

The logo for K&L GATES is displayed in white, bold, sans-serif capital letters within an orange rectangular box. The background of the slide features a blurred night cityscape with a digital overlay of a world map and various financial data points, including candlestick charts and line graphs with numerical values and percentages.

K&L GATES

ESG – Diversity, Equity, and Inclusion

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DEI INVESTMENT OPPORTUNITY

- Multiple studies have found business benefits to DEI, including that it produces higher profits and drives innovation. ¹
- 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. ²
- Companies in the top quartiles for racial and ethnic diversity are 35% more likely to generate higher-than-average financial returns. ³



DEI INVESTMENT OPPORTUNITY

- Diverse private equity firms are more likely to receive bigger investments from institutional investors than less diverse firms. ⁴
- 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. ⁵



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%. ⁶
- Portfolio companies that have boards with two or more diverse members reported earnings growth that was 12% higher than their less-diverse peers. ⁷



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: 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



AIMA D&I Questionnaire Responses as of 4Q 2022

Strategy	Funds	Managers*
All	4,343	694
Hedge Funds	2,709	465
Long Biased	633	200
Equity L/S	535	173
Directional	497	134
Relative Value	463	173
Event Driven	215	104
Long Only	182	80
Multi-Strategy	102	61
Other	82	45
Private Markets	1,634	372
Private Credit	461	156
Private Equity	457	179
Real Estate	321	86
Real Assets	239	94
Other	156	49

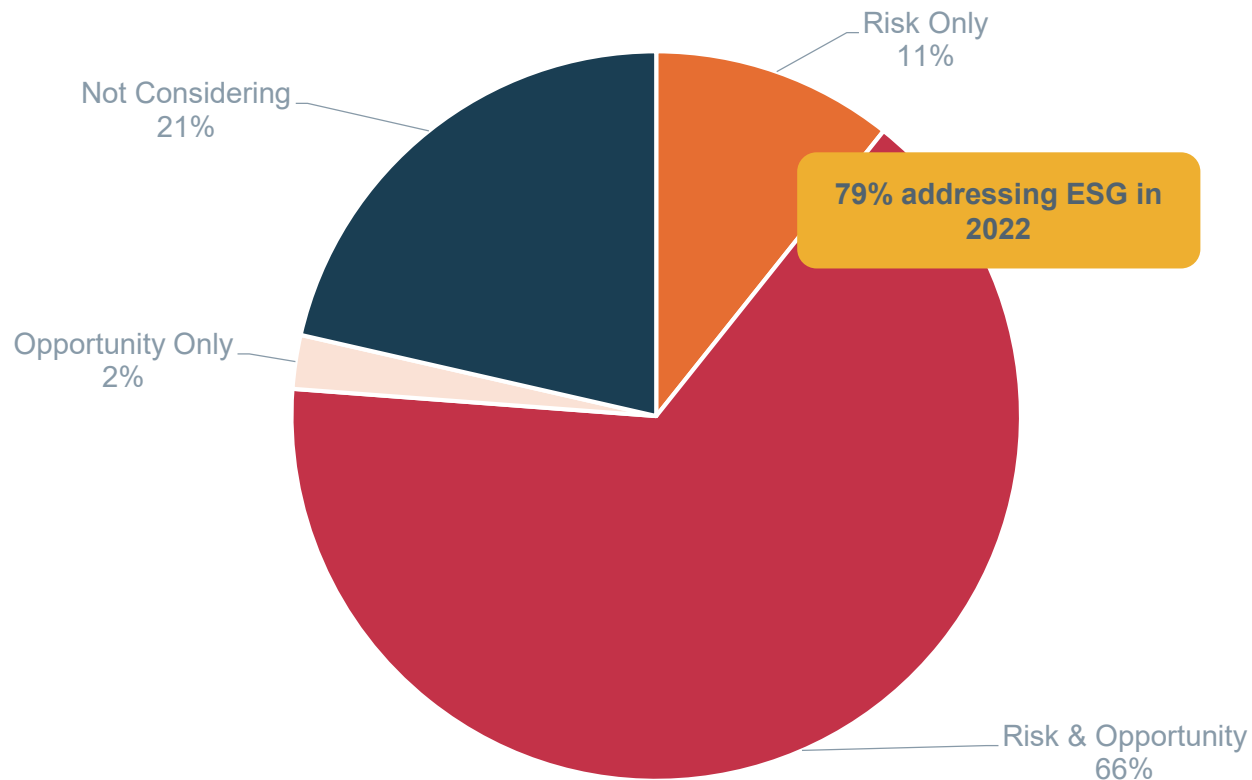
*Managers may implement multiple strategies across HF and PM structures. Therefore, listed manager totals are not a summation of the rows beneath them.

Manager Profile Summary				
Policies	D&I Policy	Equal Pay	Track Workforce Composition	Family /Parental Leave
Yes	63%	74%	79%	86%
No	26%	19%	17%	8%
Due within the next 12 months	3%	2%	1%	2%
No response	8%	5%	4%	4%
Policies (Staff Conduct)	Code of Conduct	Reporting and Investigation	Mandatory Training	Claims in Last 5 Years
Yes	91%	80%	71%	8%
No	5%	14%	19%	87%
Due within the next 12 months	1%	1%	0%	N/A
No response	3%	5%	11%	5%
% Equity Ownership		Women	Under represented Racial/Ethnic Groups	Other Under-represented Groups
0%		46%	35%	56%
>0% to <25%		23%	18%	7%
25% to 33%		2%	2%	0%
>33 to ≤50%		3%	3%	1%
>50%		4%	15%	2%
N/A (Firm is publicly listed)		16%	16%	17%
No response		5%	11%	17%



Environmental, Social, and Governance

In addressing ESG factors, how would you describe your focus?

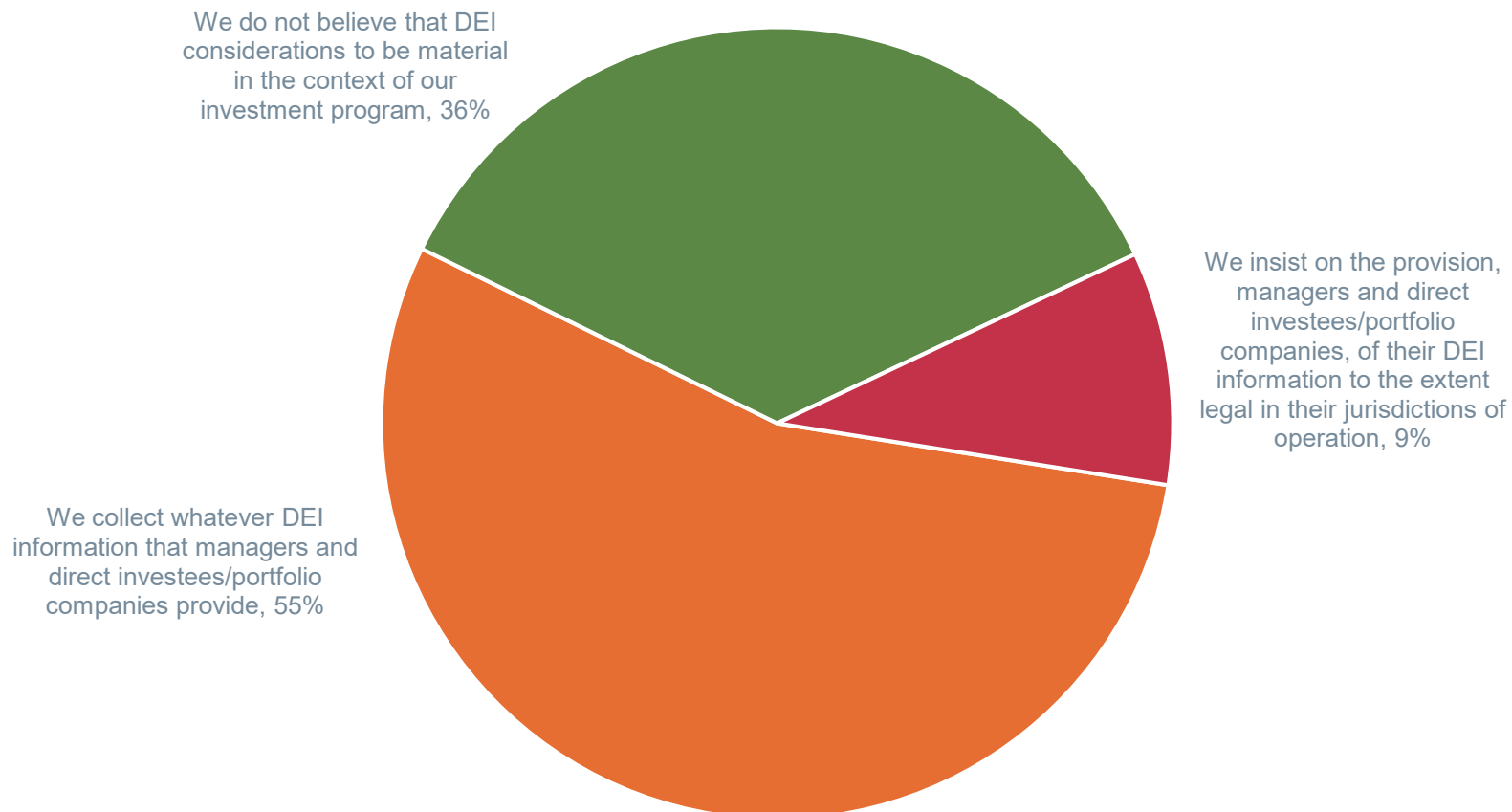


Source: Albourne Investor Survey, 20 July 2022 – 30 September 2022. Sample Size : 84



Environmental, Social, and Governance

To what extent does consideration of DEI feature in your investment process and at what level(s) do you engage with managers on DEI?



Source: Albourne Investor Survey, 20 July 2022 – 30 September 2022. Sample Size : 84



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).⁸
- Meanwhile, Fortune 100 companies that had the highest ratio of female leadership generated 53% higher returns on equity.⁹



*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.¹⁰
 - Higher levels of diversity at companies correlate to improved financial performance.¹¹
 - Diverse-led investment management teams perform as well or better than non-diverse peers, even after controlling for fund-level and firm-level characteristics.¹²
 - In addition to improving investment performance, diverse investment team members are more likely to themselves back diverse teams.¹³



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?



CITATIONS

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