. There is a clear cost when the company has to backfill jobs. However, there is not a direct correlation. For example, when there are 200 employees off, that does not translate to 200 extra salaries, and only a minority of maternity covers are backfilled externally. A positive side of parental leave cover is that it allows for internal development opportunities, by exposing employees to experiences and learnings they might not otherwise have.

Aviva has also focused on giving employees information on what they might expect from the policy and scheduling return-to-work plans. Line managers are also invited to these sessions, so they can be informed of what the process entails.

There are plans in place to expand the policy to Ireland where the normal current leave for parents is two weeks. When finalised, the introduction of this policy will stand out as best practice. When it comes to the current family leave policy in the UK, there are no plans to change the benefits, but the company will be looking at ways to facilitate the process of getting back to work for employees coming back from extended leaves.

Outcome

Aviva is a leader in this area and among the first companies offering equal parent benefits. This policy has benefited the company's reputation as a responsible employer, which has become part of the brand. The cost of the policy on the business is mitigated due to limited external backfilling.

CASE STUDY 3 – LLOYDS BANKING GROUP

Objective

from our centrally monitored universe, we identified the companies that had more advanced paternity leave policies (where policies extend beyond statuary regulations), seeking to gain additional information on areas such as shared parental leave and flexible working.

Lloyds Bank's family leave policy is divided between maternity (63 weeks leave; 20 of which are paid) and paternity (19 weeks; 6 of which are paid). These benefits also include adoption.

The D&I strategy at Lloyds is structured around four pillars: inclusive insight, inclusive behaviour, inclusive design, and inclusive society.

Inclusion is an evolving space and Lloyds is always looking at other companies to see how it is performing and is constantly benchmarking to compare policies. Lloyds Bank goes beyond looking at financial peers, comparing themselves to a much wider benchmark. Lloyds' corporate slogan is "helping Britain prosper" which, for them, means inclusion, and its workforce should represent its customer base. Lloyds is looking to increase the number of females in its senior workforce and having a strong family leave policy helps them achieve that goal.

The family leave policy at Lloyds is effective from day one. Lloyds believes that life events should not prevent someone from joining the company. Thanks to the policy being applicable from day one, Lloyds has helped in the recruitment of senior female leaders. It is hard for Lloyds to account for the difference in retention due to the policy, but anecdotally, it has helped attract senior leaders. The return levels after family leave are very high and there is no clawback if they choose to leave the company straight after family leave.

Keep-in-touch days are used to facilitate returns to work after family leave. This benefit is flexible with some employees taking it throughout the leave and others prefering to use it towards the end of their time off to aid the transition back into the workforce.

When there is a leave that is shorter than six weeks, there is usually no replacement and the workload is distributed among peers. For longer periods of family leave, various internal movements are implemented to cover those vacancies, typically as a secondment to allow for exposure to different areas. When the colleagues return to work, even if it is after 52 weeks, they come back to the same position they left.

Outcome

Lloyds is thinking about ways to help employees through different life stages. They recognise strong family leave policies are important to attract and retain female talent. It provides 20 paid weeks to primary caregivers, which includes equal benefits such as pension contributions. Lloyds is also thinking about how to make the transition back to work as a parent smoother, and a big part of this is training line managers to put themselves in their employees' shoes and help them through the process.

Case study 4 - AstraZeneca

Objective

from our centrally monitored universe, we identified the companies that had more advanced family leave policies (where policies extend beyond statuary regulations), intending to gain additional information on areas such as shared parental leave and flexible working.

AstraZeneca currently provides a maternity leave of 26 weeks of full pay and six weeks of full pay for paternity leave. This benefit also covers adoption, and it is applicable from the first day of employment.

Family leave must fit into the wider inclusion strategy. To do so, it has to allow for financial wellness and equitable reward. Additionally, it was important to ensure that adoption was included in the policy.

Different countries have different statuary leave policies. However, when AstraZeneca is looking at the policies it offers in each region, it benchmarks based on what is best practice globally rather than on what is best practice in the country.

Benefits, including family leave, are part of the employee value proposition. If AstraZeneca wants to attract diverse talent, having adequate family leave is essential. However, this is also important from a reputational perspective.

Two-thirds of the staff are based in labs making it difficult for a flexible working proposition. One-third of the company is office based and for these employees, there is a flexible schedule allowing employees to work two days a week in the office, as it also believes in the benefit of collaborative working.

When employees go on leave, the method for distributing the workload is at the manager's discretion. Usually, vacancies are covered by contractors, but internal moves are also used.

There are currently no plans to increase the length of leave. However, AstraZeneca is currently looking into how to make the transition back from family leave easier for employees. Upon the return of employees from family leave, they are asked to fill in a survey to describe their leave experience and this feedback is essential to understand where the process can be improved.

Outcome

AstraZeneca is thinking about how to improve the experience of employees going on family leave. While having a sufficiently long leave is important, having the right structures in place so that employees can confidently return to the workforce is also key. Additionally, employees would also benefit from their line managers being trained on the process of family leave, as this will give them the tools to help their employees.

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