SVIA

STABLE TIMES

The publication of the Stable Value Investment Association Volume 24, Issue 1 • Second Half 2020

IN THIS ISSUE

How COVID-19 and the CARES Act Have Impacted Retirement Plans
By: Randy Myers......................................1

COVID-19: What It's Meant for the Stable Value Industry
By: Randy Myers......................................3

Stable Value: Carving Out a Bigger Role in Managed Accounts
By: Randy Myers......................................4

Finding New Opportunities for Stable Value in Post-SECURE World
By: Randy Myers......................................6

Financial Wellness: The New Frontier
By: Randy Myers......................................7

More Important Than Ever: Addressing Diversity and Inclusion in the Workplace
By: Randy Myers......................................9

Stepping Up: Big Business Doubles Down on Diversity and Inclusion
By: Randy Myers......................................10

How Environmental, Social, and Governance Investing is Becoming Increasingly Mainstream
By: Randy Myers......................................12

How COVID-19 and the CARES Act Have Impacted Retirement Plans

By: Randy Myers

Here's good news for plan sponsors worried about employees withdrawing money early from their retirement savings plans and jeopardizing their long-term financial security. Even after Congress made it easier amid the COVID-19 pandemic this year, few actually did it.

Participating in a virtual panel discussion at the 2020 SVIA Fall Forum led by Jim Jensen, partner and senior consultant at investment advisor DiMeo Schneider & Associates, representatives from a trio of large recordkeepers said only about 2.5% to 3% of participants in defined contribution retirement plans took emergency distributions under provisions of the CARES Act of 2020.

Signed into law on March 27, the CARES Act allows plan participants to withdraw up to $100,000 from their retirement accounts this year without an early-distribution penalty, provided they or a family member were impacted by COVID-19. The Act also allows income taxes on withdrawals, typically due in the year of the distribution, to be spread out over three years and forgiven entirely if the distribution is repaid within that timeframe. The legislation also doubles the maximum amount a participant can borrow from their retirement account this year, and allows participants to postpone any payments due on those loans until 2021.

Plan sponsors were able to decide whether to make the CARES Act provisions available to their plan participants and most did, said Simon Franklin, vice president of relationship management at Empower Retirement; Katie Taylor, vice president of thought leadership at Fidelity Investments; and Amy Vaillancourt, senior vice president for workplace solutions and experience at Voya Financial. At Empower, sponsor participation rates ranged from 80% to 90% for the various provisions. Larger plan sponsors were somewhat more likely to embrace them than smaller ones.

How COVID-19 and the CARES Act Have Impacted Retirement Plans

"Employers were quick to react because of the urgency of the situation, but they did it thoughtfully, with input from their advisors and other representatives of their plan," Vaillancourt said.

At Empower, Franklin said, early distribution activity so far this year is only a little higher than it was in 2019, with the average distribution equal to about 44% of the participant's account balance. Only about a third of those taking distributions took the full amount they were eligible to withdraw.

What can't be known right now, Vaillancourt said, is whether there will be a rush of withdrawals in December, given that CARES Act distributions won't be available afterward barring further action by Congress.

The panelists noted that some industries saw higher percentage of distributions than others as a result of their employees being hit harder by the economic fallout from the pandemic, including the health care, manufacturing, airline and oil and gas industries. But overall, they suggested, plan participants seemed to be taking only what they needed to get by—about $12,000 on average at Fidelity, with a median distribution more in the range of $4,000 to $5,000.

While plan sponsors are starting to have conversations with recordkeepers about how they can encourage participants to repay loans or other early distributions from their retirement accounts, Vaillancourt said that topic has not been a high priority with most of the plan participants ringing its call centers. Franklin said he doesn't expect a rush to repayment of CARES distributions, either, although that could be costly. Jensen noted that the Employee Benefit Research Institute recently estimated that if all participants of all ages withdrew the maximum possible from their accounts (up to $100,000) and did not repay it, they would collectively see a 20% reduction in their ending retirement balances.

Although recordkeeper call centers have received higher volumes of inquiries from plan participants since the pandemic's outbreak, the panelists said, relatively few participants are making changes to their asset allocation strategies or their contribution levels. At Voya, Vaillancourt said, more than 90% of participants didn't make any changes. At Empower, Franklin added, about 65% of those making changes to their contribution levels in the six months following the market's March downturn actually increased their contributions—just slightly less than the 74% who made increases in the six months prior to the downturn. Franklin also reported a 13% increase in stable value assets under management for one of its stable value providers in March alone. Another provider in its plans saw a 146% increase in stable value inflows during the first six months of 2020 compared with the year-earlier period.

Like plan participants, plan sponsors also have been measured in their response to the economic downturn triggered by the pandemic. Taylor said about 11% of the sponsors working with Fidelity made "the difficult decision" to suspend their matching contributions to their plan, and another 9% were in conversations about possibly doing it, leaving 80% who made no change and do not plan any. Of those that did suspend their match, she added, about 80% say they plan to reinstate it at some point.

"Most plan sponsors hold their matching contribution near and dear—a bit of a sacred cow relative to their other benefits," Franklin said.

One area where plan sponsors do appear more inclined to consider a change, the panelists said, is in making some sort of emergency savings program available to their employees so that when difficult times strike in the future they may not need to tap into their retirement nest eggs.

Save the date: SVIA's Virtual Board of Directors Meeting, April 20, 2021 via Hopin
Save the date: SVIA's Virtual Spring Seminar, April 21-22, 2021 via Hopin

In general, the panelists didn't think the addition of new benefits to employer benefits menus, such as emergency savings programs and Health Savings Accounts, would reduce the amount of money going into retirement savings plans. American workers, they said, largely recognize the importance of prioritizing saving for retirement. Still, Vaillancourt noted, "We cannot take our foot of the gas on education. That's an ongoing need."

COVID-19: What It's Meant for the Stable Value Industry

By: Randy Myers

Like many others, the stable value industry has been impacted by the COVID-19 pandemic and its economic fallout. But the negative impacts, relative to what some other industries have suffered, have mostly been negligible, and in some cases offset by a few positive ones.

Most people working in the industry, like millions of other Americans, have been doing it from home since March of this year as the country has tried to minimize the spread of COVID-19. That will likely continue for a while—indefinitely in some cases, perhaps—and there's not been a lot of pushback against that idea so far.

"We've gone to an all-virtual environment, and one of the most interesting things to me is that we've been fine with it," said Jim Bucella, president of ADP Strategic Plan Services, during a virtual panel discussion at the 2020 SVIA Fall Forum moderated by Aruna Hobbs, head of institutional investments in the institutional solutions group at MassMutual. Bucella noted that even fund managers he's talked with have found it somewhat easier to meet with and perform due diligence on the companies in which they invest because their contacts are not on the road and hence have more time to talk.

"I think a lot of our (plan sponsor) clients are going to stay virtual," said Stephen Popper, managing director at Sageview Advisory Group, a registered investment advisory firm. He said working virtually has made it easier for plans to convene meetings of their fiduciary committees and has consumed less of each committee member's time. It's also opened opportunities for people to connect in ways they probably wouldn't have considered in the past. He had a good conversation with a business contact one morning while both took their dogs for walks, for example. And one of his colleagues and a wholesaler teamed up to take a virtual bike ride using their Pelotons, then chatted virtually afterward.

Michael Leonberger, a stable value portfolio manager with Invesco Fixed Income, said working virtually has made his team accessible to clients in ways it hadn't been in the past, when more people were traveling more often for business. "We've had a lot more catch-ups with clients on quarterly basis," he said. "Clients are a lot more open to giving you 30 minutes on Zoom than spending four hours with you when you come to their office."

Still, many executives in the stable value industry say they're looking forward to traveling for business in person once the pandemic is under control, particularly when they're trying to land new clients.

"You just can't replace the value of sitting across the table from somebody in their office, seeing their operations and how they do business, and looking them in the eye," Popper said.

For all the damage and heartache the pandemic has caused, it has, ironically, given some stable

How COVID-19 and the CARES Act Have Impacted Retirement Plans

value businesses a boost. As retirement plan investors watched the economy contract and the stock market stumble in the spring, for example, some poured money into stable value funds as a potential safe haven from financial market volatility. Driven largely by participant-driven flows like that, Leonberger said, his firm's stable value assets grew a bit over 10% in the first eight months of the year. Bucella, meanwhile, said his company's investment management business as a 3(38) fiduciary was up about 30% in the fiscal year ended June 30. After a busy first quarter at Sageview, Popper said, potential new client business slowed for a while, but he said he has seen signs over the past six weeks that is changing.

Looking ahead to how the retirement landscape and the stable value industry might evolve over the next decade, Bucella and Leonberger said they were optimistic that the innovative spirit that marked the past several months will carry on as people continue to look for new ways to connect and to meet the needs of plan sponsors and plan participants. Stable value could play an expanded role, they suggested, in helping participants cope with market volatility and in the development of lifetime income solutions for retirees.

Popper said he's excited about the potential for small employers to come together to form multiple employer retirement plans, which will become easier to do this year under provisions of the SECURE Act of 2019, and could make retirement plans available to more American workers.

Leonberger also anticipates that the retirement industry will continue its current push to bring financial wellness programs to American workers.

In terms of what business issues keep them up at night, Popper and Bucella both cited human capital concerns—in Popper's case making sure team members get the support they need, and in Bucella's keeping team members engaged and reducing turnover. Leonberger said he's also concerned about the low yield environment and its impact on fixed-income markets and investors.

All agreed, though, that the future should be bright. Bucella noted that the Dow Jones Industrial Average stood at about 2,000 when he got into the investment business and that financial markets have endured numerous crises since then. Nonetheless, the ultimate trend has always been upward. (The Dow stood above 28,000 on the October 14th date of his panel discussion).

"As dark as it ever looks, it always gets better, and we always find a way to help people and to grow our businesses," Bucella said. "There's just no reason to get down."

Stable Value: Carving Out a Bigger Role in Managed Accounts

By: Randy Myers

For years, Morningstar Investment Management has made stable value a key component of many of the investment lineups it creates for retirement plan investors through its managed accounts program. Moving forward, it will be able to do so with even greater insight into the makeup and performance of those funds.

Morningstar Investment Management's parent company, Morningstar Inc., announced in February 2020 that it was acquiring Hueler Associates' Stable Value Comparative Universe Data

Save the date: SVIA's Virtual Board of Directors Meeting, April 20, 2021 via Hopin
Save the date: SVIA's Virtual Spring Seminar, April 21-22, 2021 via Hopin

Stable Value: Carving Out a Bigger Role in Managed Accounts

and Stable Value Index. The former collects data on a broad range of stable value products, including pooled funds, insurance company separate accounts and general account products. The latter is a stable value index derived from aggregate returns of contributing stable-value providers dating back to 1983.

Speaking at the SVIA 2020 Fall Forum in mid-October, James Smith, senior vice president and global head of sales and strategy for Morningstar Investment Management, said the Hueler acquisition will be particularly useful for the three core products the firm offers through its Workplace Solutions group: managed accounts, target-date modeling, and fiduciary services. (Fiduciary services builds investment lineups for defined contribution retirement savings plans.) Stable value plays a role in all three of those Morningstar businesses, although managed accounts is the largest in terms of assets under management or advisement. It is an online offering that provides retirement advice and ongoing management of a plan participant's retirement portfolio.

Unlike target-date funds, which are popular investment options in retirement plans but are constructed largely based on just one variable—the length of time until a participant's retirement—managed accounts are highly customizable and can take into consideration far more information about a plan participant's financial circumstances. Managed account services are growing for a variety of reasons, Smith observed, including demand for customizable solutions from plan sponsors and participants, as well as a growing emphasis on services that can help retirees with the asset decumulation phase of their retirement journey. Plan sponsors also like the fact that managed accounts providers accept fiduciary responsibility for their recommendations.

In its own managed account offering, Smith said, Morningstar believes stable value provides good diversification in plan participants' accounts due to its low correlation with other asset classes. Morningstar tends to steadily increase its use of stable value investments for participants as they age, from about 10% of account assets when a participant is 35, on average, to a little over 25% by the time they are 70. He cautioned that there is no single allocation or glide path in stable value that is the same for every participant or plan. Rather, glide paths and allocations are "based a lot on personalization at the participant level and the specific stable value product in their plan, and how it fits into the plan's broader investment lineup."

On the other hand, he noted, Morningstar's allocations to stable value are, well, stable. "This is a long-term strategic allocation, so regardless of market activity over time we're slowly buying in more and more stable value," Smith said. "That slow increase in allocation makes it very predictable, and something stable value managers tend to value. We are not making short-term bets. We are not moving in and out of stable value one quarter to the next, or one year to the next."

Investors in managed accounts tend to be steady in their asset allocation decisions, too. Following the stock market turmoil that erupted in the first quarter of 2020 in response to the COVID-19 pandemic, Smith said, Morningstar analyzed how individual plan participants responded. Participants were divided into two groups—a "do it for me" group that included investors whose assets were allocated entirely to a managed accounts program or a target-date fund, and an "I got this" group who were managing asset allocation decisions on their own. Within the "do it for me" group, only about 2% of participants made a change to their asset allocation mix in the first quarter, including only 1.3% of those using Morningstar's managed account service. Within the "I got this" group, about 17% of participants made changes.

Stable Value: Carving Out a Bigger Role in Managed Accounts

Within that self-directed group, decisions may not have been favorable for long-term results. As Smith explained, participants ages 60 and older tended to make the biggest withdrawals out of equities and into something else meaning that many likely sold while stock prices were depressed, locking in losses. Do-it-yourselfers between the ages of 60 and 64 who had 90% of more of their assets in equities at the start of the year, for example, reduced their equity allocation by nearly 43% during the first quarter.

"You saw them pull back pretty significantly out of equities, which was arguably the worst time to do it," Smith said.

Smith concluded by noting that Morningstar launched a new distribution channel this year that will provide further opportunities for stable value providers to get their products into plan participants' hands. Morningstar is now making its managed account modeling capabilities available to plans and plan participants through registered investment advisors and consulting firms as well as through its existing delivery channels. Those two provider groups, he said, have proven open to allocating to stable value products within the models they build using Morningstar's service.

"I think it presents a pretty significant opportunity, not only for us on the managed account front, but also for stable value firms like yours, because you're getting in front of the large RIA firms and consulting firms," Smith said. "And by the way, they are not just using investments already in the plan lineup. They are open to adding additional asset classes or funds in the models they build."

Thanks to the Hueler acquisition, Smith said Morningstar now has access not only to more data about stable value funds but also more up-to-date data. Kelli Hueler, founder of Hueler Associates, joined Smith in speaking at the Fall Forum. She said she has been impressed by Morningstar's commitment to maintaining the integrity of the Hueler database and index, and told her SVIA colleagues, "I have confidence that you are going to be very happy with the end result."

Finding New Opportunities for Stable Value in Post-SECURE World

By: Randy Myers

The SECURE Act of 2019 cemented what had already been a growing trend in the world of retirement plans: a focus on viewing them not just as a way for workers to save for retirement but also as a way to provide them lifetime income in retirement. That shift may open new opportunities for the stable value industry.

The challenge, presenters at the 2020 SVIA Fall Forum noted, will be to make sure the stable value community makes itself a part of the conversation as the retirement industry explores new ways to address retirees' lifetime income needs. Doug McIntosh, vice president, investment products, at Prudential Financial, said much of the opportunity may center around pooled employer plans, or PEPs, and multiple employer plans, or MEPs, both of which are expected to become more popular under provisions of the SECURE Act.

Introduced under the SECURE Act, PEPs are 401(k) retirement savings plans operated on behalf

Save the date: SVIA's Virtual Board of Directors Meeting, April 20, 2021 via Hopin
Save the date: SVIA's Virtual Spring Seminar, April 21-22, 2021 via Hopin

Finding New Opportunities for Stable Value in Post-SECURE World

of wholly unrelated employers using the same recordkeeper or third-party provider. MEPs allow for businesses in the same trade or industry—electrical contractors, for example—to similarly participate in a shared plan. In both cases, the expectation is that the companies brought together will benefit from economies of scale, including the use of their collective purchasing power to negotiate better fees and services. MEPs existed prior to the SECURE Act but are now easier to create.

In addition to facilitating the creation of PEPs and MEPs, the SECURE Act, among other things, removed age limits on retirement contributions, raised the required minimum distribution age to 72 from 70½, relaxed rules on offering annuities in retirement plans, and required that retirement plans give plan participants an annual estimate of how much income their account balance would provide if used to purchase an annuity. Elizabeth Heffernan, investment strategies consultant for Fidelity Investments, said that in the wake of this legislation growing numbers of plan sponsors are considering whether they should allow plan participants to remain in their plans even after they have retired. Accordingly, they're also taking a closer look at what kinds of investments they should be making available to plan participants.

"We've already had a few looking at their investment lineup and saying, 'Maybe I not only need to have mechanisms for people to draw down (their accounts) that are more flexible and compatible with staying in their plan, but perhaps I need more investment options that are geared toward that retiree population,'" Heffernan said. She added that some plans, if they don't already do it, also are considering whether they should provide a way for employees to take automatic, periodic withdrawals from their accounts once they retire.

With the new focus on retirement income, McIntosh predicted that the retirement industry will continue to see innovation in the stable value arena around decumulation solutions, along with additional creative thinking by large financial institutions about ways to explicitly deliver lifelong income or provide a pathway to it.

McIntosh reminded the SVIA audience that despite the new focus on lifetime income, the stable value industry must also be sure to continue pursuing a role in asset accumulation products for retirement plan participants, including custom target-date funds, custom collective trusts and managed accounts. "We believe that in all those arenas, subject to appropriate logistical considerations, there is a role to be played by stable value," he said.

McIntosh and Heffernan agreed that MEPs and PEPs will most likely be embraced first by employers who currently aren't operating retirement plans, and only draw in existing plan sponsors if they see the potential to realize material cost savings or other gains. In a flash poll of the SVIA audience during the presentation by McIntosh and Heffernan, 54% of the respondents said they were already engaged in work to include stable value products in MEPs.

"It's important to understand who the players are and who's coming to the table with these programs, and how we as an industry engage in the dialogue," Heffernan concluded. "Once the table is set and things are going, it's often hard to make a change. That's not to say a lot of MEPs might not start out with a very simple investment lineup. But as they grow, it will be important to make sure the voice of the stable value industry is at the table and being heard, and that it's understood how stable value might be integrated into these plans as they become more prevalent."

Financial Wellness: The New Frontier

By: Randy Myers

Until recently, employers' interest in the financial well-being of their employees was typically focused on one thing: helping them save for retirement. Today, employers are viewing financial wellness more holistically. In fact, says Amy Glynn, managing partner with GRP Advisor Alliance, to do otherwise could be missing the mark at a time when American workers are struggling with a wide array of financial challenges, including student loan payments, debt management, buying a house, and caring for children or dependent parents.

"Certainly, saving for retirement is the end game, but it's tone deaf in today's world," Glynn said during a virtual roundtable discussion on financial wellness at the 2020 SVIA Fall Forum. Her firm, GRP Advisor Alliance, is an independent network of more than 530 retirement plan advisors across the country. Other panelists included moderator Chris Solimine, senior vice president, institutional clients, with Voya Financial; Ken Verzella, head of the Financial Wellness Group at MMUS Investment Solutions at MassMutual Financial Group; and Andrew Frend, senior vice president and head of strategy and analytics in the employee benefits group at Voya.

While acknowledging that there are many definitions of financial wellness, Verzella pointed to one developed several years ago by the Consumer Financial Protection Bureau: a state in which a person has control over their day-to-day goals and the capacity to absorb a financial shock, is on track to meet their financial goals, and has the financial freedom to make choices that allow them to enjoy life. This definition resonated with Fall Forum participants that defined financial wellness in terms of securing their future and protecting those they care about in a flash poll.

Frend noted that one reason financial wellness is striking a chord with employers–indeed, many now offer financial wellness programs–is that research has documented that financial wellness provides benefits around productivity and presenteeism in the workplace.

To work as well as possible, the panelists agreed, financial wellness programs must consider the needs and circumstances of employees at all income levels, not just those with high incomes. Frend recalled talking to a nurse who had just gone through her employer's open enrollment process. She had just had a baby, had student loan debt, had no life insurance, and was not saving in her 401(k) plan while she tried to pare down her debt. She was stressed, and perhaps put off, by the advice she was receiving during the open enrollment process to maximize her 401(k) contribution, maximize her contribution to her health savings account, and buy more life insurance because she'd just had a baby. She said she simply couldn't afford to do all those things.

Acknowledging the many difficult choices people like that nurse must make, Frend said the industry could take a leap forward by helping people optimize their choices around the incredibly complex products offered to them in a way that improves their probability of becoming financially successful.

All this has become even more important in the wake of the COVID-19 pandemic, the panelists observed, especially for low wage earners with little savings who may have worked in businesses particularly hard hit by the pandemic's economic fallout.

Verzella noted that many people have actually worried more about their financial health than their physical health since the pandemic broke out. In April, Glynn added, calls to employee assistance programs, including suicide and in-the-moment counseling lines, skyrocketed.

To further maximize the value of financial wellness programs, the panelists reiterated that providers and plan sponsors should offer programs flexible enough to accommodate the varied

Save the date: SVIA's Virtual Board of Directors Meeting, April 20, 2021 via Hopin
Save the date: SVIA's Virtual Spring Seminar, April 21-22, 2021 via Hopin

Financial Wellness: The New Frontier

needs of a diverse workforce. They also should be transparent about how they will use data collected from individuals, create incentives to drive employee engagement, and track usage metrics to understand what's working and what needs to be improved. Going forward, the panelists said, employers will increasingly demand that financial wellness providers be able to document how they are actually helping workers improve their financial wellness.

More Important Than Ever: Addressing Diversity and Inclusion in the Workplace

By: Randy Myers

Business leaders often spend a lot of time trying to hire people they believe will fit in well with their organization—people with shared values, backgrounds, and experiences. Then, they profess dismay when their team does not seem to be coming up with fresh ideas.

Smart organizations have figured out that diversity in the workplace can be a benefit rather than a handicap. But too often, says Doctor Tony Byers who serves as an executive in residence with Cornell's School of Industrial and Labor Relations Executive Education, they ignore the vital role that inclusion plays. Yes, employees with diverse backgrounds and experiences need to be represented in the workforce. But employers will not realize the full value of that diversity until all employees feel free to be their authentic selves at work—to speak from their unique perspective, to be heard, and to feel valued and respected.

"Having both diverse and inclusive mindset leads to success because it gets us to the point where we start to more fully understand the marketplace and the things that are happening around us," Byers said in a presentation at the 2020 SVIA Fall Forum. "We start to challenge our own perspective about what it means to be successful, and what it means to be a part of our environment."

But do not just take his word for it. Byers said research has shown that stocks of organizations that strive to have inclusive cultures outperform their peers by 26%. Inclusive companies also grow faster and are more productive.

Byers has worked on the front lines of diversity and inclusion, formerly serving as director of global diversity and inclusion for Starbucks Corp. and prior to that working in the same field for other multinational organizations. His book, "The Multiplier Effect of Inclusion: How Diversity & Inclusion Advances Innovation and Drives Growth," was published in 2018.

Diversity and inclusion matter more than ever in 2020, Byers told his SVIA audience, as the nation grapples with the racial unrest and social protests triggered by the deaths of several Black Americans at the hands of police. He sees the national discussion about racial justice being not just a moment but a movement, and he encouraged every person and organization to lean into it rather than away from it. For businesses, he said, that can mean going beyond pithy statements to leading by example and providing opportunities for employees to share their feelings about what is going on. While all that may be uncomfortable, he said, it is okay. In fact, he said, feeling uncomfortable is natural in that situation. And, he pointed out, it is something many employees feel at work every day.

More Important Than Ever: Addressing Diversity and Inclusion in the Workplace

Inclusion is more than a feeling, though, Byers explained, it is a behavior. Or more accurately, behaviors. He pointed to seven that are characteristic of inclusive organizations. They encourage curiosity. They communicate well and share information. They create environments where employees can challenge each other safely. They promote collaboration. They give credit for employees' contributions, large and small. Their individual leaders act as change agents willing to think and act differently and creatively. And finally, inclusive organizations strive for consistency in all these areas. It is when organizations pair inclusion with diversity this way, Byers said, that they reap what he calls the multiplier effect—actions and behaviors that lead to growth both at a personal and organizational level.

Pursuing diversity and inclusion is becoming even more important in today's environment, Byers said. Consumers are starting to pay more attention to whether brands and businesses live up to the values they preach, and leading businesses are paying more attention to it when looking for suppliers and business partners.

Many of the nation's most talented workers are paying attention, too. Byers recalled an incident about four years ago after Philando Castile, a 32-year-old Black man, was fatally shot by a member of the St. Anthony, Minnesota, police department during a traffic stop. Byers was sitting in on a meeting of young interns, mostly people of color, who were discussing what had happening and sharing their feelings about it. After a while, their phones started pinging. It turned out that the interns belonged to a larger cohort of young people from the top MBA schools in the country. Other members of that group were sending text messages asking what their colleagues' organizations were doing about what had just happened. Many were responding that their organizations were doing nothing; indeed, had not even acknowledged it.

In the group he was with, Byers said, people were able to write back that their organization had found a room for them to talk, and that some of the company's business leaders had visited with them to reiterate the organization's values and stress the importance of having a diverse culture.

"The last text I saw," Byers said, "was from a person at another organization who wrote, 'I obviously made the wrong choice in organizations. I will not be here after the end of my internship.'"

By making the sometimes, uncomfortable decision to talk about race and other divisive issues, Byers said, organizations can pave the way to a better tomorrow.

"We need to get comfortable with being uncomfortable," he said, "so that we can create the environment that will allow us to be successful—for ourselves, our teams, our communities, this country, and the world."

Stepping Up: Big Business Doubles Down on Diversity and Inclusion

By: Randy Myers

American corporations have spent years promoting diversity and inclusion in the workplace, with varying degrees of effort and success. When the country was roiled in 2020 by multiple challenges—a deadly global pandemic, an economic downturn that hit many of the most vulnerable people hardest, and a fresh wave of social unrest spurred by incidents of police violence against Black Americans—leading corporations didn't throw in the towel. Instead, they

Save the date: SVIA's Virtual Board of Directors Meeting, April 20, 2021 via Hopin
Save the date: SVIA's Virtual Spring Seminar, April 21-22, 2021 via Hopin

Stepping Up: Big Business Doubles Down on Diversity and Inclusion

renewed their commitment to making the workplace more welcoming and empathetic for people from diverse backgrounds.

In a virtual panel discussion at the 2020 SVIA Fall Forum, representatives from four large financial services firms talked about how their organizations' approach and commitment to diversity and inclusion are evolving.

"If this were 2019, we would have been talking about diversity initiatives in different ways, in very specific silos," said Tashil Fakir, executive director and head of stable value and BOLI sales at JPMorgan Chase, who moderated the discussion. "We'd have talked about women's professional networking groups and business resources groups for LGBT+ employees, and maybe even about targeted recruiting programs to increase the number of employees of color. But the pandemic has served only to amplify inequalities that are now more deeply affecting minority groups physically and financially. Now we need an accelerated framework and new tools to address imbalances. Corporations recognize this, and we are seeing this in 2020 through new policies, training, and big, hard-dollar financial commitments."

Indeed, Fakir's employer, JPMorgan Chase, had announced just a week earlier that it would commit an additional $30 billion over the next five years to provide economic opportunity to underserved communities, especially the Black and Latinx communities, and accelerate its investment in building a more diverse and inclusive workforce.

Investment bank Goldman Sachs Group also is stepping up its efforts around diversity and inclusion. Sharon Foretia, the company's vice president for global diversity and inclusion, said one of the company's first moves has been to start a series of dialogues with its business managers and better equip them to navigate the relevant issues with their teams. As part of that effort, it's created a Racial Equity Resource Hub to provide managers with educational resources. It's also been encouraging employees to share their personal stories in dealing with race and ethnicity both within and outside the workplace.

In addition, Goldman Sachs has challenged each of its business divisions to establish a divisional accountability plan around diversity and inclusion. As part of that initiative, they must identify three key areas on which to focus, establish metrics for measuring their results, and assigning people to be accountable for those results.

A commitment to education is also helping fuel the approach to diversity and inclusion at MassMutual, which recently launched a Black and African American Strategic Initiative. Proposed last year by the company's Black and African American Business Resource Group, its implementation was accelerated this year in response to the movement for racial justice that swept across much of the country, said Lorie Valle-Yanez, MassMutual's head of diversity and inclusion.

As part of its efforts, Valle-Yanez said, MassMutual has created a cross-functional leadership team led by the chief of staff for the company's chief executive officer. It is delving into what MassMutual can do to advance racial equity and justice and promote financial well-being in the Black Community. Four workstreams are underway, one focused on education, one on enterprise equity and opportunity, one on equitable justice, and one on economic empowerment. The latter focuses in part on providing capital and entrepreneurial resources to Black-owned businesses and increasing MassMutual's own spending with Black suppliers.

Stepping Up: Big Business Doubles Down on Diversity and Inclusion

MassMutual also has developed a 10-hour educational program on systemic racism that is drawing intense interest from business leaders, and is requiring every business leader to participate in the company's Intercultural Development Inventory Assessment. Looking ahead, MassMutual also is seeking to make more of these resources available to front-line managers. And it is looking to make MassMutual business leaders more directly responsible for tracking diversity and inclusion metrics within their operations, identifying gaps, and developing ways to close those gaps.

Like MassMutual and Goldman Sachs, New York Life is promoting conversation around diversity and inclusion topics, something it's been doing for several years but that has evolved to include more informal approaches that can make people more comfortable sharing their thoughts and feelings. Even then, it's not always easy.

"In June, when we were addressing how to support social justice and trying to help support our employees, people were still quite uncomfortable talking about race," observed Kathleen Navarro, New York Life's head of talent management and chief diversity officer, human relations. "We've all heard the reasons this happens, of course. People say they don't know how to broach the topic. They are uncomfortable. They're afraid they're going to say the wrong thing. They feel uninformed. And they've been taught that you don't talk about race, religion or politics."

The problem with not talking about and recognizing color and race, Navarro said, is that it also makes it less likely that we recognize when people are being treated differently because of their race.

Through its "Coming Together" program, New York Life has hosted more than 60 conversations on these kinds of topics so far this year.

To reach employees who might not be inclined to participate in such programs, Navarro said, the company also has begun to insert diversity and inclusion topics into general business meetings, and has been encouraging employees to share their relevant personal stories. "Storytelling can be incredibly powerful, especially when its coming from colleagues," she said.

While New York Life often has made attendance at diversity and inclusion programs optional in the past, she said programs have now been developed that are mandatory for managers. Those managers also are being measured against relevant key performance indicators, including diversity within their organizations.

Elsewhere, New York Life's human resources teams are scrubbing job descriptions to eliminate biased language, and working with recruiters and hiring managers to be more sensitive to diversity and inclusion issues when bringing aboard new talent. Among the changes: an emphasis on behavioral-based interviewing, in which interviewers ask situational questions rather than focus narrowly on resumes.

In a similar vein, Valle-Yanez said, MassMutual is planning to have external auditors review its talent systems to help it identify and eliminate biases relating to race and other factors that do not bear on a job candidate's potential to do a job.

All these types of activities are critical, Fakir reminded the SVIA audience, to reaping the documented benefits of diversity and inclusion.

"Not many years ago, when you'd have a suitably qualified candidate, saying something like, 'Well, they don't fit into our team or they don't fit into our culture' was actually an adequate reason for picking someone else," he said. "Now, we've become self-critical enough where

Stepping Up: Big Business Doubles Down on Diversity and Inclusion

we should be saying, 'Well, if that person can't fit into our team and our culture, something is actually wrong with us.'"

The panelists concluded by encouraging SVIA members to look for opportunities to get other industry groups in which they're involved to focus on diversity and inclusion, and to ask their own companies what they are doing to advance it. Navarro noted that the CEO Action for Diversity & Inclusion program, in which more than 1,300 companies already participate, is a powerful way to get more deeply involved in the issue.

How Environmental, Social, and Governance Investing is Becoming Increasingly Mainstream

By: Randy Myers

For a long time, environmental, social and governance investing was built largely on exclusionary principals. Simply put, that meant avoiding investing in companies whose products—tobacco production, perhaps, or military weapons—did not align with the investor's values. An institutional investor who cared about such things would steer its assets into a fund committed to that goal. ESG was a product, not a process.

Speaking at the 2020 SVIA Fall Forum, Michael Kashani, global head of ESG portfolio management for fixed income at Goldman Sachs Asset Management, reported that ESG today is increasingly being integrated into fundamental investment research and portfolio management. It is a way to identify as fully as possible all of the many risks and opportunities presented by different investment securities. At GSAM, he said, this approach is giving research analysts more opportunities to make the right call relative to risk and reward, whether they're covering corporate bonds, municipals, securitized assets, or sovereigns.

To make those assessments efficiently, GSAM has developed a central research system to hold and process the ESG-related data it collects from debt issuers and third-party providers, and continually pushes those providers to make their data as clean and comprehensive as possible. It also employs qualitative research, partnering with the firm's equity analysts in speaking with management teams to better understand how companies in which they might invest approach and manage ESG-related issues. Looking just at corporate debt issues, Kashani said, GSAM now tracks 100 different ESG data points.

Because it does these things, Kashani said, GSAM is better able to advise clients when they want to know how they would be impacted if they imposed certain restrictions on their investment portfolio—owning no securities, for example, from an issuer that has no women on its board of directors.

The COVID-19 pandemic and race-related protests this year have heightened investor interest in social issues, Kashani said. Investors want to know what companies have done to protect worker safety, how they have responded to social unrest, and how they have disclosed what they're doing in those areas. "We've seen more movement from clients on ESG now than ever," he observed, with the number of ESG meetings growing exponentially.

How Environmental, Social, and Governance Investing is Becoming Increasingly Mainstream

As GSAM has increasingly incorporated ESG data into its research process, Kashani said, it has recognized that its clients deserved the same transparency into the issues and the data it's collecting. So, to the extent its data providers will allow, it has been disclosing ESG data to its clients at the portfolio level.

"For clients, it can be something that's very important to show to their constituents—their board, their investors, the population they might represent," Kashani said. "It shows they are focused on this issue and are considering it. It also lets them know what potential steps they might be able to take in their portfolio. For example, we had one client who had no idea if it had any exposure to thermal coal but wanted to remove it if it existed. Without telling them what to do, we were able to show them what they could do, what the impact would be on their portfolio, and how they might roll that out."

Kashani encourages investors to make sure they are integrating ESG considerations into their portfolios in a way that is sound from a fiduciary perspective. "Make sure your asset managers have an ESG view, not to screen, not to exclude certain securities, but to make the best investment decisions, to price risk and reward," he said.

If a manager can't share some of the primary metrics it uses for ESG, Kashani added, investors ought to wonder how those managers can properly assess ESG issues. He said it is important for all asset managers to have an ESG policy, procedures and definitions in place so they can be as clear as possible to their clients and the broader market about how they manage ESG risk.