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RESPONSIBLE INVESTING

Why Companies May Want to Get On Board with Ethnic Diversity

By: Yijia Chen, CFA | February 2, 2022

Washington - Over the last decade, we have seen numerous studies linking gender diversity in the executive suite and boardroom to enhanced corporate financial performance. Research and metrics on ethnic diversity, however, still lag behind gender research.

With more data on companies' racial and ethnic diversity now available, Calvert decided to examine potential linkages to corporate performance in this area. Our study, "Does an Ethnically Diverse Board Mean Better Stock Performance?," analyzed more than 800 large-cap companies in the United States, United Kingdom, Canada and Australia from 2012 to 2020. These countries were chosen because of their larger sample size, data availability and coverage, and relatively diverse demographics compared to other countries in the world.

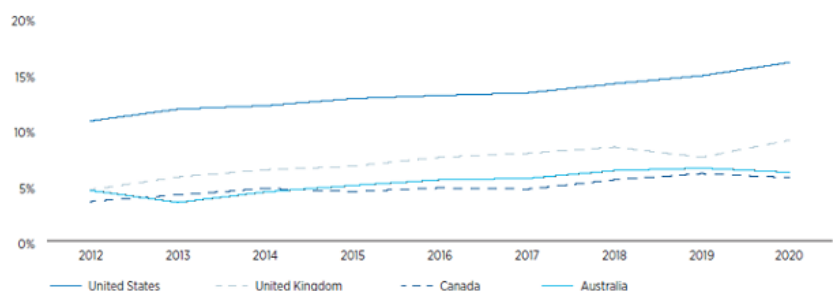
Our analysis indicates a correlation between board-level ethnic diversity and U.S. large-cap company stock price performance. For investors, this finding suggests that including ethnic board diversity factors may help improve U.S. large-cap equity stock selection. Across all four developed markets, we saw there may be a benefit in tilting toward more diverse companies.

Correlation most significant in U.S. equity market

Among large-cap U.S. companies, our historical analysis found that racial and ethnic diversity on their corporate boards suggests a positive correlation with stock price: The difference in returns between stocks of companies with the highest quintile of percentage of people of color on their boards and those with the least quintile was 1.76% from 2012 to 2020. For all four markets, Calvert measured stock prices using the MSCI's Gross Total Returns database,¹ which includes dividends, and the returns were calculated on a monthly basis, then annualized.

Exhibit 1: U.S. Leads in Board Ethnic Diversity

Average Percentage People of Color on Corporate Boards by Country: 2012-2020



Source: Calvert Research and Management.

Less significant was the relationship between board ethnic diversity and stock prices for Australian, Canadian and U.K. companies during the period. While we know the demographics of these countries — and their boards — are relatively less diverse than the U.S., other factors may be at play. We think key differences between these economies may have contributed to the disparity. The U.S. economy is relatively more reliant on talent and innovation, which provides more of a level playing field for individuals of diverse backgrounds. In contrast, larger portions of the Australian and Canadian economies remain natural resources-based.

Study contributes to diversity insights

The study's findings contribute to growing data on the potentially positive impacts of diversity on corporate performance. Workplace diversity is an area of focus for many environmental, social and governance (ESG) investors, particularly at the board level. Though some investors have lingering concerns about the competitiveness of sustainable investment returns, according to a recent report from the Morgan Stanley Institute for Sustainable Investing, 80% of the investors they surveyed still believe that companies with strong ESG practices can generate higher returns and make better long-term investments.²

As demand for sustainable investing continues to grow, investors may look to engage corporations about their diversity initiatives — not only to help optimize the bottom line, but also to push the envelope toward a more equitable future.

Bottom line: Calvert's latest analysis suggests a historical correlation between board ethnic diversity and a company's stock price performance, particularly in the U.S. For companies operating in economies that are increasingly reliant on human capital and innovation, we believe corporate diversity will likely play an ever-greater role in competitive markets.

1. MSCI's Gross Returns database is used for the MSCI World with USA Gross Index, which is designed to measure the performance of large and midcap

segments across 23 developed market countries. The index's net daily total returns for U.S.-based index constituents are gross total returns, with dividend reinvested.

2. Morgan Stanley, Institute for Sustainable Investing, "Sustainable Investing Sentiment Weathers Economic Uncertainty," October 27, 2021. Based on online survey conducted in May 2021 of 800 U.S. individual investors age 18+ with minimum investable assets of \$100,000.

To read the full report, [click here](#).



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