General Information (required)

Respondent: *(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)*	Portfolio Management Association of Canada (PMAC)
Stakeholder Group: *(Please select the stakeholder group with which you most closely identify.)*	Service Provider
Region: *(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)*	North America
Country: *(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)*	Canada
Confidentiality Preference: *(Please select your preference for whether or not your response is published on the CFA Institute website.)*	yes, my response may be published

QUESTIONS FOR INTENDED USERS

Questions for Investment Managers, Asset Owners, Consultants, and Investors

1. Do you agree that the investment industry needs a DEI Code to drive change?

<QUESTION_01>

PMAC's mission statement is "advancing standards" and we are supportive of the CFA Institute's efforts to introduce the voluntary DEI Code as an effective and industry-specific vehicle to advance standards and drive change. We are submitting this letter on behalf of PMAC's over 300 member firms, all of which are registered as portfolio managers (**PMs**) with the various members of the Canadian Securities Administrators (**CSA**). In addition to their registration as PMs, over two-thirds of PMAC members are also registered as investment fund managers (**IFMs**). Around 30% of our member are also registered with the U.S. Securities and Exchange Commission (**SEC**).

As set out in greater detail below, we believe the DEI Code can be an effective tool to drive DEI change in the industry and we urge the CFA Institute to guard against diversity washing and to find ways to make the DEI Code more applicable and accessible to smaller and mid-sized firms.

<QUESTION_01>

2. Do you consider the Principles cover the key areas for change?

<QUESTION_02>

Generally, PMAC believes that the Principles cover the key areas.

<QUESTION_02>

3. Is there a DEI area that you would like to see covered by the Code that is not in the draft Code?

<QUESTION_03>

Members did not raise any additional DEI areas for inclusion.

<QUESTION_03>

4. Will the draft Code help establish the changes in processes and practices that investment industry organizations need to drive up DEI internally?

<QUESTION_04>

Some PMAC members questioned whether the CFA Institute was best placed to create a DEI Code, given the prevalence of other existing DEI frameworks available to firms (for example, the Responsible Investment Association's Canadian Investment Statement on Diversity & Inclusion and the BlackNorth Initiative in Canada).

Other members, however, felt that subject to the concerns about scalability and implementation issues for smaller firms (as more fully set out in Question 11 below) and to the comments regarding the risk of diversity washing, the DEI Code can help establish changes to incentivize and increase DEI in the industry. These members believe that the DEI Code represents a significant move toward a standardized framework for investment management firms to adhere to.

Members are concerned that, without appropriate review and oversight by the CFA Institute, certain firms might hold themselves out as DEI Code signatories while failing to meaningfully adhere to the DEI Code's Principles. While there is a corresponding concern about creating additional burden through audits of DEI activity, in the absence of an audit mechanism be it internal, external and/or done through a phased-in approach to allow firms time to implement the DEI Code, firms that adopt the DEI Code in good faith worry about bad actors undermining the policy goal of the DEI Code and its reporting component.

One issue that members struggle with is the Employee Demographic Data Collection template (the **Data Template**). Members agree that firms should have the ability to modify the Data Template to fit their particular circumstances; however, they note that firms could modify the Data Template to the point where it is not useful. If information is only collected from a small percentage of employees due to trust, privacy or other barriers, this may undermine the validity of the data submitted to the CFA Institute. It may be useful for the CFA Institute to provide a minimum set of categories of demographic data that need to be collected by signatories in their employee surveys. This disclosure could be aligned with the firm's jurisdiction(s) such as by using the EEO-1 report in the United States and as defined in the *Business Corporations Act* (Canada) (CBCA).

Members also note that strategies for building trust so that employees are encouraged, though not compelled to disclose this type of data could assist firms in facilitating the willing disclosure of employee demographic information for the Data Template.

<QUESTION_04>

5. Will the draft Implementation Guidance help enable the changes in process and practice that investment industry organizations need to drive up DEI internally?

<QUESTION_05>

As opposed to engaging in a strictly checklist approach to the DEI Code, we believe that firms could be encouraged to drive up DEI internally through the ability to comment on their progress toward each Principle in narrative form to explain the ways in which the firm has adhered to each Principle under the DEI Code, even if this has been achieved in a way that differs from the Implementation Guidance.

<QUESTION_05>

6. To what extent would an investment firm becoming a signatory to the Code help provide the DEI-related information that is typically provided or asked for in Requests for Proposals (RFPs), Due Diligence Questionnaires (DDQs), other types of questionnaires and in client DEI-related discussions?

<QUESTION_06>

Members noted that they would provide available DEI-related information requested by clients and/or prospective clients. Certain members with existing DEI practices in place noted that they currently provide DEI statistics, policies and procedures at the firm level based on what is publicly available.

<QUESTION_06>

7. To what extent are the draft Principles supportive of and complementary with local laws and regulations and other DEI codes and standards?

<QUESTION_07>

Apart from certain concerns around Canadian privacy laws regarding the disclosure of certain personal information as part of the reporting template, PMAC did not identify any express conflicts with local laws and regulations. However, as discussed above, members believe the disclosure should be aligned with each firm's local jurisdiction, such as the EEO-1 Report in the United States and the CBCA in Canada. The CFA Institute is proposing reporting that would go beyond the disclosure requirements in the CBCA for board and senior management of publicly listed companies incorporated under that act (namely: women, Indigenous persons, persons with disabilities and members of visible minorities). As such, these should be the minimum demographics that signatories should be required to disclose. As the CFA Institute revisits the DEI Code on an annual basis, there may be room to expand the disclosure demographics but, for now, alignment with existing requirements may increase the number of firms able to sign onto the DEI Code and improve the quality of reporting done under the DEI Code.

<QUESTION_07>

8. Would an investment organization becoming a signatory to the Code help provide investor reassurance about the investment organization's culture?

<QUESTION_08>

PMAC believes that the reassurance to an investor provided by a firm being a signatory to the DEI Code will be highly dependent on whether the CFA Institute will exercise any oversight of DEI Code signatories' compliance with the Code. If the Code becomes subject to – or is perceived to be prone to "diversity washing", there will be little value to investors and to the industry alike. It will be important to carefully balance the imposition of additional regulatory burden and cost alongside the need to monitor compliance with the DEI Code.

<QUESTION_08>

9. Would it be helpful if the Implementation Guidance to the Code is reviewed and updated annually or less frequently?

<QUESTION_09>

PMAC believes that an annual review of the Implementation Guidance, informed by the reporting received from DEI Code signatories, will be especially helpful in the early days of the DEI Code's launch. This is important since DEI practices and ideas will continue to evolve. There should be a balancing between reviews and updates to make the Implementation Guidance current and responsive to the current climate without imposing undue burden caused by a series of incremental changes to the Implementation Guidance that are not of material importance and impact.

<QUESTION_09>

10. Would your firm be prepared to contribute examples of tested DEI practice to update the Implementation Guidance to the Code?

<QUESTION_10>

PMAC did not receive any member feedback on this question.

<QUESTION_10>

DEI CODE AND IMPLEMENTATION GUIDANCE FOR INVESTMENT ORGANIZATIONS

General comments section

11. General comments on the Code and Implementation Guidance:

<COMMENT_11>

While members are generally supportive of both the DEI Code and Implementation Guidance, they note that the DEI Code should encourage firms to candidly identify the barriers to DEI - including regarding DEI reporting - that exist in their organizations prior to adopting the DEI Code. Without honest self-reflection, it may be more difficult for the firm and its employees to implement the DEI Code in a meaningful way.

The most significant concern raised by PMAC members regarding the DEI Code is the impact that the checklist approach under the DEI Code and reporting may have on smaller and mid-sized asset managers and/or at firms who are in the early stages of implementing DEI initiatives. There are two main issues identified regarding getting these types of firms to sign onto the DEI Code, complete the checklist and provide accurate reporting under the Data Template, as set out below.

1) Encouraging a safe space for firms to explore and take-up DEI initiatives

While many Canadian asset managers have implemented DEI programs at their firms, many others have yet to start or are in the very early stages of this process. To incentivize these firms to adopt the DEI Code – or even to consider the benefits of DEI practices in general – members suggest that the CFA Institute provide resources for such firms. For example, the CFA Institute could provide guidance and education for firms looking to eventually become DEI Code signatories. These resources could be focused on improving understanding of DEI issues and on how to adopt DEI policies and practices to arrive at a stage where firms are ready to become signatories of the DEI Code. Another suggestion is to create an entry-level category for firms so that they can be non-reporting signatories of the DEI Code. These firms would not report nor be able to publicly claim their adherence to the DEI Code but can use it as a guideline and training tool to build toward the ability to formally adopt the DEI Code.

In an industry where so many of the expectations are legislated and clearly delineated, DEI remains a nebulous area for many firms. We encourage the CFA Institute to provide education regarding what adopting DEI policies means for firms, clients and the industry as a whole and around ways to create a safe space for respectful discussion about DEI.

2) *Encouraging disclosure from smaller firms / supporting employees at smaller firms*

Members are concerned that employees at smaller firms or firms in the early stages of adopting DEI policies may have their personal information and experiences inadvertently disclosed to senior management because they are the only individual at the firm that belongs to a certain group or groups. As a result, reporting on DEI metrics could have the perverse result of making these employees uncomfortable and/or alienating these employees, disclosing their personal information (which raises privacy issues) and ultimately undermining the quantity and quality of feedback on DEI data collected by firms.

This concern is amplified for individuals – regardless of the size of their firm – who are diverse in more than one way that the DEI Code is asking firms to report on. The intersectionality of a person's race and gender, for instance, could reveal which employee provided certain information and feedback on the Data Template. This could have a disproportionately negative impact on that individual's willingness to disclose personal information (or a negative impact if their feedback is used against them by management) than it would for an employee whose identity is less likely to be known due to the fact that they are, for example, white and male.

We urge the CFA Institute to seek additional ways to mitigate the risks for employees while preserving the need to collect accurate data around DEI. One approach would be the creation of an independent third-party data collection service where employees would be able to report anonymously directly to the CFA Institute with a firm-specific identifier with only aggregate information provided back to the firm and reported to the industry.

We also note that smaller firms may also have slower employee turn-over than larger firms and their data reporting and progress against DEI metrics on the checklist may not be as rapid as larger-sized asset managers. We believe that benchmarking reporting on DEI metrics against similarly sized firms as well as against the wider industry would provide more meaningful comparisons.

<COMMENT_11>

12. Comments on Principle #1 and associated Implementation Guidance:

<COMMENT_12>

PMAC is supportive of the commitment to expanding the diverse talent pipeline. Members see a role for the industry as a whole to engage in outreach to help amplify the message about careers in asset management to a wider audience. PMAC believes that the CFA Institute can and should play an even greater role in education and encouraging the pipeline. Many smaller firms will not have the resources to effectively engage with a wider audience while the CFA Institute does.

Members encourage firms to showcase absolute versus relative data to provide a sense of progress on the DEI Code's principles. Noting the success of the Global ESG Benchmark for Real Asset (**GRESB**) as a driver of change in the real estate industry, members believe the DEI Code could aspire to similar prominence.

<COMMENT_12>

13. Comments on Principle #2 and associated Implementation Guidance:

<COMMENT_13>

With respect to the commitment to designing and implementing inclusive and equitable hiring and onboarding practices, PMAC believes that the Implementation Guidance should encourage firms to use quantitative assessment tools in addition to qualitative assessments of candidates during the hiring process. We believe that incorporating an objective, competency-based analysis of candidates – for instance, using a skills rubric given to those involved in the interview and hiring process or third-party testing – would help to focus interviewers on the matrix of skills required to perform a role, as opposed to relying on more subjective instincts about the candidate which may be predicated upon a common background or interests to the exclusion of others.

<COMMENT_13>

14. Comments on Principle #3 and associated Implementation Guidance:

<COMMENT_14>

Regarding the commitment to design and implement inclusive and equitable promotion and retention practice to reduce barriers to progress, PMAC believes it would be helpful to include practice guidance in the Implementation Guidance about tracking diverse employee statistics based on their roles and/or seniority in the organization. Noting a distinct paucity of diverse employees in portfolio manager (advising representative) roles as well as in client relationship management roles, members see the impact that tracking diversity based on job description as opposed to the entire firm could have.

<COMMENT_14>

15. Comments on Principle #4 and associated Implementation Guidance:

<COMMENT_15>

The CFA Institute notes in the practice guidance (at paragraph ii) that:

> Compensation can reflect the successful integration of DEI processes and activities, with an eye on goals and objectives as well as their outcomes. This strategy should be

pursued with care, however. Some social scientists question whether compensation should be tied to performance related diversity metrics. *An extensive literature suggests that incentives tend to backfire, crowding out internal motivation to do the thing that is being incentivized, which in this case is creating fairness.* That dynamic applies to stock options and to incentive-based pay generally. [Emphasis added]

The source(s) for this comment should be provided and the CFA Institute should consider removing the italicized portion of the statement from the Interpretation Guidance. This is a sweeping statement about the dangers of linking DEI to pay/performance incentives; it would be more useful to provide the sources informing this critique and to focus on having firms establish the right incentives to motivate accountability. We generally support proposals that link executive compensation to a firm's achievement of goals that go beyond traditional financial metrics, provided that these goals are aligned with improving the firm's long-term performance and sustainability. Effective DEI metrics do generally align with this approach. We believe that a more nuanced discussion around the risks and benefits of tying DEI-related metrics to compensation could assist firms in creating direct accountability for senior management and executives while improving DEI initiatives at the firm.
<COMMENT_15>

16. Comments on Principle #5 and associated Implementation Guidance:

<COMMENT_16>
The CFA Institute notes that this Principle includes "the creation of robust, regular review processes for service providers, sub-advisors and vendors with respect to DEI practices proportionate to our firm's size." However, the Implementation Guidance refers to asset owner and allocator recommendations for investment managers, and asset owner and allocator recommendations for themselves. There is no Implementation Guidance on vendors and the level of due diligence required to determine their DEI practices. We do not believe vendors should be included in this Principle, and the focus should remain on asset owners, asset allocators, and investment managers.

In the practice guidance at paragraph vii, the CFA institute notes that asset owners and allocator recommendations for investment managers should “Encourage managers to consider divesting companies that raise DEI concerns within their Impact Investing/ESG strategies and to analyze DEI impacts for all relevant investments.” We do not agree with this consideration as asset managers may integrate material ESG factors into their investment process, such as DEI, and look at the overall risk of this factor, among others, when reviewing the actual investment. In some cases, divestment may be prudent, but the asset manager may also reduce the allocation of the issuer, or perhaps engage with the issuer through various stakeholder engagement strategies and discuss the management of the factor moving forward. In some cases, if sufficient management of the DEI factor occurs, the company may still be investable and there could be potential for further financial opportunity. As such, we suggest amending the guidance to remove the reference to divesting.

In practice guidance xii, the CFA Institute notes that asset owners and allocators should “Incorporate DEI goals in the investment policy statement (IPS). If the firm does not have an IPS, investment staff can have a distinct effort for DEI outside of an IPS.” It would be helpful to further understand the nature of the DEI goals that would be recommended in the IPS; is it CFA Institute’s intention that this relate to servicing the account or to the actual investments within the portfolio? If the latter, we believe that this could cross the line over into firms’ ESG policies and, as such, would be more appropriately dealt with outside of the DEI Code.

In practice guidance xiii, the CFA Institute proposes “Embed[ing] DEI information requests in manager research process: c. investment team composition”. As noted elsewhere in this submission, in many cases for Canadian asset managers, investment teams may be small (i.e., less than 10 people), resulting in potential limitations to what DEI data can be released, due to privacy concerns.

<COMMENT_16>

17. Comments on Principle #6 and associated Implementation Guidance:

<COMMENT_17>

The CFA Institute notes in practice guidance x that, "Signatories should strongly explore tying management incentives to agreed-upon targets and goals to help ensure real, measured progress is achieved just as with any other business initiative. See contextual information under Leadership Principle." Further to our comments in Question 15, we believe that this contradicts the statement in Principle 4 ii and our comments about tying DEI related performance to compensation. These differences should be reconciled as recommended by PMAC in our response to Question 15.

<COMMENT_17>