

Diversity and Equality – update

Longer Term Investments

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- Over the last decade, social diversity and economic inequality have become increasingly relevant topics for investors, following more stringent regulations and increased stakeholder scrutiny. The economic benefits of diversity and of a more inclusive world further underpin our view that investors should consider the diversity profile of their investments.
- In this update, we refine our methodology to identify companies aligned with this theme by explicitly including data related to LGBTQ+ communities, combining data on company diversity with data on inclusion policies, and excluding companies with severe incidents related to diversity.
- In this report, we introduce a systems-level approach to investing for a more inclusive and equitable society, and look at opportunities across asset classes.



Source: Gettyimages

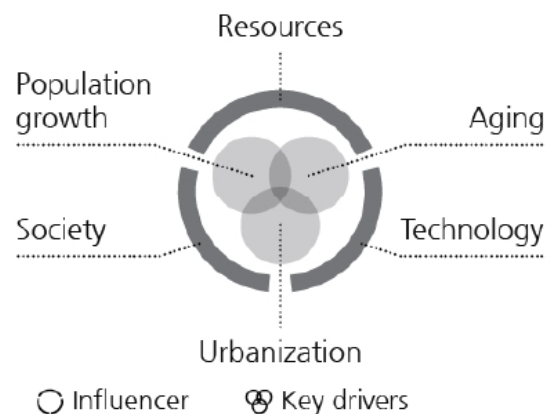
Thanks to Rosamond Moylan for her contribution to this report.

At the beginning of 2021, we closed our tactical investment theme on gender diversity, and expanded it to a broader longer-term investment theme, “Diversity and Equality” (published 29 January 2021), where we extended our view to race and ethnicity. A clear investment thesis motivated us to launch the new theme: Longer-term societal changes underpin four global investment drivers, creating opportunities for companies that are more diverse and have robust human capital management policies and practices. Societal shift is an important influencer of this theme. For more detail on the trends underpinning the investment thesis, please refer to our inception report.

We believe that diversity is material—it matters to corporations' ability to grow, and it matters to investors as a way to identify investment opportunities across their portfolio. In addition, diversity is material to markets overall—an increasing body of research points to the benefits to economic growth of closing wealth gaps based on gender, race, sexual orientation, and others.

The Longer Term Investments (LTI)

This series contains thematic investment ideas based on long-term structural developments, with investment opportunities influenced by the interplay of technological advancement, resource scarcity, and societal changes.



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Terminology

We believe that diversity includes all forms of variation in human beings, including age, sex, gender identity, ethnicity, religion, ability, sexual orientation, racial identity, and others. In this report, we specifically address the lower representation and equality of opportunity in the labor force to women, to people of color (including all who identify as such), and LGBTQ+, and why the topic of diversity is for investors. The LGBTQ+ lens is new in this report as compared to the prior one, which initially focused on gender, race, and ethnicity. We note that information regarding LGBTQ + diversity and inclusion is still limited at a company level. We believe that addressing these issues will help combat the broader problem of inequalities in our society, including wealth and income inequalities, but acknowledge that there are many interrelated factors in solving social problems that are outside the scope of this report.

In this report, we refer to racial and ethnic groups using terms that we believe are inclusive and universally understandable. We use the term Black to describe African Americans and other Black populations. We use the term Hispanic to capture the breadth of Hispanic or Latin ethnic origins. The term Asian refers to Asian Americans and others of Asian origin. However, we acknowledge that significant debate remains around racial identifiers, and preferred terms can differ between regions. For example, in the US, nonwhite groups are sometimes collectively referred to as Black, Indigenous, and people of color (BIPOC). LGBTQ + refers to lesbian, gay, bisexual, transgender, and queer (or questioning), plus other sexual and gender identities. While we refer to gender in sometimes binary terms, largely reflecting the availability of data, we acknowledge that terms can be extended toward including other forms of sexual and gender identities.

We do not profess to be experts in the social sciences, but we do seek to demonstrate that diversity, inclusion, and equality, in their broadest senses, are beneficial to investors and society alike. We refer to inclusion as the practice of providing the same access to opportunities to people who could otherwise be excluded or marginalized. Although we recognize that there is a meaningful distinction between "equality" and "equity," we use the two terms interchangeably in this report in order to align with the UN's definition of equality in two of its Sustainable Development Goals—SDG 5 (Gender Equality) and SDG 10 (Reducing Inequalities)—referring to the equal rights, responsibilities, and opportunities for all races, sexes, languages, or religions.

A systems-level approach to investing for diversity and equality

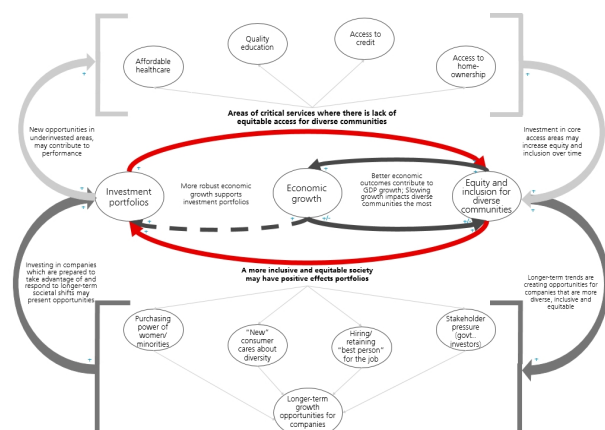
System-level thinking is a way to view a problem as a series of complex, dynamic, and interrelated relationships impacting one another both directly and indirectly.¹ Good examples of systems come from biology: Natural food production is tied to the presence of water sources, pollinators, and surrounding animals which exist in equilibrium. Disrupt one, and risk changing the system in ways that may be unpredictable.

Social systems are similar. Inequality based on personal characteristics like gender, race, or sexual orientation is an example of a system-level challenge, one that requires examining interrelated dynamics across areas like access to education, health, housing, credit, and economic outcomes for women or minorities. Importantly, these interrelated dynamics tied to diversity-based inequality—this system—are critical for investors to understand in order to position their portfolios for the long term. Beyond considering impact on their investment portfolio, investors can also consider how intentionally investing to help address UN SDGs 5 and 10 can create long-term benefits for both themselves and society.

In Fig. 1 (see end of paper for a full-page version) we present a simplified map of the system that connects investment portfolios and equity and inclusion for diverse communities in a society. We broadly define a more equitable and inclusive society as one where there are fewer, or ideally no, systematic differences in outcomes based on personal characteristics. The question guiding this map is: How are diversity, equity, and inclusion connected to the actions of investors?

In our view, there is a positive and reinforcing relationship between higher equity and inclusion, and additional opportunities for investors (all else equal), as represented in the dark gray arrows at the center of Fig. 1. In this analysis, we consider other elements of this complex system such as political systems, taxation, starting levels of economic growth, and legislative frameworks as out of scope to this analysis. While they are critical to understand, and influence, this system, they are less related to actions that private and institutional investors can take, and therefore out of scope for this report.

Fig. 1: A system-level approach to investing for diversity, equality and inclusion



Source: UBS, as of April 2022

Note: This map is a simplified model to describe the relationship between equity and inclusion and investment opportunities. It is not comprehensive or definite. You can find a full-page version at the end of the report.

Coming back to our systems map, we see three interplaying dynamics that feed into the relationship between investments and equity and inclusion:

1. The relationship between economic growth, equity and inclusion, and investments (black arrows in Fig. 1);
2. The relationship between equity and inclusion, longer-term prospects for companies, and portfolios (dark gray arrows in Fig 1.); and
3. The relationship between investment in core "access" areas and equity and inclusion (light gray arrows in Fig. 1).

First, in this simplified model, we see a positive relationship between increased levels of equality and inclusion, and economic (GDP) growth. McKinsey estimates that closing the racial wealth gap in the US would result in an additional GDP growth of 4–6% in a decade.² Diversity by itself brings economic benefits in the form of increased innovation potential, particularly in industries that are part of the knowledge economy. Inclusion, however, is also critical. Increasing inclusion of marginalized communities by creating economic opportunities enables them to participate and contribute to the economy to the fullest of their personal potential. It also allows for diverse communities to collaborate smoothly and effectively.

The relationship between GDP growth and equity and inclusion is more complex, as it could be neutral (more growth does not change the status quo), or positive (higher or lower growth results in higher or lower levels of equity and inclusion for marginalized communities). The nature of

the relationship will largely depend on the manner in which growth develops and ties into other parts of this system.

More inclusive economic growth may result in improved outcomes for investment portfolios, particularly as it relates to specific types of companies (those with a long time horizon, for example). We see the relationship between more inclusive economic growth and improved portfolio outcomes as more indirect, therefore represented by a dashed line. This is because the benefits of inclusivity tend to pull through at the company level, via greater innovation or the earnings growth power that can stem from things like less employee turnover and better recruitment practices.

Second, we see a positive relationship between increased equity and inclusion and longer-term growth opportunities for those companies that are aligned with this theme. We discuss this dynamic in detail in the inception report of this theme, as well as in our reports on the "[Diversity and Equality – US Companion](#)" and "[The commercial case for diversity and inclusion](#)."

As diversity levels increase, and as we see a societal shift in the perceived importance of diversity, equity, and inclusion, we expect to see increased stakeholder pressure (from governments and investors) for companies to become more inclusive (and more diverse). We also expect that a more equitable and inclusive society where marginalized groups have increasingly higher purchasing power will create opportunities for companies that cater to them, while expecting these companies to be more inclusive and diverse entities themselves. And finally, as more traditionally marginalized individuals have access to better education and experience, the pool of potential skilled workers ready to take their seat at the helm of companies continues to expand.

Third, investing to improve key "access" areas is critical to creating a more equitable and inclusive society, and may present comparable or improved risk-adjusted return opportunities. By "access" areas, we refer to four core areas where systematic access gaps based on gender, race, or sexual orientation exist: quality education, homeownership, healthcare, and capital. As we have noted before, each of these areas is uniquely tied to each community's prospects to build wealth and contribute to their full potential.

For example, homeownership is a strong predictor of household wealth, particularly for low-income households for whom housing price appreciation tends to be a large component of overall wealth.³ In the US, in 2019, Black and Hispanic people over 55 were approximately 25% less likely than white people to own their homes.⁴ Similarly, in 2018, research by Freddie Mac found that members of the LGBT

community were 15 percentage points less likely to own a home than the national rate.

Access to capital is another important area, yet, women and people of color face systematic barriers to business and investment financing. Female-founded companies made up less than 3% of venture capital-backed companies,⁵ while companies founded by Black individuals received only about 1% of venture capital funding. Female- or minority-owned investment firms seem to be part of this pattern. A study by the Knight Foundation found that only 1.4% of the USD 82.24 trillion assets under management in the US in 2020 were managed by firms owned by women or minorities.⁶ Unfortunately, similar statistics stand for education and healthcare or health outcomes for women or minorities across countries, as documented by the World Bank, the United Nations, and other institutions. Many of these issues are interconnected; for example, lack of education may hinder employment and income-generation opportunities. Without home equity, for many individuals it is difficult to securitize entrepreneurial borrowing.

To be sure, private investment is only a component of the total investment needed to address these gaps, and many require government investment or policy. In public markets, investors can seek opportunities in companies that provide products and services to help meet access gaps, or in sustainable fixed income with use of proceeds that target these gaps.

A look back at 2021: What has changed and what hasn't

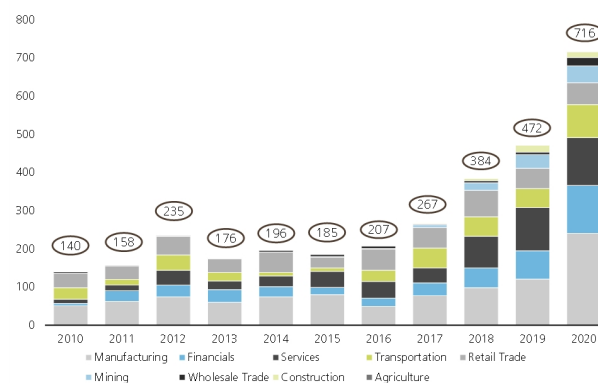
2021 was a year with continued focus on diversity, especially in financial markets, with increased investor interest and engagement, government focus and regulation, and shifting population sentiments. However, amid much advancement in these areas, many inequalities and prejudices remain and continue to oppress those frequently marginalized in society. It is important to recognize the positive developments, but also stress the work yet to be done.

Investor interest

Last year's proxy voting season provided strong evidence of increasing investor interest in diversity and inclusion. 2021 saw the largest share of approved sustainability-related resolutions to date. According to Morningstar, shareholder resolutions on diversity-, equality-, and inclusion-related resolutions received average support of 43%, with nine resolutions passing by the end of the year.⁷ Diversity was also increasingly discussed on shareholder calls, with frequency of gender and racial words used by management

in quarterly earnings increasing since 2015, up over 50% from 2019 to 2020.

Fig. 2: Diversity is a growing concern for shareholders



Source: UBS Evidence Lab, 2021

Note: The term refers to the use of DE&I in earning calls and can be used to speak about DE&I in general or also related to products. SIC = Standard Industrial Classification

In addition to shareholder support and engagement, investment companies and proxy advisors are also updating their guidelines and policies to increase focus on diversity and inclusion issues. These actions largely aim to influence companies to increase their diversity disclosures and improve board-level and workforce diversity. In some cases, related progress can be seen. In a recent Harvard 2021 proxy season report, it was concluded that by August, 71% of proxy statements filed by S&P 500 companies that year had disclosed racial or ethnic data on their boards, up from 30% in 2020.⁸

Increasing regulation

Regulation is one of the accelerators of improving DE&I in the workplace, with different regions taking different steps in this area. In the US, in August 2021, the Securities and Exchange Commission (SEC) approved the Nasdaq's new rule requiring diversity disclosures and minimum board diversity for all companies listed on the exchange (US or non-US). The new rule requires the public disclosure of board-level gender, LGBTQ+ identity, and ethnic or racial backgrounds in 2022, and further requires that each company have at least two diverse directors, or explain why not, by 2025.

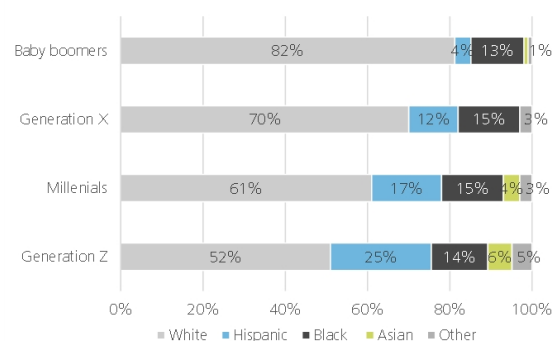
In Europe, the European Commission presented its first proposal on gender diversity in 2012. Progress, however, had been at a standstill for a decade, until recently when the commission finally agreed on a "general approach" on the topic. The European Union has also launched The "LGBTIQ Equality Strategy 2020–2025" which aims to bring

together member states and actors at all levels in a common endeavor to address LGBTIQ discrimination more effectively by 2025. In the UK, the Financial Conduct Authority (FCA) has been actively trying to improve disclosures, having launched a consultation in mid-2021 around proposals to improve transparency for investors on the diversity of listed company boards and their executive management teams.

The rise of the next generation

Another driver of diversity, equality, and inclusion improvements is the rise of a new generation, full of more diverse global citizens with different priorities than their parents had. As millennials became the largest generation in the US workforce in the past decade, and Generation Z adolescents use their voices in new ways, this younger population in the US is actively calling for change and using their influence to attain it.

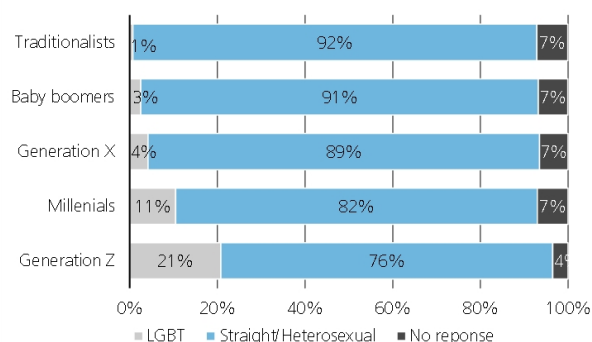
Fig. 3: The younger generation is more diverse in their racial and ethnic makeup



Source: Pew Research Center, "On the cusp of adulthood and facing an uncertain future: What we know about Gen Z so far," 2020; UBS

On top of being a generation more diverse in their racial and ethnic makeup, in its latest study, Gallup US shows that the percentage of US adults who self-identify as lesbian, gay, bisexual, transgender, or something other than heterosexual has increased to 7.1%, which is double the percentage from 2012, when Gallup first measured it. If we deep-dive by generation, the study shows that one out of five people from Gen Z identify as something other than straight or heterosexual. We note that data on sexuality is particularly difficult to document—particularly in corporate surveys—because it inevitably relies on self-disclosure. While there is no apparent reason why younger generations would be more likely to be LGBT, it is possible that they are more likely to self-identify as such on surveys due to changing social norms (see our report "[Chief economist's comment: Does anti-LGBTQ prejudice do more damage than we think?](#)" for more on the topic).

Fig. 4: Americans' self-identification as lesbian, gay, bisexual, transgender, or something other than heterosexual, by generation



Source: Gallup, UBS, as of 2021

According to 5W Public Relations' 2020 Consumer Culture Report, 83% of millennial consumers look to interact with companies that align with their values.⁹ In addition to the outperformance potential of being diverse and inclusive, these companies may also be best positioned to capture the attention of this younger, socially focused generation.

This younger generation also has many marginalized groups within its population that are disadvantaged due to persisting inequalities. The COVID-19 pandemic has made disparities even more evident. For example, diverse populations of students have faced heightened hardships. A 2020 US Department of Education report acknowledged the increased barriers many students of color have faced due to virtual learning, including being more likely to attend underfunded schools and having fewer resources at home due to lower average family pay.¹⁰

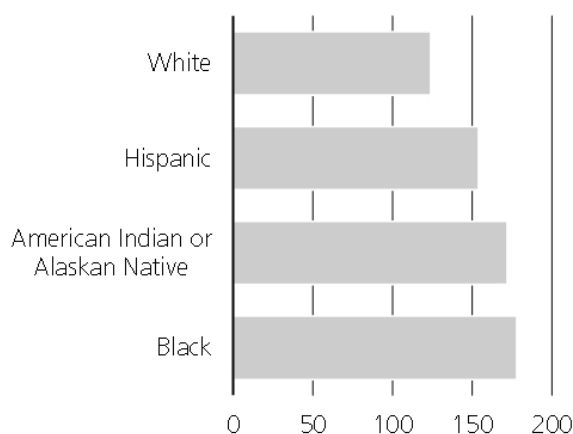
COVID's disproportionate, uneven impact

The COVID-19 pandemic has had a disproportionate impact on marginalized communities in areas outside of education as well. One example is in how the pandemic has highlighted the disparities in health equity across racial and ethnic minorities. People of color have been at greater risk of getting sick and dying from COVID-19 as compared to their white counterparts. As of March 2021, in the US, Black people have died at 1.4 times the rate of white people, accounting for 15% of COVID-19 deaths where race is known, according to the COVID Tracking Project.¹¹

The racial disparities in severity of COVID-19 cases point to further health inequities caused by both structural and interpersonal racism. Minority populations also have higher rates of a range of poor health conditions.¹² This creates a feedback loop, with various health conditions, such as diabetes and heart issues, increasing the risk of complications for COVID-19 patients. Coupled with higher rates of living in overcrowded areas and facing more barriers

to healthcare access, many people of color are automatically disadvantaged as we work through the pandemic.¹³

Fig. 5: Deaths per 100,000 people by race or ethnicity through 7 March 2021



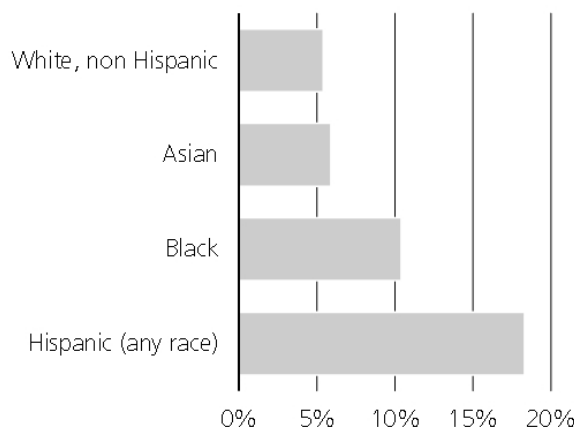
Source: The COVID Tracking Project, UBS, 2021

Other factors that increase this health inequity include disparities in health insurance coverage rates and lack of access to affordable healthcare and medications. Six in 10 adults report currently using prescription drugs, almost half the cost of which is paid out of pocket, despite rising prices.¹⁴ This is especially problematic for uninsured populations.

People without health insurance are more likely to avoid receiving necessary care. Furthermore, when uninsured people do get the needed care or medications, they are forced to pay extremely high costs, often incurring debt in exchange for their healthcare. In an extensive analysis from the Commonwealth Fund, significantly higher levels of people of color reported cost as a barrier to receiving needed care when compared to white respondents.¹⁵

Other areas where disparities were highlighted during the pandemic include healthcare access, occupation levels, income wealth gaps, and housing. During the pandemic, Hispanic and Black people have reported struggling more to pay their bills as compared to white people. Similarly, more people of color reported experiencing pay cuts and lost jobs due to the pandemic.¹⁶

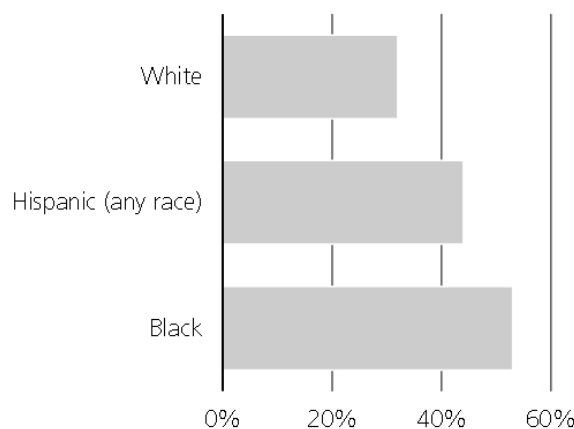
Fig. 6: Percentage of people uninsured, by race in 2020



Source: US Census Bureau, UBS, 2021

Some of the pandemic's impacts felt more acutely by diverse populations tie to the fact that racial and ethnic minority groups, along with women, are more likely to work in essential worker positions. This increases the level of possible exposure to the disease, and also creates complications for working parents when childcare was unavailable and working from home was not an option.

Fig. 7: Percent of parents who say in the past year, they or another adult in their household left a job or changed work schedules in order to take care of their children



Source: Lunna Lopes et al., KFF COVID-19 Vaccine Monitor: The Impact of The Coronavirus Pandemic on The Wellbeing of Parents And Children, KFF, August 2021; UBS

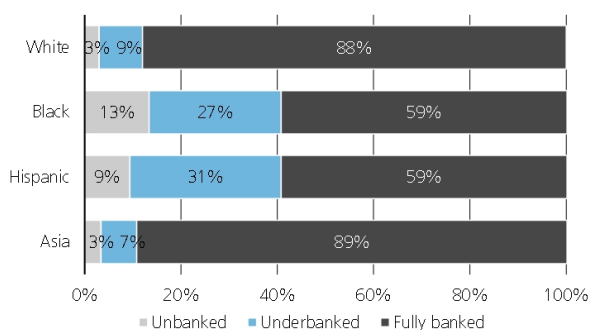
Women's employment has also suffered disproportionately due to the pandemic. Unavailable and inadequate childcare

systems had a huge effect on working mothers' ability to keep their jobs. Although men have also suffered from the lack of childcare during the pandemic, research has demonstrated that women took the brunt of it, resulting in more frequent reductions in work schedules and job quits.¹⁷ The KFF COVID-19 Vaccine Monitor finds that LGBT people have experienced the COVID-19 pandemic differently than non-LGBT people, including being harder hit by larger economic losses. For example, 56% of LGBT adults reported that they or someone in their household had experienced job-loss due to COVID-19, as compared to 44% of non-LGBT adults.

Access to credit

On the top of the different gaps we identified in our previous report, a critical one is access to credit. A key path to growing wealth is through homeownership, and while our society works to become more inclusive, the large differences between racial groups' homeownership rates have seen little, if any, improvement. As of 3Q21, in the US the homeownership rate for white households was 74%, compared to 44% for black households; the 30-point gap is 3 points larger than the gap in 1960, when there were no laws against private-race based discrimination.¹⁸

Fig. 8: Among all adults, 11% of white adults are unbanked or underbanked, vs. 40% for black adults (May 2020–21)



Source: The Federal Reserve, UBS, 2021

One possible cause of this disparity in homeownership is unequal access to credit. The data shows that Black prospective homeowners are more likely to have their mortgage applications denied when compared with white prospective homeowners, facing denial 18% and 7% of the time, respectively.¹⁹

This heightened likelihood of rejection is also apparent in general applications for credit. Of adults who applied for some form of credit between May 2020 and 2021, 51% of Black applicants and 46% of Hispanic applicants were either denied or approved for less than requested, compared to

24% of White applicants. The same disparities are evident in levels of banking coverage across minority groups as well.²⁰

The racial disparities in access to credit also effect prospects for diverse entrepreneurs and business owners. Of the types of financial challenges listed in a 2020 survey, 53% of Black-employer firms cited credit availability as a challenge, compared to 30% of white respondents.²² According to the Federal Reserve Bank of New York, of stable employers, only 33% of Black businesses have an existing banking relationship, compared to 54% for stable white businesses. Black business owners are instead more likely to use personal savings and family and friends for funding. During COVID-19, this has caused a disproportionate drop in Black-owned businesses. Between February and April 2020, the number of Black active business owners fell 41%, while white business owners only fell 17%.²²

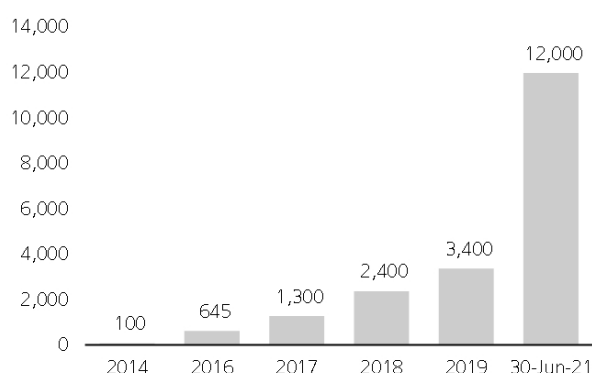
The investment case for diversity

Throughout this report, we have highlighted how a lack of diversity is a critical risk for societies and companies to address, while more diversity is a potential boost to innovation and company performance, one that can at the same time benefit economic growth. Moving beyond the benefits to just companies, we articulated how adopting a systems-level approach to investing to for diversity and equality can help investors understand the investment case for diversity across asset classes, and uncover new opportunities.

Applying a gender diversity lens to investing is already a well-established practice. Data disclosure has improved over the last decade, but more progress is needed, and inconsistencies exist across regions. Under pressure from regulators, governments, and society at large, companies are disclosing more information about the profile of their workforce. According to analysis by Veris Wealth Partners, asset growth in GLI (gender lens investing) products has accelerated, totaling USD 12bn as of 30 June 2021, up from USD 100mn in 2014. This impressive growth is led by new investment vehicles supporting GLI, as well as by backing from investors.

In previous CIO reports, we found that companies with a greater representation of women at senior management levels performed better across a variety of profitability metrics. While there is a correlation between diversity metrics and return, we cannot conclude that there is a causal link. However, this does not mean such metrics cannot serve as useful signals for investors. The logic underpinning much of the corporate equality conversation focuses on the potential competitive advantage for companies that can retain a larger portion of their talent.

Fig. 9: Assets invested in gender lens investing (GLI) strategies have markedly increased since 2014, in USD mn



Source: Veris Wealth Partners, Gender Lens Investing, Bending the Arc of Finance for Women and Girls, 2021; UBS

Investing in strategies and instruments that advance access to women or minorities on the four core access areas we discussed above is both an existing and an emerging way of looking for investment opportunities. The UN SDGs have provided a framework for sustainability-focused investors to identify opportunities that help advance these global goals. For more detail please see the section “Sustainable investing.”

How to invest in DE&I across asset classes?

The systemic and complex nature of these problems presents the opportunity for solutions to emerge at every step of the way. The breadth and depth of this longer-term investment theme and the magnitude of societal shifts driving it enable us to identify a diversified set of investable opportunities. The set of investment strategies we recommend offers opportunities for long-term growth linked to the key drivers behind the theme, but vary in the manner and extent to which they contribute to address these challenges or help to drive intentional, measurable positive change on diversity and equality.

Overall we recommend positioning for the long term in this theme and in companies that demonstrate strong diversity and inclusion policies and practices across a wide range of diversity-related metrics. Investors seeking exposure to this theme can focus on companies where the diversity-related metrics are the primary driver of the stock selection or the investment universe definition, as well as broader sustainable investing strategies where there is a diversity component in the sustainability evaluation.

Increases in corporate transparency are positive for applying a diversity lens in public market investments, but trends in the wider field of data science also offer compelling

opportunities for environmental, social, and governance (ESG) data, particularly for diversity and similar topics that are less tangible and more sensitive than other ESG topics. For example, several data providers now use artificial intelligence tools, such as natural language processing, to screen vast quantities of non-corporate data (e.g., news, transcripts, industry websites, or social media platforms). Such data can help to form a picture of the public perception of a company that is not reliant on the company’s own disclosures. While most investable diversity-related solutions today still rely on reported company disclosures, we expect that future frameworks for diversity analysis will increasingly make use of such tools.

Moreover, applying a diversity lens to a portfolio can help manage risks, in our view. For example, looking at the G of ESG might help to limit exposure to companies with low transparency and weak corporate governance, which could lower the risk of governance-related litigation. We think the same logic can be applied to more diversified companies, for example by limiting the turnover in a company or avoiding social issues triggering unpleasant publicity. Applying a diversity lens can be seen as a risk management tool to improve the overall “financial” and “extra-financial” aspects of a portfolio. Companies that lack a strong focus on this topic will likely face increasing social and regulatory pressures, and are exposed to heightened reputational risk.

Equities

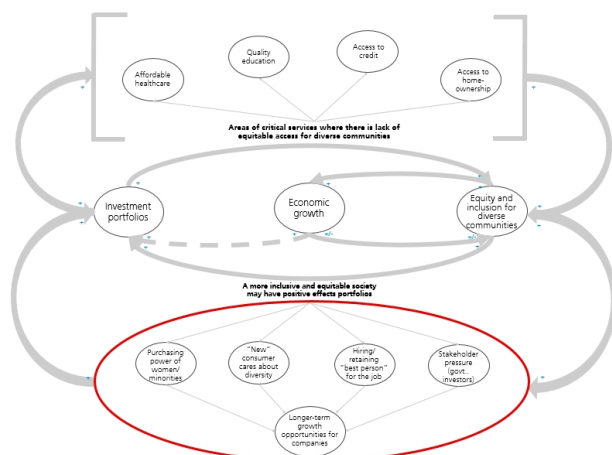
Assessing DE&I policy remains a difficult task. There is a current lack of standardized and mandatory transparency about diversity on listed company boards, but DE&I disclosures should continue to improve following a wide range of initiatives from politicians and regulators, and a push from institutional investors. For investors, board diversity has become a standard factor in a governance assessment, and discussion around DE&I is now more and more included in earnings calls.

As highlighted in our inception report, investing in diversity can also bolster performance. Several studies have been carried out to assess whether corporate diversity has a real effect on firms’ performance. It has been shown that diversity in the workplace is beneficial from many points of view. Looking at data between 2014 and 2019, McKinsey found that firms with a high degree of gender diversity on their executive teams were more likely to report above-median EBIT (earnings before interest and taxes) margins. Over the five-year period, this likelihood of outperformance increased to 25% for gender and 36% for race/ethnicity. Moreover, some evidence suggests that ethnically diverse work teams can outperform more homogeneous ones in a diversity-inclusive environment (for more detail on this research, please see our first “Diversity and Equality” report published 29 January 2021). These observations imply that all stakeholders—government, social partners,

and civil society—should redouble their efforts to create an environment in which all groups feel valued, are treated with respect, and have access to the same opportunities.

Fig. 10: Investing in companies showing operational leadership on diversity and inclusion

In red: Section of the system map with investment opportunities related to this investment approach.



Source: UBS, as of April 2022

Many companies still struggle to measure and communicate the impact of their DE&I strategy. In order to have a better view of a company's DE&I strategy, investors should look beyond the mandatory reporting and also evaluate the strategy qualitatively. For example, assessing employee satisfaction indicators or the company's human capital policies can provide better insight into the robustness of a company's inclusiveness strategy.

Previously, we identified gaps that are related to minorities (wealth, credit, education, etc.). Companies proposing solutions to close these gaps can also benefit from finding additional opportunities. For example, based on data from the Federal Reserve, in the US in 2019, 86% of white families were fully banked, as compared to only 54% and 68% for Black and Hispanic families, respectively, presenting an untapped opportunity for financial institutions.

Fixed income

Fixed income instruments can provide exposure and opportunities to finance projects or entities that address core economic inequalities.

Thematic sustainable fixed income strategies

An emerging set of instruments, social and sustainability bonds are issued by corporations or other entities with the explicit goal of advancing gender, racial, or ethnic equality by financing projects that promote or finance workforce training and development, affordable housing, high-quality education, accessible healthcare, and others.

As discussed earlier, the lack of access to credit for homeownership, business purposes, or personal use is a particular challenge that drives racial inequality. One way for investors to have exposure to solutions that help close this gap is by investing in diversified asset-backed securities (ABS), or mortgage-backed securities (MBS), where the underlying credit pools include diverse creditors. The credit profile of these instruments will depend on the guarantor and quality of underlying assets.

In the US market specifically, MBS guaranteed by Ginnie Mae have a higher credit profile, as they are backed by the US government and may provide more exposure to creditors who are people of color. Due to the racial disparity in credit access present today, there are relatively few investment strategies that focus only on creditors who are people of color, women, or LGBTQ+. However, we expect this to change over time as the income inequality gap begins to close and women and people of color start to take up a larger share of loan applications, enabling more and more MBS strategies to provide this type of targeted exposure. Institutional investors might have the ability to directly invest in ABS and MBS targeting diverse creditors, while private investors may gain exposure to these instruments through diversified managed solutions. As with the other investment ideas discussed in this report, investors should consider inherent risks related to the asset class. For instance, with regard to securitized debt, investors should be mindful of prepayment risk, the existing rate environment, and liquidity, in addition to product-specific risks like track record or assets under management.

Sustainable muni strategies

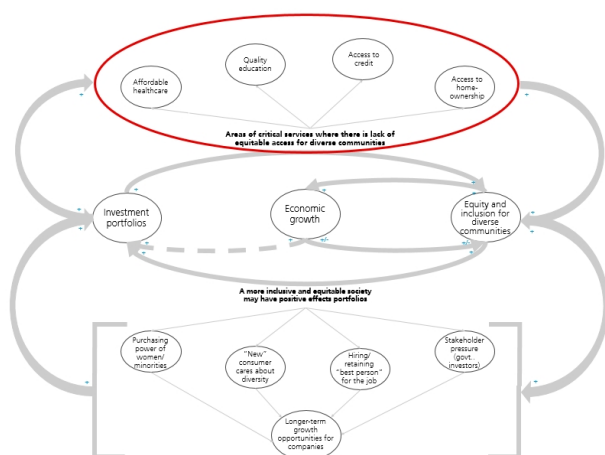
Revenue municipal bonds, a subset of sustainable municipal bonds are issued by government agencies to fund projects and can be used to finance the development of low-income or affordable housing; increase access to or the affordability of hospitals and healthcare; improve access to and the quality of public transportation; or improve water treatment and waste management systems. Most of these strategies are tax advantaged for US investors, and non-US investors should only consider taxable muni bonds. The credit quality of revenue bonds varies depending on the municipal authority that issues it and the security pledged to repayment of the bonds. However, investors have the same credit claim to these socially focused bonds as they do to other, non-sustainable municipal bonds that are issued at parity, thus making them essentially economically indistinguishable from a financial perspective. General obligation (GO) municipal bonds may also provide exposure to this theme if the proceeds of the issue are being used for sustainability aligned purposes, and if the municipal issuers are reviewed based on social criteria that include factors like levels of inequality, poverty, public service provision, diversity, and representation at local government levels.

Investors should note that improving the quality and accessibility of these services does not necessarily benefit women, people of color, or LGBTQ+ people in a targeted manner, unless diversity criteria are explicitly part of the assessment framework for the issuance. For instance, given the disparity in housing and wealth based on race or gender that we have discussed, investing in fixed income instruments that aim to finance the increase of affordable housing stock is likely to improve the outcomes for marginalized communities. However, instruments that explicitly track metrics such as the percentage of the population in an area that is female, LGBTQ+, etc., and are intentionally looking to improve outcomes for that specific community, are most closely aligned to the theme.

Though municipal bonds can present opportunities, it is important to remember that the focus on sustainability on a particular issuance of bonds does not impact the bond issuers' credit quality in a positive or negative fashion. In fact, investors should continue to exercise caution and be mindful of risks associated with investments in munis, ranging from risk of default; credit rating changes; and market, interest rate, inflation and call or reinvestment risk.

Fig. 11: Investing in issuers where the use of proceeds or business activity is aligned with areas of critical services

In red: Section of the systems-map with investment opportunities tied to these investment approaches



Source: UBS, April 2022

Private markets

Broadly, private equity or venture capital impact investing strategies that explicitly aim to reduce the inequality gap between genders, or different racial and ethnic groups, are also well positioned to benefit from these broad investment trends and provide an impact exposure to investors.

Often expressed as single- or multi-thematic investment strategies, private market strategies can help finance directly

the activities of companies providing critical services like increasing the stock of affordable housing, investing in innovative healthcare solutions, or in companies which are increasing access to banking and financial services for unbanked communities. Within private markets, there is an opportunity for investors to both channel capital to companies owned by women, people of color or other communities, and also to invest in those companies that are helping to meet some of these access gaps. For example, a private equity strategy that invests in companies led by women or people of color and specifically aim to increase access to services (like education, training, or financial inclusion) for these communities may provide an opportunity for both investment returns and measurable impact. Alternatively, a private real estate strategy may be focused on affordable housing that intentionally looks to provide housing and employment opportunities for women or people of color.

Investors should be mindful of the investment risks related to all private market strategies, ranging from having to commit capital for longer in these strategies, to risks related to illiquidity, diversification, or the market environment. For more on how to think about private market allocations in your investment portfolio, see our report "Investing in private markets in 2022," published 11 March 2022.

Sustainable investing

Within our longer-term investments (LTI) framework, all themes labeled "sustainable" relate closely to one or more of the challenges addressed in the UN's SDGs. Underpinning the 17 general SDGs are 170 focused targets, each with one or more very specific indicators that will be tracked to measure progress toward these goals. Each sustainable LTI theme must identify companies that are helping to achieve one or more of these focused targets. The SDGs refer to "equality" in seven of the 17 SDGs, and it underpins the goals of social and intergenerational justice at the heart of the SDGs. In the context of this theme, we have focused on issues that relate to global corporations and the economies in which they operate.

These closely relate to key sustainable development indicators in SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth) as well as SDG 10 (Reduced Inequalities):

- 5.5. Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic, and public life.
- 5.c. Adopt and strengthen sound policies and enforceable legislation for the promotion of gender

equality and the empowerment of all women and girls at all levels.

- 8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
- 10.3. Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies, and practices and promoting appropriate legislation, policies, and action in this regard.

Beyond these three SDGs, which are a primary focus of this theme and its associated reference list, we see opportunities for investors looking to invest more broadly across the systems-level map to find alignment with SDG 3 (Good Health and Well Being), SDG 4 (Quality Education), and SDG 11 (Sustainable Cities and Communities):

- 3.7. By 2030, ensure universal access to sexual and reproductive healthcare services, including for family planning, information, and education, and the integration of reproductive health into national strategies and programs.
- 3.8. Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all.
- 4.5. By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples, and children in vulnerable situations.
- 4.a. Build and upgrade education facilities that are child-, disability-, and gender-sensitive and provide safe, non-violent, inclusive, and effective learning environments for all.
- 11.1. By 2030, ensure access for all to adequate, safe, and affordable housing and basic services and upgrade slums.
- 11.7. By 2030, provide universal access to safe, inclusive, and accessible green and public spaces, in particular for women and children, older persons, and persons with disabilities.

Financial inclusion or access to credit and capital is not explicitly a UN SDG, but underpins many of the above goals.

Risks and limitations

We recommend well-diversified exposure to minimize stock-specific risk. We see the following major risks to investing in this long-term investment theme:

- **Availability of data.** Although the availability of high-quality data is improving, the data that exists is still focused mainly on gender, and to a lesser extent race, and even less so on LGBTQ+ self-identification, while the consistency and comparability is variable between countries. This leads to the risk that not all companies are correctly identified for their diversity, or lack thereof. Data aligned to the SDGs or products and services that specifically help to address inequality gaps for diverse communities are even less standardized, and therefore more subjective and likely to produce different outcomes based on changing methodologies.
- **Non-causal relation** As discussed earlier, numerous studies have found a link between diversity and innovation or other benefits, suggesting outperformance potential. However, causality cannot be proven. In addition, pressure by regulators and investors may induce companies to implement shallow policies for appearance's sake alone that do not translate into real, substantive improvements. Nevertheless, we believe that diversity, along with overall management of sustainability issues, remains a reliable proxy of good governance, and thus a useful indicator of opportunities to potentially capture outperformance.
- **Reduction of regulatory incentives** Although the regulatory environment currently appears to be very much in favor of incentivizing diversity in the corporate world, this trend could slow down due to changes in political sentiment. Moreover, the lack of appropriate regulatory environments in some countries may lead to difficulty in realizing the discussed drivers and reduce the incentives for firms to implement diversity policies. However, in our view this is not likely, as the push for diversity appears to be a structural transformation rather than a passing fad. Furthermore, we think it is unlikely that stakeholders will stop advocating for inclusivity in corporations.
- **Weaker link between diversity and performance** As the workforce becomes more diversified, there is the risk that diversity may not be a competitive advantage any longer, leaving a level playing field for all firms. This seems unlikely given the rate.

Investment conclusion

- Investing through the application of a diversity and equality lens is here to stay, and should continue to gain momentum as regulators, governments, shareholders, and society in general sharpen their focus on diversity in the workplace.
- An increase in the income and wealth of minorities should lead to overall economic gains, with companies

benefiting from an expanded consumer base. Societal changes, with the rise of millennials, could also lead to new behaviors and an increasing focus on how companies deal with not just diversity, but a wide range of sustainability topics.

- We think that companies able to improve their corporate diversity should benefit with a “diversity bonus” of sorts, enabling them to outperform their peers through improved innovation and higher sales growth and profitability. Businesses slow to adapt will face increasing regulatory and reputational risks
- Investing in diversity and equality is challenging. The definition of terms can vary widely and data availability is inconsistent, especially pertaining to race. We see the greatest potential for companies already ahead of the curve with regard to gender diversity, and believe that this topic can form part of broader evaluations of sustainability. The investment opportunity set for this theme expands beyond equities, and includes fixed income strategies and private market opportunities as well.

Reference List

We have compiled a reference list of companies with strong diversity profiles based on their operational performance at the end of this report (Table 1, starting page 15). We used FactSet, Thomson Reuters, Refinitiv, and Sustainalytics as data sources. This list does not review whether companies derive revenue from products and services aligned to diversity. Instead, our objective is to look for diversity leaders as well as “diversity improvers” that are at the early stages of their diversity journey and already show high scores in some metrics, but could improve on others. In order to come up with the reference list, we started with the components of the MSCI All Country World Index and used the following criteria to include stocks in our reference list:

Step 1: The company is in the top 15% in one of the following scores:

- Diversity score **(OR)**
- People development score **(OR)**
- Inclusion score

AND Step 2: The company is in the top 15% in one of the following metrics:

- Employee Resource Groups **(OR)**
- Executives Cultural Diversity **(OR)**
- Board Cultural Diversity, Percentage **(OR)**
- Minorities Board, Percentage **(OR)**

- Minorities Managers, Percentage **(OR)**
- Minorities Employees, Percentage **(OR)**
- Human Rights Campaign Corporate Equality Index

AND Step 3: Exclude companies with Refinitiv Diversity Controversy score below 100 (in other words, any diversity-specific incidents are not tolerated) and remove companies with the highest controversy level based on Sustainalytics.

Endnotes

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- [3] Allison Wainer, Jeffrey Zabel, “Homeownership and wealth accumulation for low-income households,” *Journal of Housing Economics*, vol. 47, 2020
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- [7] Morningstar, “The 2021 Proxy Voting Season in 7 Charts,” 5 August 2021
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- [13] “Racism, the public health crisis we can no longer ignore,” *The Lancet*, 11 June 2020
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- [15] David C. Radley, et al., “Achieving Racial and Ethnic Equity in U.S. Health Care: A Scorecard of State Performance,” November 2021
- [16] The Pew Research Center, “Economic Fallout From COVID-19 Continues To Hit Lower-Income Americans the Hardest,” 24 September 2020
- [17] Brookings, “Why has COVID-19 been especially harmful for working women?,” October 2020
- [18] US Census Bureau, “Quarterly Residential Vacancies and Homeownership, Third Quarter 2021,” 2 November 2021

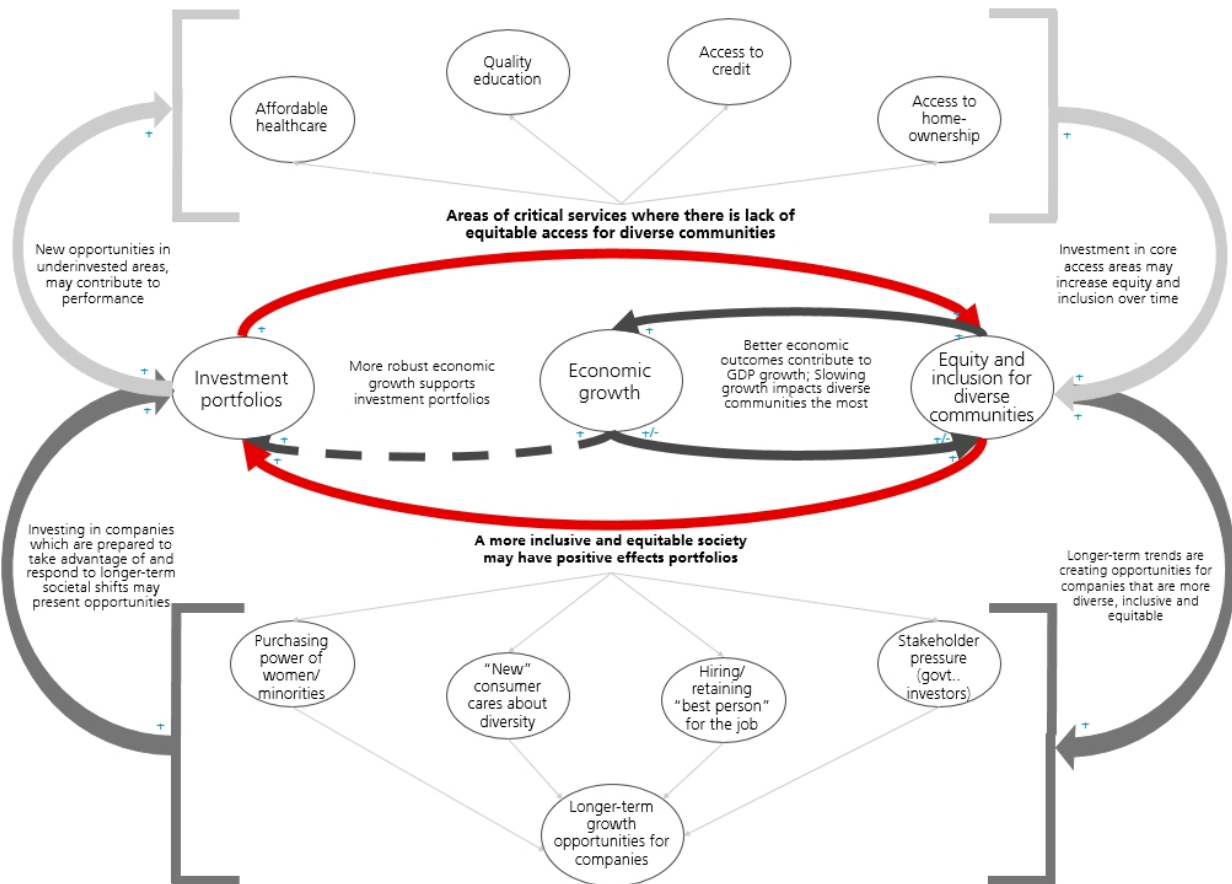
[19] Consumer Financial Protection Bureau, "Mortgage data (HMDA)," 2020

[20] Federal Reserve, "Report on the Economic Well-Being of U.S. Households in 2020 – May 2021," 2021

[21] Federal Reserve, "2020 Small Business Credit Survey," 2021

[22] Federal Reserve Bank of New York, "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities," August 2020

Fig. 1: A system-level approach to investing for diversity, equality, and inclusion



Source: UBS, as of April 2022

Note: This map is a simplified model to describe the relationship between equity and inclusion and investment opportunities. It is not comprehensive or definite

Table 1: Diversity and Equality reference list – part 1
This is not a list of recommendations

Company	Country	Market cap in USD m	Company	Country	Market cap in USD m
NVIDIA Corporation	United States	670,471	Schneider Electric SE	France	96,953
JPMorgan Chase & Co.	United States	399,545	British American Tobacco p.l.c.	United Kingdom	96,562
Visa Inc. Class A	United States	375,401	Airbus SE	Netherlands	96,317
Procter & Gamble Company	United States	371,761	Altria Group Inc	United States	95,788
Nestle S.A.	Switzerland	367,350	Deutsche Telekom AG	Germany	94,899
Mastercard Incorporated Class A	United States	352,952	Enbridge Inc.	Canada	94,099
Chevron Corporation	United States	319,827	Zoetis, Inc. Class A	United States	90,166
Pfizer Inc.	United States	291,256	Bank of Nova Scotia	Canada	85,808
AbbVie, Inc.	United States	287,339	3M Company	United States	85,199
Roche Holding Ltd Dividend Right Cert.	Switzerland	281,548	Air Liquide SA	France	83,622
Coca-Cola Company	United States	272,541	EssilorLuxottica SA	France	80,902
ASML Holding NV	Netherlands	272,169	Kering SA	France	79,171
PepsiCo, Inc.	United States	234,820	Southern Company	United States	78,584
Thermo Fisher Scientific Inc.	United States	231,719	U.S. Bancorp	United States	78,559
Verizon Communications Inc.	United States	218,904	Cigna Corporation	United States	78,400
Adobe Incorporated	United States	216,426	PNC Financial Services Group, Inc.	United States	75,818
Comcast Corporation Class A	United States	215,785	Mercedes-Benz Group AG	Germany	74,964
Accenture Plc Class A	Ireland	215,762	Gilead Sciences, Inc.	United States	74,933
Novartis AG	Switzerland	211,860	Lam Research Corporation	United States	73,300
Merck & Co., Inc.	United States	211,116	BNP Paribas S.A. Class A	France	70,416
salesforce.com, inc.	United States	210,128	Aon Plc Class A	Ireland	70,351
Abbott Laboratories	United States	209,114	AXA SA	France	69,645
Danaher Corporation	United States	208,819	Block Inc Class A	United States	69,263
AstraZeneca PLC	United Kingdom	204,638	Industria de Diseno Textil, S.A.	Spain	69,172
Texas Instruments Incorporated	United States	168,038	ABB Ltd.	Switzerland	67,149
Linde plc	United Kingdom	163,864	Waste Management, Inc.	United States	66,255
Union Pacific Corporation	United States	163,355	Compagnie Financiere Richemont SA	Switzerland	66,029
Medtronic Plc	Ireland	150,950	Ford Motor Company	United States	65,734
United Parcel Service, Inc. Class B	United States	150,673	Colgate-Palmolive Company	United States	64,238
Toronto-Dominion Bank	Canada	144,295	Boston Scientific Corporation	United States	64,188
American Express Company	United States	141,742	Estee Lauder Companies Inc. Class A	United States	63,780
S&P Global, Inc.	United States	141,545	Moody's Corporation	United States	63,089
HSBC Holdings Plc	United Kingdom	139,979	Fidelity National Information Services, Inc.	United States	63,013
PayPal Holdings, Inc.	United States	135,921	Westpac Banking Corporation	Australia	62,809
Amgen Inc.	United States	135,425	MercadoLibre, Inc.	Uruguay	61,719
TotalEnergies SE	France	134,667	RELX PLC	United Kingdom	59,848
CVS Health Corporation	United States	132,682	Emerson Electric Co.	United States	58,461
Sanofi	France	131,281	MetLife, Inc.	United States	58,168
ConocoPhillips	United States	130,357	Illumina, Inc.	United States	57,132
AIA Group Limited	Hong Kong	128,248	Australia and New Zealand Banking Group Limited	Australia	57,080
Deere & Company	United States	127,868	Marriott International, Inc. Class A	United States	56,838
Anthem, Inc.	United States	120,491	Reckitt Benckiser Group plc	United Kingdom	56,314
Siemens AG	Germany	118,858	Heineken NV	Netherlands	54,747
Unilever PLC	United Kingdom	117,867	FAST RETAILING CO., LTD.	Japan	53,764
International Business Machines Corporation	United States	117,045	London Stock Exchange Group plc	United Kingdom	53,725
BlackRock, Inc.	United States	117,036	BASF SE	Germany	52,843
Boeing Company	United States	112,622	Ecolab Inc.	United States	51,639
Stryker Corporation	United States	101,620	American Electric Power Company, Inc.	United States	51,217
Allianz SE	Germany	98,273	Stellantis N.V.	Netherlands	51,137
Automatic Data Processing, Inc.	United States	98,081	Paychex, Inc.	United States	50,098

Source: FactSet, Thomson Reuters, Refinitiv, Sustainalytics, UBS, as of April 2022

Note: This is a company reference list showing relevant publicly traded companies with exposure to Diversity & Equality. To identify the stocks in this list, we used FactSet, Thomson Reuters, Refinitiv, and Sustainalytics. We excluded stocks with a market capitalization of less than USD 10bn. Please note that this list is only for reference and is not a recommendation list. For more details about our screening approach, please see section "Reference List."

Table 1: Diversity and Equality reference list – part 2

This is not a list of recommendations

Company	Country	Market cap in USD m	Company	Country	Market cap in USD m
Centene Corporation	United States	49,842	Koninklijke DSM N.V.	Netherlands	31,163
Dow, Inc.	United States	47,178	Discover Financial Services	United States	31,057
Workday, Inc. Class A	United States	46,634	Biogen Inc.	United States	30,958
Travelers Companies, Inc.	United States	44,738	CRH Plc	Ireland	30,595
Prudential Financial, Inc.	United States	44,569	NatWest Group Plc	United Kingdom	30,328
adidas AG	Germany	44,426	Holcim Ltd	Switzerland	30,106
Lloyds Banking Group plc	United Kingdom	43,591	Nasdaq, Inc.	United States	29,910
TE Connectivity Ltd.	Switzerland	42,917	Expedia Group, Inc.	United States	29,776
Ferrari NV	Italy	42,708	Volvo AB Class B	Sweden	29,654
Republic Services, Inc.	United States	42,078	BAE Systems plc	United Kingdom	29,487
Hilton Worldwide Holdings Inc	United States	42,069	Ferguson Plc	United Kingdom	29,019
Sysco Corporation	United States	41,819	Fifth Third Bancorp	United States	28,661
Manulife Financial Corporation	Canada	41,550	Ball Corporation	United States	28,659
General Mills, Inc.	United States	41,462	Hormel Foods Corporation	United States	28,569
Williams Companies, Inc.	United States	41,182	Cummins Inc.	United States	28,561
Prudential plc	United Kingdom	40,379	CaixaBank SA	Spain	28,236
Motorola Solutions, Inc.	United States	39,914	Tesco PLC	United Kingdom	27,885
Bank of New York Mellon Corporation	United States	39,911	Wolters Kluwer NV	Netherlands	27,756
Xcel Energy Inc.	United States	39,592	Bridgestone Corporation	Japan	27,484
Baxter International Inc.	United States	39,541	Merck KGaA	Germany	27,137
EQT AB	Sweden	39,444	Edison International	United States	27,052
Allstate Corporation	United States	39,155	W.W. Grainger, Inc.	United States	26,448
STMicroelectronics NV	Switzerland	38,846	Intact Financial Corporation	Canada	26,004
Sartorius Stedim Biotech SA	France	38,659	Legrand SA	France	25,721
Capgemini SE	France	38,023	Straumann Holding AG	Switzerland	25,589
Givaudan SA	Switzerland	37,935	Ventas, Inc.	United States	25,108
Walgreens Boots Alliance Inc	United States	37,863	CLP Holdings Limited	Hong Kong	24,800
Munich Reinsurance Company	Germany	37,526	Compagnie Generale des Etablissements Michelin SCA	France	24,314
HP Inc.	United States	37,500	UniCredit S.p.A.	Italy	24,113
Hang Seng Bank, Limited	Hong Kong	37,217	Hartford Financial Services Group, Inc.	United States	24,058
TELUS Corporation	Canada	36,660	Genmab A/S	Denmark	24,023
Trane Technologies plc	Ireland	36,163	Panasonic Holdings Corporation	Japan	23,559
Volkswagen AG Pref	Germany	35,862	UCB S.A.	Belgium	23,270
Budweiser Brewing Co. APAC Ltd.	Hong Kong	35,754	Coca-Cola Europacific Partners plc	United Kingdom	22,739
Public Service Enterprise Group Inc	United States	35,678	Paramount Global Class B	United States	22,735
AvalonBay Communities, Inc.	United States	35,559	Societe Generale S.A. Class A	France	22,543
KKR & Co. Inc.	United States	35,339	Heineken Holding N.V.	Netherlands	22,538
Electronic Arts Inc.	United States	35,217	Rogers Communications Inc. Class B	Canada	22,500
Experian PLC	Ireland	35,187	Teleperformance SA	France	22,449
Japan Tobacco Inc.	Japan	34,561	Fortive Corp.	United States	21,770
Koninklijke Ahold Delhaize N.V.	Netherlands	33,423	CNH Industrial NV	United Kingdom	21,398
Rockwell Automation, Inc.	United States	33,055	Legal & General Group Plc	United Kingdom	21,224
Ameriprise Financial, Inc.	United States	32,887	Hewlett Packard Enterprise Co.	United States	21,179
Sun Life Financial Inc.	Canada	32,723	Huntington Bancshares Incorporated	United States	20,863
ONEOK, Inc.	United States	31,873	CMS Energy Corporation	United States	20,629
Hershey Company	United States	31,859	SGS SA	Switzerland	20,531
Nokia Oyj	Finland	31,716	Best Buy Co., Inc.	United States	20,356
PPG Industries, Inc.	United States	31,646	Flutter Entertainment Plc	Ireland	20,149
FUJIFILM Holdings Corp	Japan	31,421	Standard Chartered PLC	United Kingdom	20,135
State Street Corporation	United States	31,412	Regions Financial Corporation	United States	20,121

Source: FactSet, Thomson Reuters, Refinitiv, Sustainalytics, UBS, April 2022

Note: This is a company reference list showing relevant publicly traded companies with exposure to Diversity & Equality. To identify the stocks in this list, we used FactSet, Thomson Reuters, Refinitiv, and Sustainalytics. We excluded stocks with a market capitalization of less than USD 10bn. Please note that this list is only for reference and is not a recommendation list. For more details about our screening approach, please see section "Reference List."

Table 1: Diversity and Equality reference list – part 3

This is not a list of recommendations

Company	Country	Market cap in USD m	Company	Country	Market cap in USD m
KeyCorp	United States	19,930	Henkel AG & Co. KGaA Pref	Germany	11,876
Carnival Corporation	United States	19,844	ASX Limited	Australia	11,768
Fresenius Medical Care AG & Co. KGaA	Germany	19,701	Hasbro, Inc.	United States	11,735
Seagate Technology Holdings PLC	Ireland	19,574	Smurfit Kappa Group Plc	Ireland	11,627
TransUnion	United States	19,305	Delivery Hero SE	Germany	11,588
Principal Financial Group, Inc.	United States	19,302	Lincoln National Corporation	United States	11,325
GoerTek Inc. Class A	China	18,814	QIAGEN NV	Netherlands	11,217
EXOR N.V.	Netherlands	18,597	HeidelbergCement AG	Germany	11,103
Synchrony Financial	United States	18,328	DaVita Inc.	United States	10,993
Broadridge Financial Solutions, Inc.	United States	18,253	Rolls-Royce Holdings plc	United Kingdom	10,899
MGM Resorts International	United States	18,227	Solvay SA	Belgium	10,503
Tenaris S.A.	Luxembourg	18,097	Suncorp Group Limited	Australia	10,498
Jacobs Engineering Group Inc.	United States	18,036	Unibail-Rodamco	France	10,494
Epiroc AB Class A	Sweden	17,848			
ZTO Express (Cayman), Inc. Sponsored ADR Class A	China	16,736			
Iron Mountain, Inc.	United States	16,297			
Quest Diagnostics Incorporated	United States	16,285			
NN Group N.V.	Netherlands	16,268			
FactSet Research Systems Inc.	United States	16,220			
Etsy, Inc.	United States	16,140			
Erste Group Bank AG	Austria	16,014			
OMV AG	Austria	15,986			
Akzo Nobel N.V.	Netherlands	15,758			
NortonLifeLock Inc.	United States	15,675			
Xylem Inc.	United States	15,513			
Publicis Groupe SA	France	15,408			
WSP Global Inc.	Canada	15,344			
WPP Plc	United Kingdom	14,770			
Leidos Holdings, Inc.	United States	14,766			
Swire Properties Limited	Hong Kong	14,681			
Avery Dennison Corporation	United States	14,415			
GoDaddy, Inc. Class A	United States	14,160			
Franklin Resources, Inc.	United States	14,024			
Dell Technologies Inc Class C	United States	13,984			
Smith & Nephew PLC	United Kingdom	13,916			
Davide Campari-Milano N.V.	Italy	13,756			
Zalando SE	Germany	13,702			
Nomura Holdings, Inc.	Japan	13,600			
Campbell Soup Company	United States	13,592			
Sekisui House, Ltd.	Japan	13,189			
QBE Insurance Group Limited	Australia	12,838			
PUMA SE	Germany	12,804			
Citrix Systems, Inc.	United States	12,779			
Advance Auto Parts, Inc.	United States	12,677			
Robert Half International Inc.	United States	12,577			
InterContinental Hotels Group PLC	United Kingdom	12,422			
WestRock Company	United States	12,421			
Stora Enso Oyj Class R	Finland	12,266			
ABN AMRO Bank NV Depositary receipts	Netherlands	12,231			
Booz Allen Hamilton Holding Corporation Class A	United States	11,901			

Source: FactSet, Thomson Reuters, Refinitiv, Sustainalytics, UBS, April 2022

Note: This is a company reference list showing relevant publicly traded companies with exposure to Diversity & Equality. To identify the stocks in this list, we used FactSet, Thomson Reuters, Refinitiv, and Sustainalytics. We excluded stocks with a market capitalization of less than USD 10bn. Please note that this list is only for reference and is not a recommendation list. For more details about our screening approach, please see section "Reference List."








Sustainable performance profile

UBS's sustainable performance assessment methodology identifies six topics that encompass all the major sustainable development challenges facing both corporations and governments. The process draws on more than 500 indicators published by several best-in-class environmental, social, and governance (ESG) data providers, and aggregates them into sustainability scores ranging from 0 (lagging) to 10 (leading) for each of the six topics for every issuer. The six topic scores are further aggregated into a final headline rating.

The table below identifies the companies in our thematic reference list that have the highest sustainability performance in each of the six topics and overall. It is intended to help clients align their investment choices with their values and sustainability objectives. The scores themselves are not a factor in our selection of the Most Preferred stocks.

For more information on the six sustainability topics and UBS's sustainable performance assessment methodology please refer to our 'CIO sustainability scores for issuers' publication (published on 01 February 2021).



For additional questions on the methodology, contact:
 Antonia Sariyska, Sustainable Investing Analyst
 Amantia Muhedini, Sustainable Investing Strategist

Sustainability topics	Leaders are
 Climate change	Companies that manage their carbon footprint and their energy use effectively; and governments that manage energy resources effectively.
 Water	Companies and countries that manage their water consumption and resources efficiently and transparently.
 Pollution & Waste	Companies that have good environment management policies and systems; reduce packaging, recycle materials, manage hazardous waste, limit toxic emissions, and governments that manage their air and land resources well.
 People	Companies that retain, develop and promote well-being among their employees, encourage diversity and protect human rights throughout their operations; and governments that invest in education and health.
 Products & Services	Companies that have sourced raw materials responsibly, with strong social and environmental supplier standards, and policies to promote safe and sustainable products; governments who facilitate this through regulation and infrastructure.
 Governance	Companies that appear fair and transparent on issues such as executive pay, board independence, tax and anti-corruption; and governments that promote strong institutions and rule of law and commit to international treaties on environmental and social issues.
 Headline	Companies and countries with overall performance across all sustainability topics. Headline score for a corporate issuer is calculated by weighting each of the six topic scores according to the financial materiality, or likelihood that the topic impacts the financial or operating performance of that company and its industry. For countries, the six topics are weighted by financial materiality to a country's long-term prosperity and economic development.

Source: UBS methodology based on data from SASB, Sustainalytics, InRate and Trucost

Diversity and Equality LTI Sustainable performance profile

On a scale of 0 (lagging) to 10 (leading)

Sustainability topics	Top Three Leading Companies from CIO Reference List	Company Score ¹	SI Leaders Region Score ² Based on global universe ⁴	SI Leaders Score ³ Based on global universe ⁴
 Climate change	Mastercard Incorporated Class A	10.0	North America	4.6
	Schneider Electric SE	10.0	Europe	8.0
	Kering SA	10.0	Europe	8.0
 Water	Allianz SE	9.9	Europe	7.3
	Munich Reinsurance Company	9.9	Europe	7.3
	Hasbro, Inc.	9.9	North America	7.1
 Pollution and waste	Accenture Plc Class A	10.0	Europe	7.2
	International Business Machines Corporation	10.0	North America	5.2
	Mercedes-Benz Group AG	10.0	Europe	7.2
 People	Henkel AG & Co. KGaA Pref	8.8	Europe	6.3
	Japan Tobacco Inc.	8.1	Asia Pacific	5.0
	Novartis AG	7.9	Europe	6.3
 Products and services	Unibail-Rodamco	9.9	Europe	3.8
	Swire Properties Limited	9.2	Asia ex-Japan	2.5
	Xylem Inc.	8.6	North America	2.5
 Governance	TELUS Corporation	8.9	North America	6.2
	RELX PLC	8.6	Europe	7.0
	Capgemini SE	8.4	Europe	7.0
 Headline	Xylem Inc.	8.2	North America	4.4
	Novartis AG	7.9	Europe	5.6
	Legrand SA	7.8	Europe	5.6

■ Laggard⁵ (bottom 50%) ■ Average⁵ (middle 35%) ■ Leader⁵ (top 15%)

¹ The Sustainable performance profile can help you identify companies which align to your values and sustainability objectives. The profile is produced independently of any investment rating that may be assigned to the issuer and may not be aligned with the views of UBS' economists, equity analysts or strategists. The profile is for information purposes only. It is not an investment recommendation. Accordingly it should not be relied upon to make an investment decision or for any other purpose. Please note that the Sustainable performance profile can change before the next update to this theme is published. Accordingly, this profile is only valid as of the publication date.

² SI Leaders Region Score is the minimum score of the top 15% of companies in the respective geographical region.

³ The SI Leaders Score is the minimum score of the top 15% companies in the global universe and is to provide relative guidance.

⁴ The global universe is defined as the approximately 11,000 large-, mid-, and small cap companies that are part of the tracked market indexes (37+ indexes). The list of indexes includes but is not limited to MSCI WORLD, S&P 500, SMI and others. The global universe definition is used to provide relative guidance.

⁵ The company's performance is assessed as to how it compares with the global universe. The top 15% of the companies in the global universe are considered to be sustainability leaders, the middle 35% have an average sustainability performance, and the bottom 50% are sustainability laggards.

Source: UBS methodology based on data from SASB, Sustainalytics, InRate and Trucost. Data as of 21.2.2022.

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Non-traditional asset classes are alternative investments that include hedge funds, private equity, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. An investment in an alternative investment fund is speculative and involves significant risks. Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

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- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
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