JOHNSON SQUARED CONSULTING

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DEIB Internal Intent

We're embedding Diversity, Equity, Inclusion & Belonging (DEIB) into our strategic planning, learning and development and day-to-day operations because we're determined to *live* our values – not preach them. We've noticed internal gaps in decision-making representation and total inclusion among our staff and leadership. These elements are key to our external investment analysis, and they should be equally valued at home. Our DEIB focus will keep us aligned, authentic to who we are as ESG-conscious, and better prepared as we navigate this globalizing, ever-changing financial landscape.

External Vision Statement

While P&J Investments is known for our Principles and Performance grounded research, we never forget it's our People powering the analysis that keeps us competitive, collaborative, and connected. We are dedicated to creating an environment where every employee feels like they belong – across all spectrums of abilities, identities, and backgrounds.

Change Story

P&J Investments began with a $300k investment and an unconventional call to action: *Combine the best of social responsibility with shrewd investing*. By staying true to this founding premise, the firm ranks in the top third among its category peers, with its current assets achieving more than $11 billion.

Investing approach
The P&J approach to investing includes avoiding companies on its Restricted List, fully incorporating Environmental Social & Governance (ESG) risks in the research process and active ownership through engagement.

DEIB background
Although socially responsible values were clearly present since the firm's inception – executive leadership understands there are barriers present on P&J's path to equity.

Following the George Floyd murder in 2020, the team launched a targeted strategy to close gaps in financial inclusion and access. In doing so, the collective organization looked inward – noting its own lack of diverse representation and some challenges to fulsome inclusivity. P&J is not alone in its heightened attention to Diversity Equity Inclusion & Belonging. The entire finance sector has been called to task. Investors expect specific actions, strategy, and accountability related to DEIB and takes this information into account when selecting a fund partner.

To meet, articulate and exceed expectations, the firm took the following major actions:

External efforts

1. Requested 19 companies held in P&J funds to disclose their EEO-1 data, which included racial, ethnic and gender data by job category
2. Adopted a new proxy voting policy that requires at least one person of color on corporate boards and engaged with companies held in P&J portfolios that do not meet this requirement
3. Committed to investing $6 million in community development financial institutions (CDFIs) that are Black-owned or Black-led

Internal efforts

1. Established a Diversity, Equity, Inclusion & Belonging (DEIB) Council
2. Hired Johnson Squared Consulting a Black-owned, small business DEIB consultancy for advisement
3. Launched a mentorship pilot program
4. Released a monthly DEIB-focused newsletter
5. Reviewed compensation and role representation across demographics

DEIB opportunities

In October 2022, Johnson Squared Consulting advisors launched a "Pulse" survey to determine how P&J staff viewed and experienced DEIB. They noted the following high-level items which informed their strategic advisement:

- **51% of respondents indicated *neutral or disagreed* when asked if they could voice an opposing opinion without fear of negative consequences.**

This speaks to a need for improved psychological safety, which falls within the inclusion category of DEIB. Safety to challenge is the final phase of psychological safety and is critical to innovation, risk mitigation and successful diversity recruiting and retention. In fact, Google's Project Aristotle study found psychological safety was the number one indicator of a team's ability to outperform – not skills, not diversity and not education.

To address this, the firm will take the following next steps:

- Host learning and discussion sessions that focus on producing an environment that is safer to challenge. It's important that these sessions be hosted as a co-created dialogue versus a lecture.

  - **Inspiring Belonging and Psychological Safety**
  - **Culture Check: Who We Are & Where We are Heading**

- Visibly and openly champion and protect those who provide useful, professional challenges and solutions through a communications campaign

- **42% of respondents indicated *neutral or disagreed* when asked if P&J does a good job of hiring, retaining, and promoting diverse employees.**

A significant percentage of respondents were either unsure or disagreed with how the employee lifecycle is managed/experienced for diverse staff. These responses are aligned with what we see in the people data.

When there is a lack of diversity at the decision-making levels (levels that have the authority to shift strategy, bottom-line impacts or adjust governance), it is due to one of two causes: the firm's *pipelines* or its *principles*. In Parnassus's case, it seems to be the pipelines.

Why it matters

Diverse representation is one of the top focus areas of the growing DEIB-focused investor community. This is simply smart analysis. Numerous studies indicate that firms with stronger diversity across gender/race lines have better bottom lines – especially when that representation is present at decision-making levels.

The Nasdaq reports that a medium-sized firm who appoints a Black executive will experience a 3.1% increase in market capitalization within three days of an announcement. They outline that this is in direct response to the often-over-qualified attributes of these professionals – not diversity for diversity's sake.

Current representation at P&J indicates the following (as illustrated in the 6/30/22 report):

- No female representation at the "executive/senior level"
- 1 non-White identifying person at the "executive/senior level"
- Asian representation begins to diminish between the "professional" level (16) to the "manager level" (5)
- Latine representation is a total of 4 employees. It is noted that this population comprises 15.1% of San Francisco and has grown steadily year over year (Census Bureau, 2021). Additionally, Mckinsey reports that better resourced Latine businesses have the potential to generate an additional $2.3 trillion in total revenue each year (Dec. 2021)
- The sales team is comprised of 1 White female and 4 White males

To address this, the firm will:

- Expand social role perception by inviting, highlighting, or communicating about investors/ESG-SMEs from underrepresented groups. P&J's Board of Trustees appears to have diverse representation. This could be a good source to rely on in this effort.
- Consider adding remote roles and remove geographic impediments to diversifying

- The San Francisco area has seen a reduction in its Black population from 15% in the 1970s to 5% today. This trending decline has been captured in every census report since the 1990s. This is due to both rising costs-of-living and thoughtful systemic injustices – such as targeted home loan rejections, overt redlining, and hostile gentrification. While efforts are underway to right these inequities of the past and present, the recruiting pipeline landscape for Black talent in San Francisco is not a strong one. However, Black talent in the investment space continues to show efficacy as evidenced through high-performing, Black-owned, ESG-conscious funds such as Ariel Investments ($2.3B AUM) and Vista Equity Partners ($96B AUM).

  Additionally, in the search for entry-level talent, California does not have any Historically Black College & Universities (HBCUs) with business or finance tracks. HBCU's with these offerings are prime for partnership and pipeline opportunities for institutions like Parnassus. Remote positions can close this gap.

    - The Native American/Alaska Native populations in the San Francisco area are less than 0.3%. However, in LA County, they represent the second largest Native American/Alaska Native populations in the United States at 3.5 million and growing. Native American/Alaska Natives show their efficacy and contribution to the institutional investment space, especially in relation to sustainability through a multitude of successful funds. This demographic manages to make these significant impacts despite battling historic and modern systemic environmental harm, severe health and education disparities and resource deprivation.

- Refinement of the mentorship program to include more DEIB elements

    - Specify the cohort groups that are experiencing internal mobility challenges and offer targeted communications
    - Define unwritten rules prior to mentor/ee matching

- Consider a Chief Diversity Officer hire to signal and offer sustainability and commitment. Beyond this, the CDO should:

    - Co-create responsiveness to the "S" in ESG to adequately prepare the firm for investor requests, macro-social trends, risk and best practices
    - Embed DEIB within the firm's strategic goal sets
    - Lead series of learning sessions based on strategic goals and cultural reinforcement needs
    - Examine the pipeline process and assist with relationship building through affinity groups (especially with the local Latine community)
    - Measure and report progress against a maturity model that offers solid evidence of momentum to investors

Note: *It is important that inclusion efforts precede or operate in tandem with targeted diversity recruiting/promotion campaigns. Diversity influx without an inclusive culture result in backlash and attrition. Lack of inclusion is the top cause of failure for diversity efforts alongside lack of resources.*

- **Qualitative responses indicated that staff wants to understand the true intent behind the DEIB commitment.**

To do this, the firm should commit to its intent and socialize it through Parnassus's communications channels. All executive leadership should be prepared with the latest data and talking points to solidify the reasons for the DEIB-focus and tie them to the "S" in its already understood and accepted ESG commitment.

Commitment to transformation

These efforts are agile and only the beginning. All actions will be evaluated cautiously and tested to ensure effectiveness. The team doesn't see DEIB as an aside – but work that must be woven throughout its business lines, community relationships and the investment industry. DEIB is the P&J way: Combining the best of social responsibility with shrewd investing.

Tactical Steps Forward (for discussion)

- DEIB Council and Johnson Squared discuss the change story its context and recommendations to determine its:

    1. veracity
    2. communication path
    3. feasibility