

Highlighting corporate leaders in LGBTQ+ inclusion



Authors



Fabio Peyer
Director of Marketing,
Morningstar Indexes



Rob Edwards, CFA
Director of Product
Management – EMEA &
ESG Indexes,
Morningstar Indexes



Saumya Gattani
Lead Quant Analyst,
New Product Development,
Morningstar Indexes



Dan Lefkovitz
Strategist,
Morningstar Indexes

Introduction

For many sustainability-focused investors, diversity, equity, and inclusion (DEI) is a critical consideration when it comes to evaluating companies. For some investors, their motivation is values-alignment, allocating capital to companies that are fair to all and making an extra effort to include marginalized groups. For others, DEI is simply good for business.

Within the environmental, social, and governance (ESG) framework, DEI falls under the “social” pillar. While there has been a surge in the availability of products and investment opportunities focusing on environmental considerations such as renewable energy, clean technology, and carbon footprint reduction, there are fewer options for investors looking to incorporate social factors.

The Morningstar Developed Markets LGBTQ+ Leaders Index is the latest addition to Morningstar Indexes’ unique range of socially focused solutions, which includes the Morningstar Gender Diversity Index, the Morningstar Minority Empowerment Index, the Morningstar Women’s Empowerment Index, and the Morningstar Sustainable Activities Involvement Indexes.

The new index highlights corporate leaders in inclusion by targeting 100 large- and mid-cap stocks diversified across region and sector and selecting companies with strong policies and practices related to their LGBTQ+ workforce. Data from Morningstar Sustainalytics and ExecuPride, a socially focused enterprise that harnesses data science to monitor advances and provide insights into corporate LGBTQ+ inclusion, underpins the index. Data analysis shows that the index can achieve both social and investment outcomes while applying rigorous selection criteria to ensure only companies with strong LGBTQ+ inclusion policies and practices are included.

Measuring LGBTQ+ inclusion

How can DEI be measured at the corporate level? Stated efforts and commitments are a first step. Actively communicating support for DEI, backing global efforts against discrimination, and encouraging employee resource groups matter too. Then there's representation. Diversity and/or allyship among executive ranks and within corporate leadership is ultimately critical.

ExecuPride leverages the power of data science to monitor advancements and provide insights into LGBTQ+ inclusion in various regions, industries, and assets. Reliable and timely data on LGBTQ+ inclusion at the company level can be difficult to find. ExecuPride fills those gaps, issuing assessments to thousands of companies within developed markets on a scale of 1–7 as outlined below.

ExecuPride assessment scale

No effort or commitment found on the website or annual reports in order to integrate diversity & inclusion as a part of the company's culture	0
Some visible effort to evaluate diversity & inclusion	1
A clear diversity & inclusion approach	2
A clear diversity & inclusion approach, with a special mention for LGBTQ+ matters	3
Having an LGBTQ+ employee resource group	4
Be an official supporter of UN Standard Conduct Tackling Discrimination against lesbian, gay, bi, trans, & intersex people	5
Senior leaders actively communicate their support for LGBTQ+ employees and ERG leaders are made public on company website or report	6
LGBTQIA+ person or ally in the executive team and all of the above	7

How does the developed-markets equities universe score according to this framework? As displayed in Exhibit 1, the most typical score for companies is 4, indicating the prevalence of LGBTQ+ employee resource groups. Nearly 200 companies score higher, meaning they have either supported the UN Standard of Conduct for Business: Tackling Discrimination Against LGBTQI People, have senior leaders who actively communicate support for LGBTQ+ employees and promote ERG leaders, or have an LGBTQ+ person or ally on the executive team.

Exhibit 1: Within the developed markets equities universe, the most common score is 4 of 7 for LGBTQ+ inclusion

Distribution of scores - Morningstar Developed Markets Target Market Exposure Index (Equities)

Score	Number of companies
0	64
1	208
2	278
3	151
4	528
5	77
6	71
7	44

Data as of 2023.

How do different regions within developed markets score on LGBTQ+ inclusion criteria? As displayed in Exhibit 2, the highest average scores belong to companies in North America—the US and Canada. That said, European companies have the highest percentage of companies with scores of 6 and 7, meaning they are doing best as it relates to LGBTQ+ representation. The Asia-Pacific region—markets like Japan, Australia, and Singapore—have the furthest to go when it comes to LGBTQ+ inclusion.












Exhibit 2: North America scores best when it comes to LGBTQ+ inclusion, Asia worst

Region	Average	% of 6's and 7's	% of 1's and 0's
Developed Asia Pacific	2.44	0.28	28.89
Developed Europe	3.17	12.35	19.61
Developed North America	3.51	9.72	12.85

Data as of December 2023.

From a sector perspective, how do companies across different areas of the economy score on LGBTQ+ criteria? As displayed in Exhibit 3, communication services companies—which include both traditional telecom and internet platform businesses—have the highest average scores. Financial services, healthcare, technology, and consumer defensive companies also score well. The financial services sector scores best on representation (scores of 6 and 7), followed closely by communication services and consumer cyclicals, and then technology. On the negative side, the real estate and basic materials sectors have the furthest to go on LGBTQ+ inclusion.

Exhibit 3: The communication services sector leads on LGBTQ+ inclusion

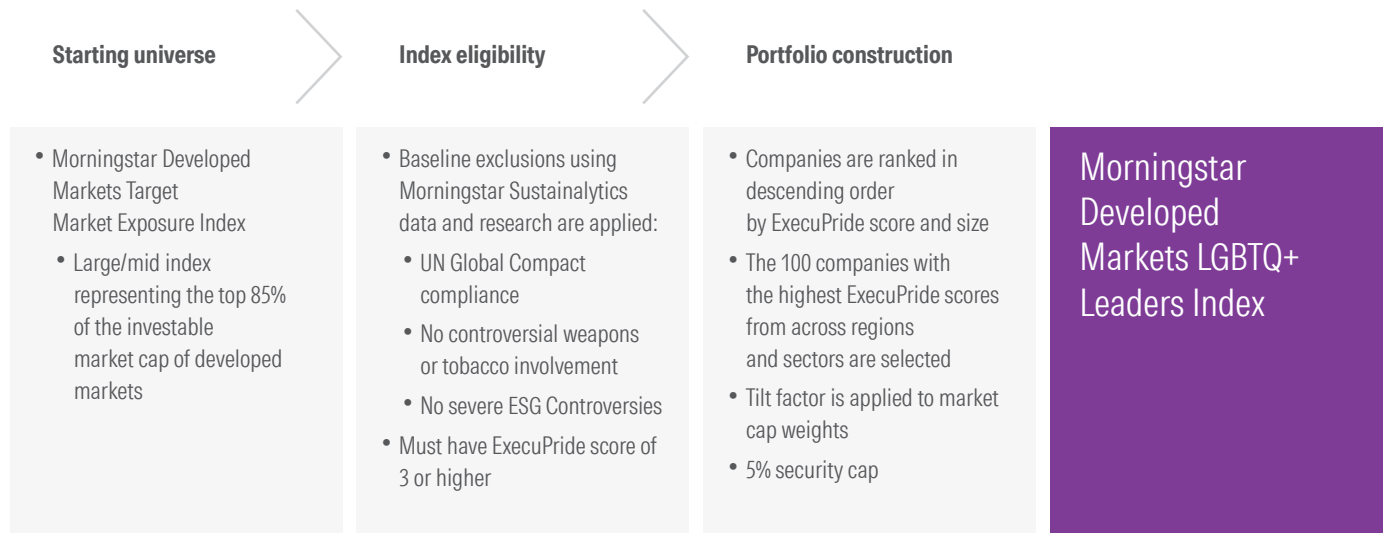
Sectors	Average	% of 6's and % 7's	% of 1's and 0's
 Basic materials	2.43	2	27
 Communication services	3.91	16	9
 Consumer cyclical	2.99	16	11
 Consumer defensive	3.36	9	17
 Energy	2.88	2	12
 Financial services	3.65	17	13
 Healthcare	3.45	10	14
 Industrials	2.89	5	23
 Real estate	1.89	0	43
 Technology	3.42	15	9
 Utilities	2.91	0	16

Data as of December 2023.

Introducing the Morningstar Developed Markets LGBTQ+ Leaders Index

The Morningstar Developed Markets LGBTQ+ Leaders Index is designed to deliver exposure to 100 large- and mid-cap companies with strong LGBTQ+ inclusive policies and practices from a range of regions and sectors. The index is underpinned by data from Morningstar Sustainalytics and ExecuPride.

Index construction process



The index aims to provide broad representation across different sectors and regions within developed markets. The index has a high bar for eligibility and gives preference to companies with larger market caps to keep performance as close to the broad equity market as possible.

As seen in Exhibits 2 and 3, companies in human capital-intensive sectors such as technology and finance tend to score better, as do companies in Europe and the US. In order to identify LGBTQ+ leaders in different sectors and regions, the following steps are taken:

- Companies are sorted by region and sector and ranked by ExecuPride score and size (float-adjusted market cap). The highest-scoring companies from each of the 11 GECS sectors from three regions (North America, Europe, APAC) are selected (33 companies total).
- Remaining companies are sorted by sector (region is ignored) and the four highest-scoring companies from each sector are selected (44 companies total).
- Remaining companies are ranked by ExecuPride scores (region and sector are ignored) and the 23 companies with the highest scores are selected, bringing the total to 100 index constituents.

After the 100 companies are selected, to further emphasize LGBTQ+ leaders, index constituents are weighted by their float adjusted market cap multiplied by a tilt factor according to the scale below. This ensures companies with higher relative scores are given additional weighting. Next, a 5% security-level cap is applied.

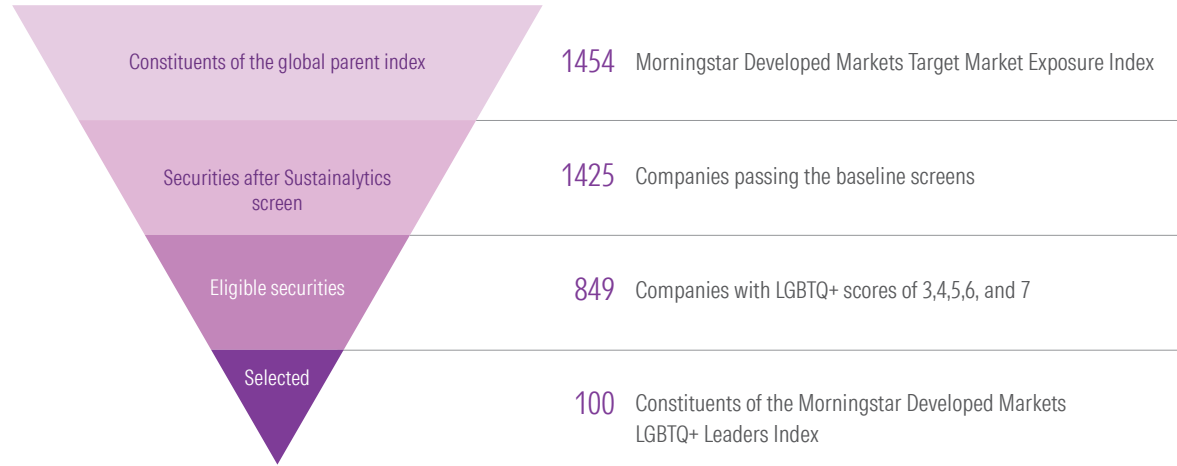
For companies with multiple listed share classes, all classes are combined in the calculation of company-level float adjusted market cap, but only the primary share class (representing the full float-adjusted company market cap) is included in the index.

ExecuPride score	Tilt on market cap weight	Label	Descriptions
0	N/A	No effort on DEI	No effort and/or commitment, found on the website and annual reports in order to integrate Diversity & Inclusion as a part of the company's culture
1	N/A	Some effort on DEI	Some visible effort to evaluate diversity & inclusion and people caring
2	N/A	DEI dedicated info	A clear diversity & inclusion approach
3	0.5	LGBTQ initiatives	A clear diversity & inclusion approach, with a special mention for LGBTQ matters
4	0.75	LGBTQ ERG	Having an LGBTQ employee resource group
5	1	UN Free & Equal	Be an official supporter of UN Standard Conduct Tackling Discrimination against lesbian, gay, bi, trans, & intersex people
6	1.25	LGBTQ leaders	Senior leaders actively communicate their support for LGBTQ employees and ERG leaders are made public on company website or report
7	1.5	LGBTQ or ally executive	LGBTQ or ally in the executive team

Achieving DEI and investing outcomes in an LGBTQ+ index

How does an index focused on LGBTQ+ inclusion achieve both social and investment outcomes? As displayed in Exhibit 4, the Morningstar Developed Markets LGBTQ+ Leaders Index has a high bar for eligibility, with only 849 companies eligible for selection after Sustainalytics initial screens and selecting companies above a score 3.

Exhibit 4: Fewer than 1000 developed markets companies are eligible for the LGBTQ+ index



How does the index score on LGBTQ+ inclusion criteria? As displayed in Exhibit 5, all index constituents receive scores of 4 or higher, indicating the prevalence of LGBTQ+ Employee Resource Groups, support for the UN Standard of Conduct for Business: Tackling Discrimination Against LGBTQI People, senior leaders who actively communicate support for LGBTQ+ employees and promote ERG leaders, or an LGBTQ+ person or ally in the executive team.












Exhibit 5: All LGBTQ+ index constituents score 4 or higher, with 41 constituents receiving the highest score

Distribution of Scores - Morningstar Developed Markets LGBTQ+ Leaders Index

Score	Number of companies
0	0
1	0
2	0
3	0
4	23
5	8
6	28
7	41

How does the LGBTQ+ index look from a sector perspective? As displayed in Exhibit 6, financial services, communication services, and consumer defensive companies score higher, while real estate, consumer cyclical, and industrials have more room for improvement on LGBTQ+ inclusion.

Exhibit 6: The LGBTQ+ index has higher weights to financials, communications, and consumer defensive companies

Sectors	Morningstar Developed Markets LGBTQ+ Leaders Index (%)	Morningstar Developed Markets Target Market Exposure (%)
 Basic materials	2.93	3.58
 Consumer cyclical	3.60	10.51
 Financial services	22.87	15.23
 Real estate	0.99	2.28
 Consumer defensive	10.64	6.53
 Healthcare	15.47	12.11
 Utilities	1.71	2.36
 Communication services	12.00	7.63
 Energy	5.81	4.49
 Industrials	2.04	10.67
 Technology	21.93	24.59

Data as of March 2023.

What about when it comes to risk and return? As displayed in Exhibit 7, the Morningstar Developed Markets LGBTQ+ Leaders Index's backcast returns exceed those of the broad developed equities market over the trailing five-year period, with lower volatility (as measured by standard deviation of returns). The LGBTQ+ index's tracking error, or performance deviation from the market, is significant but not extreme.

	Return	Std dev	Tracking error
Morningstar Developed Markets LGBTQ+ Leaders Index GR USD Index	11.93	17.47	3.33
Morningstar DM TME GR USD	11.22	17.98	0.00

Return period 7/1/2019 - 4/30/2024

Company examples

So, what are examples of LGBTQ+ leaders? To bring the index methodology to life, consider some companies spanning sector and region that passed the rigorous screens to merit index inclusion:

Company	Sector	ExecuPride score	Country
PepsiCo	Consumer defensive	7— LGBTQ or ally executive	USA
Veolia	Industrials	7—LGBTQ or ally executive	France
Fujitsu	Technology	6—LGBTQ leaders	Japan
JP Morgan	Financial services	7—LGBTQ or ally executive	USA
DHL	Industrials	6—LGBTQ leaders	Germany
HSBC	Financial services	7—LGBTQ or ally executive	UK

PepsiCo, renowned for iconic brands like Pepsi and Lay's, achieves ExecuPride's highest score (7) due to its long-standing commitment to LGBTQ+ inclusion. The US-based company established an LGBTQ+ employee resource group in the early 2000s, and the company upholds the rights and freedoms outlined in the UN's LGBTI Standards of Conduct for Business as part of the Free and Equal campaign. Numerous LGBTQ+ leaders within the organization have been interviewed, sharing their personal journeys on the company's website, thereby fostering transparency and awareness. Additionally, Ramon L. Laguarta, chairman and CEO of PepsiCo Inc., serves as an LGBTQ+ ally, consistently advocating for and supporting the LGBTQ+ community.

Veolia, a French industrials company specializing in water management, waste management, and energy services, also achieves an ExecuPride score of 7. Among its numerous employee resource groups, the LGBTQ+ Alliance stands out for its internal support of the community. The company aligns with the UN's Standards of Conduct for Business, aiming to combat discrimination against lesbian, gay, bisexual, transgender, and intersex individuals. Veolia participates in Pride parades, where inclusion leaders emphasize the importance of their presence. The current CEO, Estelle Brachlianoff, has been an LGBTQ+ ally and has been included in the OUTstanding list since her tenure as senior executive vice president for UK & Ireland.

Fujitsu, a Japanese technology business, achieves an ExecuPride score of 6. It boasts an active LGBTQ+ employee resource group, and, in June 2018, became the first Japanese company to publicly express support for the UN's LGBTI Standards of Conduct for Business. The company provides guides for LGBTQ+ allies and hosts podcasts where leaders share their personal stories.

JPMorgan Chase, a US bank, earns an ExecuPride score of 7 due to its enduring dedication to LGBTQ+ community support. Its Pride Business Resource Group was established in 1996, and the company has embraced the UN's LGBTI Standards of Conduct for Business, appointing a full-time dedicated team to advance its global LGBTQ+ agenda. JPMorgan Chase CEO James Dimon has shown consistent support for the LGBTQ+ community, and Stacey Friedman is the only openly gay general counsel in a major financial institution.

DHL, a German industrials business, achieves an ExecuPride score of 6. It maintains an active LGBTQ+ resource group and has endorsed the UN's LGBTI Standards of Conduct for Business as part of the Free and Equal campaign. Leaders of the RainbowNet have given interviews emphasizing the importance of fostering an inclusive workplace. The company collaborates with PROUT at Work, a leading German think tank.

HSBC, a bank headquartered in the UK with substantial business in Asia, achieves an ExecuPride score of 7. It hosts several LGBTQ+ employee resource groups worldwide and upholds the UN's LGBTI Standards of Conduct for Business. Additionally, its DEI leaders and sponsors are prominently featured on the company's website. At the executive level, Steve John, group chief communications and brand officer, serves as the executive sponsor of the Pride network. Outgoing Group Chief Executive, Noel Quinn has consistently supported the LGBTQ+ community, earning recognition in the OUTstanding list for LGBTQ+ allies.

Investing with an LGBTQ+ lens

The Morningstar Developed Markets LGBTQ+ Leaders Index's selective approach represents a high standard for identifying companies with strong LGBTQ+ commitments. History shows that investors need not expect lower returns for investing with DEI criteria in mind. As LGBTQ+ identities become more ubiquitous, inclusive investing will continue to develop. The index represents a portfolio of companies diversified across economic sector and geography and rigorously screened for DEI inclusion, which can help investors achieve both social and investment goals.

About Morningstar Indexes

Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across major asset classes, styles and strategies. From traditional benchmarks and unique IP-driven indexes, to index design, calculation and distribution services, our solutions span an investment landscape as diverse as investors themselves. For more information, visit indexes.morningstar.com, or contact us at indexes@morningstar.com.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. With 17 offices globally, Morningstar Sustainalytics has more than 1,800 staff members, including more than 850 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

About ExecuPride

ExecuPride leverages the power of data science to monitor advancements and provide insights on LGBTQ+ inclusion in various regions, industries, and assets. By filling the gap of a lack of up-to-date and reliable data on LGBTQ+ inclusion at the company level, ExecuPride plays a crucial role. Collecting more accurate and comprehensive data on LGBTQ+ inclusion is essential in meeting the community's needs worldwide. execupride.com/#about.

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