

Racial and ethnic diversity

Materiality and the role of investors

UBS Asset Management, member of the 30% Club UK Investor Group

Introduction



Another [2022 study from Calvert](#), a unit of Morgan Stanley Investment Management, analyzed the relationship between racial and ethnic diversity on corporate boards of large-

appointed at least one director from an ethnic minority

Figure: Active Ownership activities on racial and ethnic diversity through the Theory of Change framework

2. Main challenges for investors

A key challenge for investors is the lack of available racial or ethnic diversity data, as in many cases, corporate disclosure is not sufficient.

However, analyses show that companies respond to investors' requests about enhanced racial or ethnic disclosure, especially in the US. An analysis from [JUST capital](#) indicated that "the number of Russell 1000 companies that publicly disclose intersectional data detailing gender, race, and ethnicity by job category from their EEO-1 reports or equivalent – has grown substantially, from 3% in 2019 to 34% in 2022".

Also, the [ISS study](#) looking at board composition in the Russell 3000 from January 2019 to January 2023 notes that "more and more companies are disclosing directors' ethnicity and race, as the number of unknown/undisclosed directors decreased by 58% over the period and accounted for less than 3% of all director positions sampled in 2023". The researchers postulate that this change was likely driven by the recent [NASDAQ disclosure rule](#), requiring companies to publicly and annually disclose board-level diversity statistics using a standardized template.

The 2022 [analysis](#) of board diversity in S&P 500 notes that "boards have not only responded to calls for increased disclosure about the racial and ethnic diversity of their composition but are beginning to go above and beyond, electing to disclose the race/ethnicity of individual directors. Nearly all S&P 500 boards (93%) disclosed their racial/ethnic composition, with 41% of those boards identifying directors from underrepresented racial and ethnic groups by name for those who volunteered to self-identify".

It is important to note that legal limitations around data collection and corporate disclosure also exist in some countries.

For example, in Switzerland, companies are not allowed to collect this type of data and employees in Switzerland can disclose only on a voluntary basis.

In issues of race and ethnicity, it is also important to consider the local context, as what constitutes a minority race or ethnicity varies by country, thus making action but also data collection significantly more challenging than for gender alone. Although racism, bias and discrimination against minority ethnic groups is a global issue, it is reflected differently per region. In the UK, the focus may be on Black and Asian ethnic minorities, while in the US the focus may be on Black, Asian, Hispanic, Latino and Indigenous populations due to these regions being majority White. In other regions, the minority and majority make up will differ. Investors need to be aware of such nuances when exercising their active ownership activities.

(a)-16 (j)-14 .9i)2.1 (t)14 (-7 ()-40rtrisiae17 (i)-1tiid (he)-16l7 (he) (e)-1(be)-1r (d t)17 (o i)2.1 ()17 (.)

