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K&L GATES

# ESG – Diversity, Equity and Inclusion

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## SPEAKERS:



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## DEI INVESTMENT OPPORTUNITY

- Multiple studies have found business benefits to DEI, including that it produces higher profits and drives innovation. <sup>1</sup>
- An analysis of more than 2,400 investment teams at asset management firms found that the diverse teams out-performed non-diverse teams by 20 basis points a year on average. <sup>2</sup>
- Companies in the top quartiles for racial and ethnic diversity are 35% more likely to generate higher-than-average financial returns. <sup>3</sup>



## DEI INVESTMENT OPPORTUNITY

- Diverse private equity firms are more likely to receive bigger investments from institutional investors than less diverse firms. <sup>4</sup>
- A McKinsey study showed public companies in the top quartile for (i) gender diversity are 15% and (ii) ethnic diversity are 35% more likely to have financial returns above their respective national industry medians. <sup>5</sup>



# DEI INVESTMENT OPPORTUNITY: PORTFOLIO RISK MITIGATION

- Portfolio risk with a lack of diversity
  - Missing out on opportunities
- Market risk considerations, concessionary considerations, and philanthropic considerations
  - Many allocators may be misplacing DEI.
  - Consider DEI as market risk consideration instead of concessionary consideration



## DEI INVESTMENT OPPORTUNITY

- Companies that reported above-average diversity on their management teams also reported innovation revenue that outpaced peers with fewer diverse leaders – 45% of total revenue versus just 26%. <sup>6</sup>
- Portfolio companies that have boards with two or more diverse members reported earnings growth that was 12% higher than their less-diverse peers. <sup>7</sup>



## DEI INVESTMENT OPPORTUNITY: DEI METRICS

- How do you collect information?
- Is there a uniform metric?
  - No, but there are resources such as the ILPA DDQ and various other similar metrics around the industry.
- Do the metrics add value?
  - Yes and no.
  - Shows allocators the direction of the organization



## SHIFTING INVESTMENT PARADIGMS

- Female VCs hold just 10% of VC and PE senior positions. However, gender-balanced teams have higher returns, with a 20% higher net internal rate of return (IRR).<sup>8</sup>
- Meanwhile, Fortune 100 companies that had the highest ratio of female leadership generated 53% higher returns on equity.<sup>9</sup>



\*Source: The Knight Foundation. As of January 2019 | Ownership defined as 50% of equity or more; minorities defined as Hispanic, Black, Asian and Native American.







# SHIFTING INVESTMENT PARADIGMS

- Research demonstrates that women managers and managers of color outperform investment benchmarks.<sup>10</sup>
  - Higher levels of diversity at companies correlate to improved financial performance.<sup>11</sup>
  - Diverse-led investment management teams perform as well or better than non-diverse peers, even after controlling for fund-level and firm-level characteristics.<sup>12</sup>
  - In addition to improving investment performance, diverse investment team members are more likely to themselves back diverse teams.<sup>13</sup>



# SHIFTING INVESTMENT PARADIGMS

- How does criteria change to open up more diverse investment opportunities?
  - Selection processes that do not exclude diverse managers.
  - Opportunities viewed through a different lens.
  - Different ways of funding portfolio companies.
- Reassess the paradigm and change the structure of funding.
- Do you need to look in “non-traditional” places to find more diversity?





# Questions



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