

FIDELITY INSTITUTIONAL INSIGHTS

# Engaging with Investors about Diversity and Inclusion

## Four steps advisors can take to prepare for meaningful conversations with clients



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**1 in 3 Gen XYZ investors**  
are willing to pay more  
for an advisor who offers  
more socially responsible  
investing.<sup>1</sup>

### IN THIS PAPER:

- Increasing awareness of diversity and inclusion (D&I) may drive interest in investment strategies aimed at supporting its advancement.
- Investment solutions are consistently evolving to meet consumer demands. Currently, there are Environmental, Social, and Governance (ESG) solutions that consider gender, but there are relatively few solutions focused on other facets of diversity—such as race, people with disabilities, and the LGBTQ+ community.
- As investors await additional solutions, advisors can begin to address investor needs through open conversations, clear expectations, and advanced reporting.

Events dominating the news headlines in recent months have created a turning point in the discussion about diversity and inclusion. The coronavirus pandemic has further highlighted issues with societal inequalities and stimulated conversations about how to move forward. As public awareness has grown, appetite for action—and real change—has swelled. As a result, some investors may be looking for ways to direct their capital in support of D&I efforts, which could drive interest in the social and governance factors of ESG investing.

Depending on their firms' values and client interest, advisors may want to prepare to have deeper conversations with clients and prospects about D&I issues and the investment approaches directed at advancing progress. This article outlines four steps advisors can take to prepare for meaningful conversations with clients, engage with investors to understand their goals, and create a personal strategy that meets the individual needs of each client.

## Step 1: Demonstrate awareness and sensitivity to diversity and inclusion

Before launching discussions around investment strategies, advisors can build rapport with clients and prospects by demonstrating knowledge and awareness of D&I topics. The topics and issues surrounding D&I are constantly evolving, so advisors benefit from staying updated on the landscape and seeking opportunities to learn more from a variety of sources.

### The Centre For Global Inclusion offers the following definitions which may be of help to advisors:<sup>2</sup>

- “Diversity refers to the variety of similarities and differences among people, including but not limited to: gender, gender identity, ethnicity, race, native or indigenous origins, age, generation, sexual orientation, culture, religion, belief system, marital status, parental status, socio-economic difference, appearance, language and accent, disability, mental health, education, geography, nationality, work style, work experience, job role and function, thinking style, and personality type.”
- “Inclusion is a dynamic state of operating in which diversity is leveraged to create a fair, healthy, and high-performing organization or community. An inclusive environment ensures equitable access to resources and opportunities for all. It also enables individuals and groups to feel safe, respected, engaged, motivated, and valued, for who they are and for their contributions toward organizational and societal goals.”

Addressing diversity and inclusion topics with clients may be uncomfortable; this is part of the process. Being vulnerable, confronting biases, and taking part in more personal conversations can be difficult. However, this emotional labor is important in developing your own personal perspective so that you can engage with others in an authentic way. Approaching discussions with curiosity and humility, and a constant willingness to learn, will help lay the groundwork for meaningful conversations. Preparations for these discussions can also involve taking stock of a firm’s broader commitment to D&I and understanding how the firm is adjusting practices like hiring and community engagement.

Once you have developed awareness and sensitivity to these topics and feel ready, you can also seek to engage on this issue in public domains. This can include links on social media, commentary in newsletters, and updates to your firm story on your website to reflect current perspectives. It is important for your online presence to stay up-to-date and to respond quickly to comments. In the growing ROBO economy (research online, buy offline), your prospects will likely research your firm online before ever speaking to you personally. Your website and social media accounts can make it easy for prospects to understand your perspective on D&I and the ESG solutions and services you provide.

## Step 2: Explore your clients' interests

While it is important to stay on top of D&I current affairs, awareness is simply a jumping-off point. Advisors can build rapport with their clients by engaging in conversations about what D&I means to each client personally, recognizing that no two clients will be the same. Advisors can use questions to help clients get to the heart of their interests and motivations, including:

- What areas or issues within D&I are they passionate about?
- Are there any D&I issues to which they have a personal or family connection? Does anyone in their family have a particular interest in D&I issues?
- What role—if any—do they think organizations and investments can play in developing a more equitable society?
- Beyond fundamentals, what metrics do they find most meaningful in measuring an investment's performance?

Even if the conversation gets uncomfortable, stay with it; emphasize listening while seeking to understand their perspective. Revert back to humility, and lead with empathy. Speak about your own journey, and make clear that you are trying to learn more. Recognize that not everyone may be seeking to bring D&I concerns into their investment strategy and that a client's opinions may differ greatly from your own. Advisors who can ask questions authentically, listen in an effort to understand, and engage in meaningful conversations—outside of investment solutions and financial products—signal that they can connect with their clients on a deeper level. Values-based conversations like this can position advisors as trusted facilitators in a client's decision tree, potentially putting them in a more consequential role as families look to transfer wealth.

## Step 3: Set expectations with clients

Despite advancements in ESG investing and growing interest in furthering D&I, there is still progress being made in solutions addressing D&I. Although ESG investing is growing quickly, it is not always possible to build a portfolio that can address every dimension of diversity. It is important to set expectations with clients, but also for advisors to keep an active watch for new solutions as they roll out.

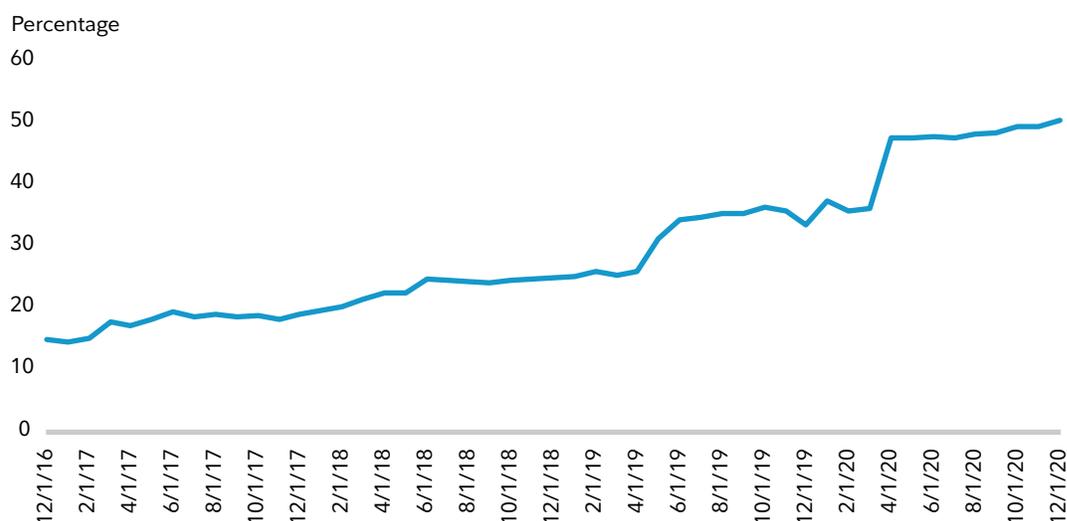
### Women's equality solutions

Clients who are interested in advancing women's equality may look to strategies which consider benefits to women alongside financial returns. Closing the gender gap has become an increasing priority for U.S. companies, making it more feasible for mutual funds and ETFs to focus on companies that are supportive of gender equality while still representing the total market. The following chart examines an index fund that tracks the Dow Jones U.S. Total Stock Market Index, and depicts the percentage of the market

value of the fund that is exposed to companies where women comprise at least 30% of the board of directors (Exhibit 1).<sup>3</sup> The year-over-year increase suggests that a wide range of U.S. companies are making an effort to include more women on boards. This context makes it more possible for “pure play” mutual funds and ETFs to support a specific tilt toward women’s equality, and the list of available options is growing.

**EXHIBIT 1: Gender diversity on company boards has increased over the past five years**

In an index fund tracking the Dow Jones U.S. Total Stock Market Index, percentage of market value in companies with at least 30% female board members.



Indexes are unmanaged. It is not possible to invest directly in an index.

Source: MSCI ESG Fund Metrics, Fidelity Investments, as of December 1, 2020.

**Racial equality solutions**

There are currently a limited number of mutual funds and ETFs that focus on addressing ethnic and racial issues. At present just a few mutual funds and ETFs are specifically focused on antiracism; however, increasing investor demand may inspire growth. Morningstar currently offers a Minority Empowerment Index, and asset management platform OpenInvest launched a racial justice indexing tool last year.<sup>4,5</sup> Since the launch, 57% of financial advisors have used the platform to craft racial justice portfolios for clients.

**Other dimensions of diversity**

Portfolios that address other dimensions of D&I may require more research and customization. It is possible to research and select individual equities that reflect other aspects of diversity, such as those companies that support the LGBTQ+ community, are committed to equal access for people with disabilities, or promote faith-based initiatives that are consistent with a client’s interests. However, there are limited investment solutions that address these topics. As with racial equality solutions, growing demand from investors

Clients interested in an **engage** approach may appreciate learning about how shareholder proposals have recently helped advance companies' D&I policies, practices, and disclosures. Consider the following 2019 proxy season highlights as examples of disclosures that were encouraged by shareholders:<sup>6</sup>

56%

of S&P boards have three or more women

45%

of Fortune 500 disclosed their board's racial and ethnic diversity

30%

of companies are disclosing skill matrices to highlight diversity of director qualifications

Charitable giving is another avenue advisors can be prepared to discuss when uncovering clients' specific interests in D&I, as well as desired level of impact they seek. For example, recoverable grants are a way investors can fund organizations advancing work in D&I areas with a return on their investment.

may be a reason to monitor this space. Advisors can stay informed on common metrics that track a variety of D&I dimensions, using ESG ratings from sources such as MSCI, Refinitive, and SASB. Each of these sources have their own approach and methodology for defining metrics on gender diversity, racial equality, and more.

#### Step 4: Define a course of action

After uncovering client interests and discussing available solutions, advisors can work with their clients to identify a suitable course of action that aligns with their values, supports their goals, and provides them with a sense of purpose for their wealth.

#### Revised investing approach

A change to the investing approach may be considered the most direct means to drive alignment with personal values and beliefs. There are three investing approaches that you can discuss with clients who are interested in pursuing a strategy that considers D&I:

- An **avoid** approach excludes companies with public controversies related to diversity, equal opportunity, wages, and working conditions.
- An **emphasize** approach considers asset managers with strong D&I policies and practices (doing their part to improve D&I in their profession) or considers companies that are advancing women's representation in their corporate leadership.
- An **engage** approach focuses on asset managers with a track record of shareholder advocacy and proxy voting to improve their portfolio companies' D&I policies and practices.

These strategies are not mutually exclusive, so advisors may recommend one or more to help clients weave D&I considerations into their investments. They can also be dialed up or down in one area or across all of their portfolio, based on a client's interest, comfort level and goals. Discuss all approaches with your clients before helping them come to a decision, with a reminder that they can change their course of action at any time.

#### Enhanced reporting

Even if you do not make any changes to your client's portfolio, advisors can provide enhanced reporting regarding D&I measures in their portfolio. A variety of ESG data providers measure D&I directly, but advisors may also consider additional metrics in order to align with a client's vision. Examples may include donations to non-profits that support racial diversity, sponsorship of events that promote job placement for people with disabilities, and portfolio exposure to severe controversies related to wages and/or working conditions. A more general

measure of the “Social” or “S” score of a client’s portfolio may also be worth tracking, as D&I efforts are sometimes evaluated as part of a focus on social issues.

Once there is an agreed-upon plan of action, a client may want to make portfolio adjustments immediately, dig further to understand how their current portfolio performs across their key D&I interests, or do a mix of both. This will vary widely depending on how motivated a client is to make a change and how prepared they feel to do so. Regardless, advisors can help them define next steps so that the momentum toward alignment with their personal values is not lost.

## Conclusion

As with ESG overall, diversity and inclusion investment strategies are evolving. Advisors who authentically take the journey on what D&I means to them and to their clients can open the door to more meaningful and deeper relationships. Developing these strategies is not a one-size-fits-all proposition. The metrics and products around D&I continue to grow as investors and advisors alike delve into how to layer these considerations into investment portfolios.

## Authors

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As VP Client Experience, Carin is responsible for ensuring ESG Pro meets advisors’ and their investors’ needs. She has over 15 years’ experience as a researcher and strategist helping Fortune 500 companies across industries develop new digital offerings.

For more information on diversity and inclusion, please visit [go.fidelity.com/inclusion](https://go.fidelity.com/inclusion) or contact your Fidelity representative.



#### Endnotes

<sup>1</sup> Source: 2019 Fidelity Investor Insights Study.

<sup>2</sup> From "Global Diversity, Equity & Inclusion Benchmarks: Standards for Organizations Around the World" © 2021 Yvonne (Nene) Kegomoditswe Molefi, Julia O'Mara, and Alan Richter. Used with permission. All Rights Reserved.

<sup>3</sup> The Dow Jones U.S. Total Stock Market Index is designed to measure all U.S. equity issues with readily available prices.

<sup>4</sup> The Morningstar Minority Empowerment Index is designed to provide exposure to U.S. companies that have embedded strong racial and ethnic diversification policies into their corporate culture and that ensure equal opportunities to employees irrespective of their race or nationality.

<sup>5</sup> "A year after launching a 'Racial Justice' investing tool, OpenInvest adds 13 companies to its list—and cuts seven underperformers," *Fortune*, August 20, 2020. <https://fortune.com/2020/08/20/openinvest-racial-justice-investment-screen-sp-500-companies>.

<sup>6</sup> "Five takeaways from the 2019 proxy season," Harvard Law School Forum on Corporate Governance, August 08, 2019. <https://corpgov.law.harvard.edu/2019/08/08/five-takeaways-from-the-2019-proxy-season>.

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