A New Vision for Investment Diversity

Exploring holistic methods to evaluating diversity in the 21st century

Emily Lawrence
Director of Sustainable Investing
Northern Trust Asset Management
TODAY’S AGENDA

1. The Diversity Investing Landscape
2. A New Approach to Diversity Investing
Today’s Speaker

Emily Lawrence
Director of Sustainable Investing
Northern Trust Asset Management

Emily Lawrence is Director of Sustainable Investing at Northern Trust Asset Management where she is responsible for education and innovation in sustainable investing capabilities. Emily collaborates directly with clients to conduct trainings and facilitate discussions on concepts, themes and trends through individual meetings, webinars and thought leadership. She is also an active member of the Northern Trust Sustainable Investing Council and the Proxy Voting Committee. In 2019, Emily was appointed to co-chair the Content and Events Committee for the Diversity Project North American. She sits on the ESG sub-committee for DCIIA. In 2017, Emily was selected to join the Principles for Responsible Investment working group focused on Active Ownership and the Sustainable Development Goals, as well as the Climate Action and Resiliency Plan Working Group for the government of Evanston, IL.

Emily received her M.Res. in International Conflict Resolution from the Institut Catholique de Paris, and holds an MSc. in European Politics and Governance from the London School of Economics. Additionally, Emily holds a B.A. in French Language and Literature from the University of New Hampshire.
Sustainable Investing at Northern Trust Asset Management

**FAST FACTS**
- 30+ years of expertise
- $91.2 Billion AUM\(^1\)
- Manage 3 of the top 10 largest ESG index funds globally\(^2\)
- Principles for Responsible Investment (PRI) member since 2009

**OUR ADVANTAGE**
- Unique approach that combines investor values with leading market expertise
- Pioneering advanced governance screening for emerging market equities and ESG integration into REITs
- Innovative solutions that leverage our deep expertise in passive and factor-based investing

**OUR SPECTRUM OF ESG CAPABILITIES SOLUTIONS**

<table>
<thead>
<tr>
<th>Exclusion</th>
<th>Integration</th>
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<tbody>
<tr>
<td><strong>VALUES-BASED</strong></td>
<td><strong>BEST-IN-CLASS(^3)</strong></td>
</tr>
<tr>
<td>Exclusion of stocks in specific industries or geographic areas</td>
<td>Strategies that select companies that are leaders in implementing ESG</td>
</tr>
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<table>
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<tr>
<th>NORMS BASED</th>
<th><strong>ESG INTEGRATION</strong></th>
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<tbody>
<tr>
<td>Exclusion based on compliance with principles such as the UN Global Compact</td>
<td>Incorporating ESG considerations across business activities and investments</td>
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<tr>
<th><strong>THEMATIC INVESTING</strong></th>
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<tr>
<td>Investing in broad ESG themes, such as clean technologies</td>
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Proxy Voting Policies & Engagement

Represented total assets managed by Northern Trust as of 06/30/19. Gross returns

\(^1\) All data as of June 30, 2019, unless otherwise noted.

\(^2\) Source: eVestment. Data as of June 30, 2019. Universe for comparison consists of 36 total passive equity products within “All ESG Universe”.

\(^3\) Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

Past performance is no guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any Index.
Our Commitment to Diversity is Our Strength

- Signatory, UK Women in Finance Charter
- Social Impact portfolio, deploying over $1.5bn in social investments
- Allocation to Women and Minority owned Brokerage Firms
- Top 50 Company for Executive Women (7 consecutive years, NAFE)
- Best Places to Work for LGBT Equality (Corporate Equality Index, 8th Consecutive year)
- Top 50 Companies for Latinas to Work (Latina Style Magazine, 2017)
- 100 Best Adoption-Friendly Workplaces (Dave Thomas Foundation, 2017)
- America’s BEST Employers for Diversity (Forbes 2017)
- Gender Equality Index (Bloomberg 2018)
- Social Impact portfolio, deploying over $1.5bn in social investments
The Diversity Investing Landscape
Diverse Groups Create Value

Research suggests diverse teams process information in a different way than homogenous teams, leading to higher levels of objectivity, creativity and innovation.
Women Run Startups Are Efficient

For every dollar invested, startups run by women generated 78 cents in revenue, while male-founded startups generated 31 cents.

Average funds invested

- Male-founded startups: $2.12m
- Female-founded startups: $935k

Average revenue generated

- Male-founded startups: $662k
- Female-founded startups: $730k

Diversity Performs

Companies in the top quartile for gender diversity on their executive teams were 15% more likely to experience above-average profitability than companies measured in the fourth quartile.


The report further notes, companies demonstrating top-quartile representation of ethnic and cultural diversity demonstrated a 33% likelihood to outperform on earnings before interest and taxes (EBIT)\(^1\).

Companies with above-average diversity in management report that almost half of their revenue came from innovative products and services – as 20% advantage over firms with below-average leadership diversity\(^2\).

Organizations with more diverse management also reported better overall financial performance\(^2\).

## Competitive Investment Performance

### PERCENTAGE OF FUNDS WITH TOP-QUARTILE PERFORMANCE

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Industry</th>
<th>Women-Owned</th>
<th>Minority-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Funds</td>
<td>25.0%</td>
<td>25.2%</td>
<td>28.4%</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>25.0%</td>
<td>24.4%</td>
<td>27.8%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>25.0%</td>
<td>33.3%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>

Diversity and Engagement is Weak in Asset Management

AUM IN MUTUAL FUNDS

$47 Trillion
$564 Billion

Women & minority-owned firms
Total AUM

PORTFOLIO MANAGEMENT DEMOGRAPHICS
(Private & Mutual Fund)

- Women: 18.3%
- Men: 81.7%
- Black: 1.1%
- Hispanic: 2.3%
- Asian: 6.3%
- White: 89.7%

Trends Are Not Encouraging

DIVERSE-OWNED FIRMS: MUTUAL FUNDS

Source: Diversifying Investments, A Study of Ownership Diversity in the Asset Management Industry, Executive Report, January 2019; Knight Foundation/Bella Research Group
Investors Can Use Their Influence to Commit to Diversity

WOMEN AND MINORITY REPRESENTATION IN PORTFOLIO MANAGEMENT
OPEN-END INVESTMENTS & OTHER FINANCIAL VEHICLES

A New Approach to Diversity Investing
Assessing Diversity Through New Lenses

Historical View
Narrow set of criteria

New Expansive View
Create a more complete view of actions and outcomes

Note: For illustrative purposes only.
**Solution: A Broader, More Holistic Framework**

<table>
<thead>
<tr>
<th>EMPLOYEE COMPOSITION</th>
<th>What is the composition of firm and team?</th>
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<tbody>
<tr>
<td></td>
<td>• Executive Leadership</td>
</tr>
<tr>
<td></td>
<td>• Investment Team</td>
</tr>
<tr>
<td></td>
<td>• Employee Base</td>
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<tr>
<th>COMMUNITY ENGAGEMENT</th>
<th>What is the demonstrated commitment to promoting values in their community?</th>
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<tbody>
<tr>
<td></td>
<td>• Contributions</td>
</tr>
<tr>
<td></td>
<td>• Volunteerism</td>
</tr>
<tr>
<td></td>
<td>• Board Leadership</td>
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<table>
<thead>
<tr>
<th>OWNERSHIP</th>
<th>What is the ownership composition of the firm?</th>
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<tr>
<th>CORPORATE SPENDING</th>
<th>How does the firm select suppliers and business partners?</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>• Brokerage Partners</td>
</tr>
<tr>
<td></td>
<td>• Other Professional Services</td>
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Measuring Leadership and Diversity

**APPROVED INVESTMENT MANAGER UNIVERSE**

Investment Managers (100+)
- U.S. Equity
- Developed Markets (ex-U.S.) Equity
- Emerging Markets Equity

**ANNUAL DIVERSITY AND ENGAGEMENT ASSESSMENT**

Assessment Categories
- Leadership
- Investment Teams
- Community Engagement
- Corporate Spending

**SCORING, WEIGHTING AND ANALYSIS**

Key Practices
- Review Data
- Determine Thresholds for Scoring
- Monitor Consistently

Note: For illustrative purposes only.
Putting it all Together

- Diversity is more than just ownership
- Corporate and community activity, business practices, and workforce are also key considerations
- The ability to perform is a key consideration alongside diversity
- We employ a multi-dimensional, quantitative approach to invest in the intersection of companies with strong performance and strong diversity

Note: For illustrative purposes only.
Questions?
Accessing our Global Insights

FIVE-YEAR OUTLOOK
Articles, Webinars, Videos

QUANTITATIVE RESEARCH
Meaningful Insights in Less Than 3 minutes

MARKETSCAPE
Timely market perspectives

BLOG
Timely market perspectives

Investor Intelligence Network
Connecting Investors Worldwide

BrightTALK™

POINT OF VIEW BLOG

OUTLOOK
CapitalMarketAssumptions.com

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The Women in Finance Charter asks financial services firms to commit to implement four key industry actions.

**2018 National Association for Female Executives Top Companies for Executive Women**
An annual list that exemplify what companies should be doing to help women climb the corporate ladder.

**Human Rights Campaign Corporate Equity Index 2018**
Human Rights Campaign Foundation’s 2018 Corporate Equality Index is the national benchmarking toll on corporate policies and practices pertinent to lesbian, gay, bisexual, transgender and queer employees.
[https://www.hrc.org/campaigns/corporate-equality-index](https://www.hrc.org/campaigns/corporate-equality-index)

**Top 50 Companies for Latinas to Work, Latina Style Magazine**
The LATINA Style 50 Report is an annual evaluation of corporate America’s sensitivity to Latinas’ needs and goals in the work place.

**100 Best Adoption-Friendly Workplaces, Dave Thomas Foundation**
Each year, the Foundation publishes the Top 100 Best Adoption-Friendly Workplaces, while also recognizing other adoption-friendly employers who have completed our adoption benefits survey.
IMPORTANT INFORMATION

2017 Bloomberg Gender Equality Index
The Bloomberg Gender-Equality Index provides investors with valuable reference data on gender equality, measuring internal company statistics, employee policies, gender-conscious product offerings and external community engagement.

2017 Forbes America’s Best Employers for Diversity
Forbes worked with research firm Statista to compile the definitive list of the best employers for diversity in America.
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