



Closing the DEI gap

✔ As part of *Pensions Age's* year-long special focus on diversity, equity and inclusion (DEI), Pensions for Purpose research manager, Bruna Bauer, discusses how those managing pension funds can harness their investment power to improve DEI, both within their own organisations and those they invest in

What inspired the formation of Pensions for Purpose and what are the primary goals you aim to achieve?

Karen Shackleton, chair and founder, initially proposed Pensions for Purpose (PFP) after running a 2017 workshop at 'The Gathering', a meeting of foundations, charities, social enterprises and impact investors. The workshop explored why pension funds weren't allocating to impact investment. Two key barriers were identified: Pension funds lacked awareness of impact investing, and small impact managers struggled to compete with larger firms. To address these obstacles, Shackleton suggested a collaborative, educational platform giving all members an equal voice. PFP launched with 17 members and has since grown to 447 organisations.

When we conducted our research on diversity, equity and inclusion (DEI) between late 2023 and early 2024, we observed that asset owners and investment consultants broadly agreed on its importance, and many had taken significant steps to advance the agenda within their organisations. However, efforts often remained siloed. Through collaboration, organisations could learn from one another and unify their diversity, equity and inclusion (DEI) expectations for managers. Rather than

focusing solely on quantifiable statistics, we could start driving real-world outcomes through collective industry initiatives.

We focus on developing methods to measure pension inequalities, starting with the gender pensions gap, and aim to share best practices to help employers address inequalities by providing practical tools and guidance. Additionally, we aim to collaborate with governments and policymakers to drive positive change and highlight potential industry product developments that can promote greater equity.

Why should the industry look to improve their DEI? For instance, can you provide examples of how DEI improvements in pensions have positively impacted both the industry and/or its members?

✔ Pensions for Purpose

Pensions for Purpose was founded in 2017 by Karen Shackleton, with 17 original members. Today, the organisation offers a knowledge centre, training and events, research, and a collaborative community comprising over 400 members and more than 1,200 individuals. Members benefit from a trusted environment to interact, collaborate, and share knowledge, engaging in activities that shape their strategies in environmental, social and governance, sustainable, and impact investments.

There is growing evidence that companies with better DEI practices achieve better outcomes. For instance, Moody's research from June 2023 revealed that American companies with stronger DEI initiatives had higher credit ratings. Similarly, our research found that pension funds are increasingly willing to engage in DEI. However, for many, this responsibility is often delegated to asset managers or consultants and incorporated into broader engagement and stewardship activities.

We spoke to over 20 industry professionals, and all of them identified a positive correlation between DEI and performance. Beyond the imperative for schemes to reflect their diverse member bases, asset owners we interviewed highlighted that diverse boards contribute to more effective decision-making. By raising more questions and considering a wider range of perspectives, diverse boards can drive better outcomes for the industry and its stakeholders.

How can DEI be improved within pensions? What practical tips would you give to help pension organisations focus on, and improve, their DEI?

Our research looked at DEI from three perspectives: DEI within the pension fund's own organisation, how they considered DEI when procuring for third-party service providers such as asset managers, and how asset owners thought

about DEI in relation to their underlying investments. We felt more could be done in the latter.

The starting place is to measure DEI in portfolios, which would then facilitate a broader discussion with managers about how they might do more. Our research report also highlighted examples of best practices, such as starting with internal training on DEI to help the organisation build a shared understanding of the topic. Once clear definitions and concepts have been established, organisations can take further steps, such as integrating DEI considerations into the manager selection process and increasing representation across investment committees.

How can the industry support each other and work together to improve DEI across the board?

We are launching a community interest group focusing on people values as part of our key ecosystem themes. This will bring together industry experts, regulators, policy advisers, and asset owners with the aim of making the pensions industry more aware of improvements that can be made. We will discuss topics such as whether and how DEI can lead to better outcomes and signpost to useful resources such as the Asset Owner Diversity Charter's questionnaire for procuring third-party providers.

What political or regulatory help would you like to see the pensions sector receive to improve its DEI?

The main gap we identified in our conversations concerns education and the need for frameworks to help asset owners navigate DEI challenges. While individuals acknowledge the importance of DEI, obtaining internal buy-in remains a key hurdle to initiating meaningful change. We anticipate that organisations like the Pensions Equity Group will provide much-needed support in this area. Additionally, asset owners are often left to navigate

this journey independently. While we recognise that there is no one-size-fits-all approach to DEI, most organisations start from scratch, lacking a clear roadmap. Industry organisations, such as PFP and others, help foster knowledge-sharing and promote the development of unified standards and expectations across the sector.

Over six years since the formation of PFP, have you noticed any improvements in DEI over this time within the pensions sector?

Nearly half of the asset owners we interviewed began considering DEI between 2020 and 2022, making it a relatively new topic within the industry. However, we have observed some notable progress over the past two years. First, new dimensions of diversity are gaining recognition. While gender representation remains a priority, there is a gradual shift towards including other aspects of diversity, particularly ethnicity.

Second, asset owners are engaging more actively with DEI when interacting with managers, and pension schemes are increasingly requesting DEI. However, there is considerable variation in the

✦ Pensions Age diversity, equity and inclusion (DEI) focus for 2025

Pensions Age is proud to explore DEI as its year-long special focus for 2025. Commenting on this, Pensions for Purpose research manager, Bruna Bauer, says it is "excellent timing" to bring up the importance of DEI and "demonstrate its effectiveness" in driving performance, considering the recent environmental, social and governance (and DEI) pushbacks from big US corporations. "The focus aligns with our priorities, which is why 'people values' is one of our six ecosystem themes for the next three years, alongside climate innovation, place-based lens, biodiversity and nature, system and governance change and impact integration," she adds.

level of engagement, frequency and the specific data requested. Recently, some have begun including DEI-specific questions in their formal annual due diligence questionnaires shared with investment teams.

These initial questions act as a triage mechanism, helping to identify managers with limited progress on DEI. For those flagged as lacking significant advancements, a more detailed questionnaire is sent to address potential barriers or challenges. Additionally, asset owners are increasingly using tools like the Diversity Project questionnaire, either partially or fully, to track improvements and measure progress over time. There's still much to do, but progress is being made.

What future trends or challenges in DEI do you anticipate for the pensions sector?

Undoubtedly, some of the messaging on DEI coming out of the US is a headwind for progress. For example, large global tech firms like Meta and Amazon have ended their DEI programmes and terminated their DEI teams. We hope this will raise awareness of the issues surrounding DEI and lead to a broader and more informed discussion of the benefits of engagement on this topic by pension funds. We also expect the discussion to broaden beyond DEI to include health and wellbeing, for example, and other ways organisations can support their staff to result in better outcomes for all.

On the other hand, we expect UK asset owners to progress beyond considering DEI within their own organisations and in their interactions with third-party providers. We hope they will begin implementing DEI considerations in their underlying investments, as observed in the US (at least before the ESG pushback), with examples such as gender lens investing.

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