

DIRECT INDEXING

Customized Racial Equity Investment Portfolios: Our Approach to Investing for Racial Equality

Heightened focus on racial equity and justice is more than just a social issue. Companies that factor changing US demographics and the economic power of underrepresented populations into their business models may be better positioned for success. Diversity can also be intentionally addressed in investment portfolios, where there is credible evidence that companies that are leaders in diversity, equity and inclusion outperform their peers.

Leading global management consulting firm McKinsey & Company has been studying the link between diversity and financial performance since 2016. Their analysis consistently suggests that companies with greater diversity in their executive teams are more likely to outperform their peers in terms of profitability – 36% more likely, according to the 2020 report. The research also shows the converse to be true: The companies with the least diverse executive teams were 29% more likely to underperform. While this link is based on correlation rather than causation, it does provide evidence that an investment portfolio focused on more diverse companies doesn't necessarily lead to a sacrifice in performance.

“For diverse companies, the likelihood of outperforming industry peers has increased over time, while the penalties are getting steeper for those lacking diversity.”

– Diversity Wins, McKinsey & Company, 2020

The McKinsey research cites a number of reasons why a focus on diversity might contribute to better company performance, including:

- An advantage in talent recruitment by sourcing a larger talent pool
- Increased innovation and deeper customer insight
- Greater employee satisfaction and reduced conflicts
- Improved decision making incorporating more diverse perspectives
- Enhanced company image

Customized Indexing Specialists

Natixis Investment Managers Solutions specializes in customized direct indexing portfolios. These separately managed account portfolios can be customized for tax purposes, to align with investor values and concerns, or a combination of both. Our Racial Equity investment approach is designed to track the S&P 500® reasonably closely on a pre-tax basis, but with a deliberate focus on racial equity and justice.

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NATIXIS INVESTMENT MANAGERS SOLUTIONS

provides design, development and execution of portfolio strategies tailored to specific investment objectives and unique portfolio constraints. Our Direct Indexing strategies can be customized to maximize after-tax return, align with personal values or pursue specific investment objectives.

➤ For more information, please contact your financial professional.
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Customized Racial Equity Investment Portfolios: Our Approach to Investing for Racial Equality (continued)

To accomplish this, we use a range of third party data and proprietary research to invest in companies that are leaders in or help to promote diversity, equity and inclusion – and avoid or divest from companies that cause, contribute to, exploit or profit from racial injustice.

Positive screening to invest in companies that cultivate a diverse and inclusive workplace by considering:	Negative screening to exclude companies that are involved with:
Diversity policies and targets	Discriminatory lending practices
Pay equality policies and pay gap analysis	For-profit bail, for-profit prisons, use of prison labor, surveillance efforts or immigrant detention
Disclosure of diversity in their workforce	Manufacture or sale of firearms or ammunition
Discrimination controversies, EEOC violations and worker grievance fines	Predatory lending
Actively address inequalities in access to healthcare	Notably poor environmental practices or significant controversies

Methodology and Availability

We rely on research and information from a range of sources including Just Capital, Venn Diagram, LLC and MSCI's ESG research as well as other NGOs and advocacy organizations to identify companies that are appropriate to include in the portfolio. Criteria and holdings are reviewed periodically.

This customized indexing approach is available in separately managed accounts for individual investors or as a values-based holding for institutional portfolios.

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