INVESTOR LEADERSHIP NETWORK

INCLUSIVE FINANCE PLAYBOOK

Setting the Standard for Workforce Inclusion

INVESTOR LEADERSHIP NETWORK

powered by DIVERSIO

> *ILN members believe the best way to achieve the positive results associated with diversity is to ensure that organizations have an inclusive culture that welcomes people of all backgrounds and identities. As investors, our role is to use data and metrics to make smart decisions and engage with our portfolio companies and external managers.*

Helen Beck
Executive Vice-President and Head of Equity Markets
CDPQ

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ABOUT THE ILN

Launched in 2018 under the Canadian Presidency of the G7, the Investor Leadership Network (ILN) champions initiatives and addresses challenges that no organization or jurisdiction can tackle on its own. As of March 2022, the ILN is comprised of 13 global institutional investors across six countries, with over US$9 trillion in assets under management. Through the ILN platform, members collaborate and pool resources, expertise, and networks to develop, promote, and deliver concrete and scalable initiatives on diversity, equity, and inclusion (DEI), climate change, and sustainable infrastructure in emerging markets. Our alliance of 13 world-leading investors is tackling major global issues in a manner that benefits society and the bottom line. A strategic differentiator of our network is our clear focus on DEI. Additionally, we enjoy strong support from public and private partners while remaining fully autonomous. This is what makes the ILN unique.

The Investor Leadership Network believes that inclusive environments lead to higher-performing teams that make better, more sustainable decisions. The ILN leads by example and advocates for greater diversity, equity, and inclusion through its "Diversity in Investment Advisory Committee," which comprises senior experts in DEI-aligned investing and employment from the ILN's members. In 2021, the "Diversity in Investment Advisory Committee" conducted an internal assessment of its members' best practices and biggest challenges in advancing DEI, both as employers and as active investors. The report–*Creating a More Inclusive Economy: Practical Insights from Global Institutional Investors* – identified a need for investor guidance around inclusion, informing the creation of this Inclusion Playbook. The "Diversity in Investment Advisory Committee" works closely with ILN's "Chief Investment Officer Roundtable" to ensure the ILN's guidance will be integrated into investment practices at scale.

AIMCo · Allianz · apg · PSP · ARDIAN · CDPQ · GENERALI · OMERS · PGGM · NATIXIS INVESTMENT MANAGERS · ONTARIO TEACHERS' PENSION PLAN · CPP Investments · STATE STREET GLOBAL ADVISORS

DIVERSIO'S METHODOLOGY

Diversio is the people intelligence platform that measures, tracks, and improves DEI. Using AI technology and human expertise, Diversio diagnoses pain points, benchmarks against peers, and creates action plans that help organizations meaningfully improve DEI in the workplace.

Diversio's technology supports hundreds of companies, investor portfolios and governments globally, including: The World Bank, Danone, Microsoft, the Government of Canada, and more. Diversio matches organizations with solutions that will work for them using a Recommendation Engine powered by a database of over 1,600 proven DEI programs, policies, and trainings.

It is clear to investors that inclusion is a material issue, but until now, investors have not had the proper guidance to most effectively measure and engage with inclusion. ILN's Inclusion Playbook and its Inclusion Metrics mark the beginning of a new era of investors' approaches to diversity, equity, and inclusion (DEI). We hope that the Playbook will help drive DEI outputs meaningfully across the private sector.

Ziad Hindo,
Chief Investment Officer
Ontario Teachers' Pension Plan

INTRODUCTION

Diversity, equity, and inclusion (DEI) are critical aspects of the “S” in ESG, but diversity on its own will not enhance company returns. To maximize employee potential and contributions, individuals must feel empowered, valued, and supported by their peers, managers, and leaders.

Equity and inclusion have a direct impact on risks and returns through innovation, talent attraction, employee turnover, and scandal avoidance, creating the optimal conditions for high-performing teams at portfolio companies. Furthermore, they help to build a sustainable, diverse talent pipeline. They are critical to institutional investors’ bottom line - and key drivers of diversity.

While some investors and data providers have begun to collect and track diversity data, the investing world has yet to crack the code on inclusion. According to our members, the absence of inclusion metrics and associated data is limiting their ability to push for real change.

Over the past year and a half, the Investor Leadership Network and Diversio have engaged with leading asset managers, asset owners, industry associations, and government bodies to develop a set of “Inclusion Metrics” to form the foundation for the ILN’s Inclusive Finance Initiative. Developed to accompany ESG frameworks such as VRF, WEF-IBC, and ILPA, the metrics provide an evidence-based, widely applicable, and easily understood path to inclusion in organizations. When these organizations leverage our “Inclusion Metrics” at the management level and the impacts are reported to their boards, investment teams can use the actionable resources in this Playbook to analyze and track inclusion across their portfolios.

We wish to emphasize that our focus on inclusion is meant to be additive and complementary to a focus on diversity, which remains critically important for our members.

Throughout the process, we identified three clear needs: develop the case for why inclusion is material to investors, create a two-tiered set of metrics that could become industry standard, and provide case studies for how the metrics could be used by teams investing in public equities, private companies, and with external managers.

This Playbook includes three parts:

1. The business case for inclusion
2. The ILN-Diversio Inclusion Metrics
3. Practical guidance and case studies

This Playbook is the beginning of our inclusive finance journey. We welcome feedback as we develop further guidance and tools on this topic.

PART 1: WHY INCLUSION IS MATERIAL

WHAT IT MEANS FOR AN ORGANIZATION TO BE INCLUSIVE

As said by DEI expert Vernā Myers, "Diversity is being invited to the party. Inclusion is being asked to dance." Inclusion means that everyone in an organization is empowered to do their best work. It means an absence of systemic barriers, biases, and discrimination that so often prevent employees from succeeding in the workplace. Where diversity highlights and appreciates people's differences, equity, and inclusion are about creating fair access, opportunity, and advancement for all those different people to offer all employees a seat at the table.

Diversity, equity, and inclusion go hand-in-hand. Diversity is focused on representation and the types of individuals an organization employs. It carries the potential to drive enormous benefits: scholarly research finds that diversity improves teams' innovation, risk management, revenue growth, market expansion, and other key performance metrics. But an organization is only able to benefit from the perspectives and backgrounds introduced by diverse employees if its culture is open and receptive to these viewpoints, and if it provides the necessary support to enable its diverse employees to share these viewpoints. Inclusion and equity are the key that translates diversity into results.

As stated in a recent Forbes article, "Trying to create diversity in an environment that is not inclusive will at best not work well, and in many cases lead to negative outcomes."[1] To avoid this, we as investors must collect data on inclusion at the same time as we collect data on diversity.

The importance of inclusion is becoming increasingly recognized by our members. As of 2021, at least 50% of our members collected some form of employee engagement or human capital management data. The industry is clearly moving in this direction and our members alongside other investors have expressed a clear need for consistent metrics to guide this evolution and allow sector benchmarking, tracking, and best practice sharing.

It is important to note that inclusion differs from employee engagement in a fundamental way. While employee engagement captures employee experience indiscriminately, inclusion requires a deep dive on patterns in the experience of employees with a common background or identity trait. In other words, inclusion asks "are the experiences of under-represented employees fundamentally different or worse than others?" Oftentimes, the answer is yes.

[1] Gaudiano, Paolo, "Here is Why Diversity and Inclusion are Disconnected, and How to Fix That." Forbes Magazine, 4 May 2020.

EQUITY VERSUS INCLUSION

Equity and inclusion are related and overlapping concepts. Equity seeks to ensure fair treatment, equality of opportunity, and fairness. Inclusion builds a culture of belonging where each person is engaged and empowered to fully contribute. Both concepts speak to the removal of barriers to individual and team performance.

While these metrics are titled "Inclusion Metrics", the concept of equity is weaved in – particularly in the Advanced Metrics. As discussed further on, disaggregated employee feedback and promotion data can indicate whether certain groups are facing equity barriers. While pay equity is not explicitly included as an Inclusion Metric we fundamentally support it. We encourage investors to inquire about pay equity for larger organizations and those operating in countries without pay equity legislation.

BUSINESS BENEFITS OF INCLUSION

Inclusion is driven by a combination of two things: fundamental **systems, programs, and policies** that make work accessible to a wide number of people, and **team dynamics** that set the tone for employee experience and engagement.

As organizations make progress on these two fronts, they can expect to see several business benefits. As described below, highly inclusive companies are more innovative and growth-oriented, are better able to attract talent, and have more engaged higher-performing teams. They are also less susceptible to risks such as abnormal employee churn, litigation, and public scandals. Diversity signals a demographically diverse workforce. Inclusion creates space for diverse employees to thrive. In fact, a study of 2,100 employees "found positive experiences of inclusion explained 49% of team problem-solving abilities, 35% of work engagement and 20% of intent to stay at the organization."[2] Inclusion is the tool which unlocks the business benefits of diversity.

↑ RETURN

- DRIVE INNOVATION & GROWTH
- IMPROVE TALENT ATTRACTION
- INCREASE ENGAGEMENT & PRODUCTIVITY

↓ RISK

- MINIMIZE EMPLOYEE TURNOVER
- MAINTAIN LICENSE TO OPERATE
- AVOID COSTLY SCANDALS & LITIGATION

INCLUSION FUNDAMENTALS

Beginning with programs and policies, our research surfaced **four drivers of meaningful business outcomes:**

1. Policy and governance
2. Talent acquisition strategy
3. Employee engagement strategy
4. Data transparency

To begin, it is clear from the research that a "tone from the top" and **corporate policies** matter to current and prospective employees alike. 71% of employees prefer transparent business leaders who demonstrate inclusive behavior.[3] Relatedly, 72% of employees said they would consider leaving their company to another with better diversity initiatives and programs,[3] meaning that companies that integrate diversity into their **talent acquisition strategy** will be better positioned to attract talent and build a strong talent pipeline.

It is also clear from the research that an **employee engagement strategy** is critical for retaining employees and maximizing productivity. Highly engaged teams see a 41% reduction in absenteeism and a 17% increase in productivity.[4] Most employees feel that leadership (as opposed to employees) should initiate employee engagement,[5] further illustrating the importance of corporate strategy. It will come as no surprise to most that regular reporting and **data transparency** with senior leaders and key stakeholders is a key way to ensure that all employees are adequately engaged.[6]

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[2] Heisler, How DEI efforts Lead to Better Employee Retention The American Marketing Association. October 2020.

[3] Inclusion Pulse Survey. Deloitte, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/about-deloitte/us-about-deloitte-inclusion-survey.pdf

[4] Harter, Jim and Mann, Annamarie. "The Right Culture: Not Just about Employee Satisfaction." Gallup, November 2021. https://www.gallup.com/workplace/236366/right-culture-not-employee-satisfaction.aspx

[5] DNA of Engagement - The Conference Board. https://www.conference-board.org/topics/dna-of-engagement

[6] Bohnet and Chilazi "Goals and Targets for Diversity" Harvard, https://wappp.hks.harvard.edu/files/wappp/files/dei_goals_in_us_tech_bohnet_chilazi.pdf

EMPLOYEE EXPERIENCE

Programs and policies are important but do not capture the full picture of inclusion within an organization. For that, it is important to gather feedback directly from employees. Diversio's proprietary Inclusion Framework was developed in partnership with leading practitioners and academics. The Framework identifies a common set of characteristics shared by highly diverse, productive, and engaged organizations. Building on this Framework, Diversio identified five employee engagement metrics and two indicators of employee mobility that, when used in combination, provide an accurate measure of inclusion in the workplace.

EMPLOYEE ENGAGEMENT DRIVERS

- Inclusive culture
- Fair management
- Career development
- Workplace flexibility
- Workplace safety

EMPLOYEE MOBILITY INDICATORS

- Turnover equity
- Advancement equity

From an employee experience perspective, a strong inclusive culture increases team rapport, improves team performance, and enhances employee wellbeing.[7] Fair management coupled with unbiased feedback are necessary to break the "glass ceiling" for under-represented groups while fostering productivity and team morale.[8]

Companies with strong career development opportunities accessible to all employees (i.e., training, networking, and mentorship) are more likely to retain and advance diverse talent long-term.[9] Employee perceptions of workplace flexibility (i.e. the ability to take days off, work remotely, and go on as well as comfortably return from leave) are significantly linked to higher job satisfaction, productivity, retention, employer loyalty, and lower absenteeism.[10]

Finally, workplace safety indicates the absence of mental, physical, and sexual harassment which is critical to employee well-being and mitigates the risk of litigation and reputational scandals.[11] When assessing these metrics, organizations should disaggregate experiences of dominant and non-dominant groups* to understand whether employees face systemic barriers.

It is important to note that these inclusion metrics differ from typical approaches to employee engagement in a fundamental way: These Metrics require a deep dive on patterns in the experience of employees with a common background or identity trait.

By disaggregating employee responses and comparing them, we are able to answer inclusion questions like: Are women experiencing harassment more than men? Are racial and ethnic minorities facing bias from managers more than their white peers?

From an employee mobility perspective, two additional indicators of inclusion are the rate at which diverse employees leave the organization –turnover equity – and the rate at which they are promoted – advancement equity.

If an organization gets the systems and the team dynamics right, it should not experience a "leaky pipeline" where leadership roles are occupied by individuals with the same background. Instead, diverse employees should be proportionally represented at all levels of the talent funnel, from the most junior to the most senior roles.

TAKEAWAY: AS INVESTORS, WE BELIEVE:

1. Inclusion is not only good for business, it has a material impact on our long-term performance
2. Inclusion is a necessary condition for realizing the benefits of diversity
3. Inclusion can and should be measured and managed

[7] Shore, Cleveland, & Sanchez, Inclusive workplaces: A review and model, Human Resource Management Review https://doi.org/10.1016/j.hrmr.2017.07.003

[8] Bond, M.A. and Haynes, M.C. (2014), Workplace Diversity: A Social–Ecological Framework and Policy Implications https://doi.org/10.1111/sipr.12005

[9] Alison M Konrad (2006) Leveraging Workplace Diversity in Organizations, Organization Management Journal, 3:3, 164-189, https://doi.org/10.1057/omj.2006.18

[10] Kelliher, C., & Anderson, D. (2010). Doing more with less? Flexible working practices and the intensification of work. Human Relations, 63(1), 83–106. https://doi.org/10.1177/0018726709349199

[11] Adams, B.G., Meyers, M.C. and Sekaja, L. (2020), Positive Leadership: Relationships with Employee Inclusion, Discrimination, and Well-Being. https://doi.org/10.1111/apps.12230

*Note: "Dominant group" refers to the profile o person whose demographic traits (i.e. gender, race, ethnicity, sexual orientation and disability) appear most frequently

PART 2: ILN-DIVERSIO INCLUSION METRICS

Having identified key drivers of inclusion, our goal was to translate these drivers into Key Performance Indicators ("KPIs" or "metrics") that could be measured and managed by management and investors across portfolio companies and with external asset managers.

To do so, we leveraged Diversio's Inclusion Metrics which were developed and tested with more than 500 companies of various sizes, sectors, and stages of growth. These metrics have been further validated with leading experts, investors, and industry bodies. The **Fundamental Metrics** look at inclusive governance, programs, and policies relating to diversity, equity, and inclusion – in other words, how leaders intend to build and maintain an inclusive workplace.

The Advanced Metrics taker a deeper look at team dynamics: key employee engagement metrics as well as the distribution and churn of non-dominant group employees.

AT A GLANCE	FUNDAMENTAL METRICS	ADVANCED METRICS
APPLICATION	All companies, investors and with asset managers including those at the beginning of the DEI journey	Companies, investors and with asset managers that are more advanced in their journey
KEY METRICS	Inclusion Metrics: 1. Policy and governance 2. Talent acquisition strategy 3. Employee engagement 4. Data transparency	Inclusion Metrics: 1.Engagement data by demographic: a. Inclusive culture b. Fair management c. Career development d. Workplace flexibility e. Workplace safety 2. Churn by demographic 3. Advancement by demographic
DATA SOURCES	Self-identified demographics Program information Third party verification	Employee engagement data Promotion and turnover data

FUNDAMENTAL METRICS

The fundamental metrics represent key components of any successful diversity & inclusion framework. They are relevant to organizations of all sectors and sizes, including startups and companies at the beginning of their DEI journey.

The **policy and governance** metric asks whether an organization has put in place policies at each level, from executives downward, to track, review, and improve the effectiveness of DEI initiatives.

The **talent acquisition strategy** metric asks whether an organization has programs or strategies to recruit diverse talent and increase representation.

The **employee engagement strategy** metric asks whether leaders have implemented programs to ensure a safe and inclusive workplace.

The **data transparency** metric asks whether management collects (or intends to collect) DEI data, the rigor of that commitment and whether results are shared with employees or stakeholders.

ADVANCED METRICS

Following the fundamental metrics, the advanced metrics represent indicators of an inclusive work environment from the employee perspective. Advanced metrics are generally relevant to organizations with more than 40 employees and smaller companies that want to set themselves up for fast growth. The advanced metrics are best used in combination with employee engagement data using the questions outlined in Diversio's white paper, *How to Measure Inclusion at Your Organization.*

EMPLOYEE ENGAGEMENT

The **inclusive culture** metric looks at whether employees feel their opinion is sought out and valued by their teams.

The **fair management** metric looks at whether employees feel that managers are fair and unbiased towards them.

The **career development** metric looks at whether employees feel there is a senior leader at the organization who is invested in their growth and development.

The **workplace flexibility** metric looks at whether employees have the flexibility needed to balance personal and professional obligations.

The **workplace safety** metric looks at whether employees feel the workplace is free from mental, physical, and sexual harassment.

ADVANCEMENT DATA

The **churn** metric looks at whether non-dominant group employees are leaving the organization at a disproportionate rate.

The **advancement** metric looks at whether non-dominant group employees are receiving promotions and raises at a rate different from dominant-group employees.

PART 3: GUIDANCE FOR USING THE METRICS IN PUBLIC EQUITIES

This section provides guidance and examples on how the Inclusion Metrics for organizations in the previous section can be used in practice for investors. Our goal is not to be prescriptive, but to provide tools and ideas that can be adapted based on the investor's size, resources, and stage of their journey.

GENERAL GUIDANCE

ILN members are very active in collecting data from public equities relative to other asset classes in line with the commitment they made in 2020 to promote diversity, equity, and inclusion.[12] 100% of members who are active in this asset class report collecting some form of diversity data from companies. This is reflective of many institutional investors and presents a strong foundation to engage further.

As of 2021, all members report using the following strategies:

- **Engaging** with management teams on DEI
- **Sharing** best practices among companies
- **Encouraging** board and executive diversity disclosure
- **Engaging** with chairs or nominating committees on diverse representation
- **Advocating** for regular board turnover
- **Publishing** guidelines relating to proxy voting on DEI
- **Considering** voting against a nominating committee chair if there has been a notable lack of progress

The Inclusion Metrics can be layered into these strategies in several ways. For passive investors or those with a relatively small equity stake, tactics can include screening mechanisms and collaborating with other investors to exert greater influence. For more active investors, tactics could include direct engagement and heightened reporting expectations.

EXAMPLE ENGAGEMENT TACTICS

MINORITY OR PASSIVE INVESTORS

DATA COLLECTION & REPORTING

Screening for inclusion at the pre-investment stage using publicly available data*

Tracking regularly and divesting when a minimum threshold is not met (e.g. an inclusion related scandal surfaces)

COMPANY ENGAGEMENT

Signaling intention to use an inclusion screen publicly

Working with other investors through pledges and industry commitments (e.g., 30% Club)

MAJORITY OR ACTIVE INVESTORS

DATA COLLECTION & REPORTING

Updating reporting expectations to include Inclusion Metrics

Benchmarking performance and incorporating into risk assessment or due diligence frameworks

COMPANY ENGAGEMENT

Engaging 1:1 with executive teams and boards of directors

Communicating the importance of inclusion at annual general meetings

[12] ILN Diversity Joint Engagement. https://investorleadershipnetwork.org/wp-content/uploads/ILN-Diversity-Joint-Engagement-Letter_Signatures-June-2020.pdf
*Note: Diversio's Public Market tool provides benchmarking solutions for publicly available data to support pre-invement activities

CASE STUDY: STATE STREET GLOBAL ADVISORS

Building on State Street Global Advisors' Board's gender diversity guidance and Fearless Girl campaign which started in 2017, the firm expanded its efforts in 2020 to include diversity, equity, and inclusion disclosure expectations.[13] The initiative was complemented with a concerted engagement campaign targeted at 60 of the largest employers within its portfolio, including companies in the Americas, Europe, Asia, and Australia.

KEY ENGAGEMENT TACTICS INCLUDED...

Issuing DEI disclosure expectations

1:1 discussion with management and the board to share guidance, offer feedback, and discuss forward-looking plans

Updating voting policies to drive accountability on DEI progress

Thought leadership to *influence change*

WHICH GUIDED OBJECTIVES OF...

Enhancing alignment of target companies with disclosure expectations

Advancing progress on DEI practices and diverse representation throughout portfolio

VOTING POLICIES LOOKING FORWARD:

In the 2021 proxy season, State Street began introducing the following voting policies:

1. **Require** disclosure of racial and ethnic composition of boards for S&P 500 and FTSE 100 companies
2. **Require** at least one director from an underrepresented racial or ethnic community in S&P 500 and FTSE 100 companies
3. **Require** EEO-1 report disclosure for S&P 500 companies
4. **Require** at least one female director of companies in all markets and indices
5. **Require** 30% female directors on boards of R3000, TSX, FTSE350, STOXX 600, ASX300, starting in 2023

Overall, State Street is starting to see positive signs of progress. Since State Street issued their new disclosure guidance in 2020, the number of companies in the S&P 500 that disclose racial and ethnic makeup of their boards has more than doubled,[14] while those in the S&P 100 disclosing their EEO-1 reports has more than tripled.[15] And in 2021 alone, nearly 3 in 10 FTSE 100 companies added an ethnic minority to their boards.[16]

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[13] "Guidance on Diversity Disclosures and Practices" State Street; https://www.ssga.com/library-content/pdfs/asset-stewardship/guidance-on-diversity-disclosures-practices.pdf

[14] Russell Reynolds Associates Corporate Board Practice 2021 Edition, The Conference Board, Inc.

[15] "IBM Turnabout Adds Pressure to Keep Corporate Diversity Promises" Bloomberg May 25, 2021: https://www.bloomberg.com/news/articles/2021-06-05/ibm-turnabout-adds-pressure-to-keep-corporate-diversity-promises

[16] "FTSE 100 Companies Improve Ethnic Diversity Boards" Pionline; https://www.pionline.com/esg/ftse-100-companies-improve-ethnic-diversity-boards

GUIDANCE FOR USING THE METRICS WITH PRIVATE COMPANIES

GENERAL GUIDANCE

Private company engagement is a key priority area for the majority of our members. For most private companies, COVID-19 and the Black Lives Matter movement created pressure to look at employee experience and systemic barriers to inclusion. The Great Resignation further heightened the need to implement retention programs and double down on culture.

Investors are becoming more active in requesting DEI data from private companies within their portfolios. More than half of our members report using the following approaches:

- **Collecting** information on DEI in pre-investment activities (i.e. due diligence)
- **Engaging** on DEI topics in post-investment activities (e.g. meetings with management)
- **Explicitly** recognizing DEI as a priority when selecting candidates for board seats

Some of our members have taken further steps, including:

- **Training** directors on the topic of DEI at the executive level
- **Engaging** with outside board directors to emphasize the importance of DEI

In many cases, investors have found private companies are eager and willing to engage on DEI. This is due to several reasons, such as candidates asking about their DEI policies, employee activism, customer pressure, and supplier diversity programs. This provides an opportunity for investors to act as thought partners to help companies improve, starting with data collection and measurement.

EXAMPLE ENGAGEMENT TACTICS

MINORITY OR PASSIVE INVESTORS

DATA COLLECTION & REPORTING

Requesting disclosure of the Fundamental or Advanced metrics at the pre-investment stage

Incorporating the Metrics into risk assessment or due diligence frameworks when deciding to make an investment

COMPANY ENGAGEMENT

Providing DEI resources to management and offering to engage

Collaborating with other investors to express joint commitment to DEI

MAJORITY OR ACTIVE INVESTORS

DATA COLLECTION & REPORTING

Requiring disclosure of Fundamental or Advanced metrics as part of annual reporting requirements

Updating term sheets or value creation plans to include expectations around DEI programs

COMPANY ENGAGEMENT

Engaging 1:1 with executive teams and boards of directors to emphasize the importance of inclusion

Setting expectations for improvement and taking action if those expectations are not met

CASE STUDY: ONTARIO TEACHERS' PENSION PLAN

Ontario Teachers' Pension Plan is used to active engagement with portfolio companies, in particular from a value creation perspective. Having set and achieved a target of 30% female representation on portfolio company boards, Ontario Teachers' decided to turn its attention to DEI. In an effort to provide guidance and support, the teams engaged experts to create an Ontario Teachers' DEI Playbook that provides their investment teams, boards, and portfolio company management teams with a resource to drive both education and progress in the DEI journeys of their portfolio companies.

KEY ENGAGEMENT TACTICS INCLUDED...

Developing and sharing a DEI Playbook including guidance on how to collect diversity, equity and inclusion data

Engaging with companies on a 1:1 basis to provide support as portfolio companies continue their own DEI journeys

WHICH GUIDED OBJECTIVES OF...

Providing initial support to portfolio companies aligned to Ontario Teachers' enterprise DEI strategy

Educating and engaging in broader and deeper discussions on DEI both amongst our investment teams and portfolio companies

APPROACH FOR 2022:

1. **Convene** investment teams to discuss the importance of DEI within portfolio companies and solicit feedback
2. **Distribute** the Playbook to certain additional portfolio companies on a pilot basis
3. **Gather** feedback and best practices and further refine the Playbook
4. **Develop** a broader portfolio company engagement strategy, leveraging the Playbook
5. **Determine** an approach to broader DEI data gathering, considering local nuances across a global portfolio

CASE STUDY: ARDIAN

Ardian is a world-leading private investment house with assets of US$125 billion managed or advised in Europe, the Americas, and Asia. In an effort to encourage stakeholder engagement on diversity, equity, and inclusion, Ardian developed over the past few years a set of DEI questions that were included in its annual portfolio review. These questions included diversity representation in key positions as well as the ILN-Diversio Inclusion Metrics.

In addition to the data collection, Ardian has developed individualized road maps with quantified targets and timing to engage managers on DEI topics. In 2021, Ardian launched a series of workshops with CEOs, Sustainability, and HR leaders to discuss and solve DEI topics such as inclusive leadership, diversity, and performance and disability at work. The aim of these sessions being to share best practices within the portfolio and develop concrete solutions to address DEI challenges.

KEY ENGAGEMENT TACTICS INCLUDED...

Establishing a baseline and monitoring KPIs relating to specific DEI factors such as leadership representation, equal pay, and the Inclusion Metrics

Engaging with companies on a 1:1 and group basis to provide support on DEI action plans and emphasizing the importance of inclusive portfolio companies to Ardian. Presenting Ardian's effort on DEI as a management company to lead by example through its investments

WHICH GUIDED OBJECTIVES OF...

Reporting with 100% completion DEI KPIs from all portfolio companies with majority shareholding on an annual basis to monitor improvement across topics such as recruitment, retention, and trainings

Sharing best practices within the portfolio and **setting specific DEI objectives**

APPROACH FOR 2022:

1. **Communicate** the importance of DEI to portfolio companies
2. **Convene** portfolio company leadership to participate in a series of workshops with peers
3. **Distribute** workshop takeaways and education content to portfolio companies
4. **Collect** DEI data from portfolio companies
5. **Benchmark** progress among companies and the investment industry as a whole
6. **Engage** with companies to support DEI strategy creation

CASE STUDY: OMERS Infrastructure

OMERS Infrastructure currently manages more than C$30 billion invested capital in direct investments in approximately 30 portfolio companies across the globe. Through its active asset management approach on the boards of its portfolio companies, OMERS Infrastructure engages with the executive teams on ESG matters. In 2021, OMERS Infrastructure increased its focus and emphasis on DEI initiatives including through a series of highly engaged webinars to highlight and share some of the best DEI practices across portfolio companies.

KEY ENGAGEMENT TACTICS INCLUDED...

Developed an ESG framework and scorecard with a dedicated section focusing on diversity, equity, and inclusion

Sponsored the OMERS Infrastructure DEI webinars facilitated by CHROs of its most DEI-mature portfolio companies to share success stories and best practices with CHROs at other portfolio companies at an earlier stage of the DEI journey

WHICH GUIDED OBJECTIVES OF...

100% response rate among portfolio companies

Board-level reporting and discussions of DEI progress at least once per year at each portfolio company

Highly interactive discussions across portfolio companies on DEI best practices

APPROACH FOR 2022:

1. **Require** questions relating to inclusion in the ESG framework
2. **Deploy** the ESG framework to portfolio companies as part of an annual reporting effort
3. **Analyze** responses, benchmark performance, and use this to prioritize companies for further DEI engagement
4. **Connect** with portfolio companies to set DEI plans and set meaningful objectives
5. **Raise** DEI as a key topic for discussion at the portfolio company board level at least annually

GUIDANCE FOR USING THE METRICS WITH EXTERNAL MANAGERS

GENERAL GUIDANCE

Our members are increasing their engagement on DEI with external managers across the board, including (but not limited to) venture capital, private equity, and hedge fund managers. Often this engagement is two-sided, with initiatives like *Diversity VC* bringing external managers together to set the standard for diversity in venture capital. More than two-thirds of our members report using the following approaches:

- **Asking** diversity-related questions on strategy and representation
- **Monitoring** external managers' DEI performance and progress post-investment
- **Sharing** best practices with the external managers they allocate funding to

Moreover, almost all of our members report engaging with industry and peer groups on DEI topics – efforts that have gained significant momentum and fueled an appetite for further work on inclusion. One such effort includes the Institutional Limited Partner Association (ILPA), which updated its DEI questions and reporting ***guidelines*** in late 2021. Another includes the Standards Board for Alternative Investment (SBAI), which published ***principles*** for culture and diversity strategies. The ILN-Diversio Metrics were designed to complement these frameworks.

EXAMPLE ENGAGEMENT TACTICS

MINORITY OR PASSIVE INVESTORS

DATA COLLECTION & REPORTING

Incorporating the ILN-Diversio Inclusion Metrics into risk assessment or due diligence frameworks

Communicating the importance of the Inclusion Metrics to investment strategy publicly

INDUSTRY ENGAGEMENT

Working with industry associations like ILPA and SBAI to engage with external managers

Sharing resources like this playbook with external managers to help them incorporate inclusion into their own practices

MAJORITY OR ACTIVE INVESTORS

DATA COLLECTION & REPORTING

Requiring disclosure of Fundamental or Advanced metrics as part of annual reporting requirements

Incorporating inclusion-related risks into scoring frameworks and communicating performance back to external managers

MANAGER ENGAGEMENT

Engaging 1:1 with management teams to emphasize the importance of inclusion

Encouraging external managers to integrate inclusion risks and rewards into their own investment strategies

GUIDANCE FOR USING THE METRICS WITH EXTERNAL MANAGERS

CASE STUDY: CDPQ

CDPQ is a global investment group that drives performance and progress, with net assets of C$ 419.8 billion as of December 31, 2021. The organization manages funds for public retirement and insurance plans in Québec (Canada).

Both internally and with its portfolio companies and investment partners, CDPQ values diverse perspectives to drive innovation, enhance the quality of decisions, and foster performance and success. To this end, CDPQ launched a global survey in 2021, introduced by a CEO-signed letter, to develop a portrait of diversity of the asset managers it works with and of how they are integrating DEI in their practices and portfolios.

CDPQ also strengthened its operational due diligence (ODD) process of external managers to assess their DEI practices - specifically and distinctly from other ESG considerations. This assessment is formally integrated into the overall review of external asset managers, both pre- and post-investment, and is discussed at the investment committee.

Both the global portrait and the output of the ODD process inform post-investment activities. Starting in 2022, CDPQ will gradually integrate ILN-Diversio Inclusion Metrics into these approaches to reinforce the dialogue with the external asset managers in its portfolio.

KEY ENGAGEMENT TACTICS INCLUDED...

Engaging with priority managers to understand how ESG and DEI are involved in and integrated into firm practices and portfolio management

Leveraging the ODD team to assess asset manager achievement of DEI and ESG goals

WHICH GUIDED OBJECTIVES OF...

Quantitative & qualitative assessments of DEI reporting KPIS

Increasing involvement in promoting DEI at the sector level to extend to all levels of the organization

APPROACH FOR 2022:

1. **Update** the global portrait of external asset managers to measure evolution
2. **Review** the ODD questionnaire on DEI sent to potential external asset managers with ILN- Diversio Inclusion Metrics
3. **Reassess** and follow-up with external asset managers to support DEI strategy development
4. **Engage** proactively with priority external asset managers* and provide tools and resources to help achieve set goals

**Priority managers are identified by fund influence, low scores, and willingness to engage*

CONCLUSION

As investors, we have a deep conviction in the ability of diversity to drive business results. With this conviction, we must acknowledge that inclusion is essential to **creating higher-performing teams** and unlocking this opportunity. If both can be achieved, companies (and in turn their investors) will see meaningful, long-term financial returns in addition to contributing to a more equitable and fair society.

While these metrics represent a meaningful step forward, our work is by no means finished. We recognize there is much more to be done to support underrepresented groups, including but not limited to racial and ethnic minorities, women, the LGBTQ2+ community, and people with a disability.

Through the ILN and strategic partners like Diversio, we aim to leverage member resources and expertise, along with artificial intelligence (AI) and data-driven insights to continue developing sustainable DEI solutions for organizations.

Join us in our continuing DEI journey to engage these communities and work with the industry to build on this foundation. We hope you find our perspectives and experiences useful and will leverage this playbook to adopt and integrate these metrics into your investment activities.

APPENDIX: COMMON QUESTIONS AND OBJECTIONS

QUESTIONS FROM INVESTORS

Q: WILL MANAGEMENT WANT TO ENGAGE ON THIS TOPIC?

A: Most companies are feeling pressure from many angles, including investors, employees, and customers. In the ILN's experience, a constructive dialogue is usually welcomed, especially if it comes with insights and resources

Q: HOW DO I HAVE A MEANINGFUL CONVERSATION IF DEI IS NOT MY AREA OF EXPERTISE?

A: If you have DEI expertise in-house (such as a Head of DEI or ESG), consider reaching out to them for resources and to join external meetings. If you don't, industry associations like ILPA, SBAI, or the 30% club have great resources to quickly expand your education on DEI fundamentals

Q: HOW DO I KNOW WHAT "GOOD" LOOKS LIKE?

A: Working with peers to share data is a good way to establish a benchmark, as is creating a benchmark within your portfolio. There are also third-party providers who can start to fill some gaps.

QUESTIONS FROM MANAGEMENT

Q: WE'RE NOT SURE HOW TO COLLECT DEI DATA IN A CULTURALLY SENSITIVE WAY

A: A DEI data collection tool, consultant, or local lawyer will help identify best practices across regional cultures, laws, and unique needs

Q: OUR WORKFORCE IS GLOBAL, AND MANY COUNTRIES HAVE RESTRICTIONS IN PLACE

A: Consider reaching out to a consultant or DEI expert to help identify what demographics are appropriate to collect in each region. To compare regions to one another, use a "dominant" versus "non-dominant" group approach (learn more **HERE**)

Q: WE DON'T WANT TO SET GOALS IF WE'RE NOT SURE WE CAN ACHIEVE THEM

A: A good start is to set actionable goals at the business unit level. Once you have collected data on demographics and experience among employees, set achievable targets that reflect areas of improvement for each business unit. For example, tasking the Marketing department with implementing a mentorship program, and asking the Finance team to implement a flexible work policy.

INVESTOR LEADERSHIP NETWORK

powered by DIVERSIO

CONTACT

For questions about the Inclusion Metrics and how they can be used, contact:
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For questions about the ILN, visit:
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For more information on Diversio, visit:
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