HYMANS ROBERTSON

Responsible Investment

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Navigating the anti-DEI backlash

In recent months, the corporate world has witnessed a significant backlash against Environmental, Social and Governance (ESG) initiatives, as addressed in our Q1 News and Views publication. This backlash has had profound implications for Diversity, Equity and Inclusion (DEI) efforts. As we navigate this challenging landscape, it's crucial to understand the origins of the DEI backlash, the implications for businesses and asset owners, and the actions investors can take.

Rise of the anti-DEI backlash

Anti-DEI rhetoric has been amplified by US politics and the executive order signed by President Trump, but it's important to take a step back and understand the roots of this challenge – and whether addressing some pushback can result in stronger and more effective DEI efforts.

Despite DEI's roots in providing equal opportunity, some argue that programmes are discriminatory, giving preferential treatment to certain groups, prioritising identity over merit and therefore lowering performance standards. However, the aim of DEI initiatives is to expand the talent pool, ensuring all qualified individuals have equitable access to opportunities as opposed to disadvantaging any one group. When implemented effectively, DEI removes systemic barriers, allowing individuals to rise based on skill and merit.

DEI initiatives take time to implement. Attempting to effect them through unrealistic short-term plans or targets can lead to unintended consequences for corporates and asset managers. While DEI targets can provide a yardstick for measuring progress of initiatives, these should be well considered, tailored to individual businesses, sectors and regions, and have appropriate timelines to ensure they can be met through inclusive practices without compromising merit.

A further barrier to effective DEI initiatives may come from the lack of clarity about what DEI involves. The principles of DEI – fairness, respect and opportunity – are not trends, but rather core business requirements. DEI merely serves as the vehicle to achieve the business need of fostering inclusive environments with strong employee engagement to encourage diversity of thought, attract top talent and promote lower attrition.

Recent pushback may also reflect that DEI initiatives are not 'one size fits all'; companies start from different places and have diverse internal cultures, requiring nuanced approaches. This may be recognised under different names, such as 'fairness'.

When developed and delivered effectively, DEI strategies can remove systemic barriers, improve employees' experiences and support business success. The recent criticism of DEI initiatives presents an opportunity to examine their effectiveness in different contexts.

What are asset managers doing?

At a corporate level, several asset managers (especially those headquartered in the US) have made changes to their DEI programmes. For example, BlackRock has scaled back its DEI programme and JP Morgan is shifting its language towards 'opportunity'.

At an investment level, there's also evidence of a change in approach to stewardship and engagement with companies on behalf of investors. For example, while State Street still associates itself with the iconic 'Fearless Girl' statue, it's dropped expectations around board diversity in its investee companies. ISS, the proxy adviser, has also removed consideration of diversity factors in making vote recommendations with respect to directors at US companies.

As asset managers reassess their positions, uncertainty remains. We see four likely approaches from businesses and asset managers:

1. Missed opportunity: continue to prioritise DEI but fail to review policies and implementation, risking unintended consequences.
2. Retreat entirely from DEI: ending of firm-level DEI initiatives and consideration of DEI topics in investment and stewardship activity.
3. Quiet reframing: change of language but quietly continue to support principles of DEI.
4. Healthy re-evaluation: opportunity taken to ensure DEI initiatives are effective, reviewing objectives, implementation and timescales.

Where asset managers change their policy expectations of company management in the oversight of DEI initiatives, these should be monitored and challenged to ensure they're consistent with long-term business success. DEI and anti-DEI resolutions are likely to come under greater scrutiny over this AGM season (see following article), as will any evolution in the approach taken by asset managers in voting on them.

In response to this year's updated US Securities and Exchange Commission (SEC) guidelines regarding asset ownership, US-based asset managers have weakened their engagement efforts. Other managers are likely to increase oversight of stewardship programmes and continue to evaluate the implications of changed guidance. What's clear is that managers continue to evaluate and adapt their engagement efforts, heightening the need for monitoring, communication and challenge from asset owners through their own stewardship programmes.

What can investors do?

Investors are interested in the success of businesses, which DEI initiatives support. Asset owners who prioritise DEI as an engagement theme can consider two actions.

Firstly, they can continue to learn about the topic (and the pressures faced by companies and asset managers) and retest the outcomes sought by their engagement efforts.

Secondly, they can engage with asset managers. Where asset managers change their policies or expectations of companies, asset owners should understand changes and challenge managers on whether the new approach is in their best interests – or whether they're bending to political pressure. Continued assessment of corporate DEI initiatives and their effectiveness is healthy, and asset owners can discuss with their managers what their findings are and how this is fed back to company leadership.

Navigating the anti-DEI backlash requires a delicate balance but offers the opportunity for healthy examination of the implementation and objectives of DEI initiatives and stewardship efforts. In a changing environment, communicating values and expectations to other stakeholders is crucial. By understanding the origins of the anti-ESG and DEI backlash – and the broader context of pressures on asset managers and corporate decision making – asset owners can make informed decisions that uphold their values and drive positive change.

Please reach out to your investment consultant to discuss how we can help.

Significant votes: diversity, equity and inclusion

As can be expected, the pushback against diversity, equity and inclusion (DEI) initiatives covered in our main thought piece has extended to shareholder resolution. The National Center for Public Policy Research (NCPPR), a conservative think-tank, has filed several anti-DEI proposals at multiple companies, outlined in the table below:

Company	Date of AGM	Resolution	Board Recommendation	Pass/Fail
Apple	25 Feb	Request to Cease DEI Efforts	Against	Fail (2.3% votes in favour of the resolution)
Costco	23 Jan	Request Report on Risks of Maintaining DEI Efforts	Against	Fail (2% votes in favour of the resolution)
Bristol Myers Squibb	6 May	Request to Cease DEI Efforts	Against	Upcoming
John Deere	26 Feb	Report on Racial and Gender Hiring Statistics	Against	Fail (1.3% votes in favour of the resolution)
IBM	29 April	Request a Report on Hiring / Recruitment Decisions	Against	Upcoming
Levi Strauss	23 April	Request to Cease DEI Efforts	Against	Upcoming

Anti-DEI resolutions are nuanced

While these proposals range in nature, they primarily ask companies to cease DEI efforts, with NCPPR noting “it's clear that DEI poses litigation, reputational and financial risks to companies, and therefore financial risks to their shareholders, and therefore further risks to companies for not abiding by their fiduciary duties.”

At Deere, the proposal was slightly different, with NCPPR asking the company to “produce a report on statistical differences in hiring across race and gender globally and/or by country, where appropriate, including associated policy, reputational, competitive, operational risks, and risks related to recruiting and retaining talent.” Meanwhile, Costco was asked for a report on the risks of the company maintaining its current DEI roles, policies and goals.

As shown in the table, the respective company boards recommended that shareholders vote against the proposals. Apple reasoned that the proposal was inappropriate as it aimed to micromanage business operations, noting that it doesn't discriminate in recruiting, hiring, training or promoting on any basis protected by law.

Recognition of DEI initiative benefits

Costco issued a strong response, noting that while NCPPR had suggested its DEI programme may result in "legal and financial risks to the company and its shareholders", it was confident that its DEI policies were not only lawful but helped foster good relationships with customers, suppliers and employees. Costco went further to say that NCPPR was instead "inflicting burdens on companies" by challenging their longstanding diversity programmes. In response to the resolution, Costco also stated it believes that having diversity "fosters creativity and innovation in the merchandise and services that we offer to our members."

This view is supported by the chief executives at both JPMorgan and Goldman Sachs, who have spoken out against shareholders aiming to block their DEI policies. Jamie Dimon, CEO of JPMorgan, has said the bank will continue to include marginalised groups in its business because they're "good for the bottom line", while David Solomon, CEO of Goldman Sachs, said DEI policies are important to keep the bank in sync with the diversity of its client base. There's a strong business case for major banks and asset managers to support DEI efforts to expand their pool of qualified staff, borrowers and investee companies.

The sentiment that DEI adds value appears to be shared by many investors and executives, with the anti-DEI resolutions that have gone to the vote so far this year receiving very little support.

The CEO of As You Sow, a shareholder advocacy group, noted that "this string of epic failures sends a powerful signal to all of those trying to use the shareholder proposal process to manipulate the free markets." Going further, the group said that "shareholders understand that diversity and inclusion are material to profitable growth."

Wider implications of anti-DEI backlash

However, in the face of this pressure from anti-ESG activists and think tanks, some companies, including Deere, Ford, Walmart and Meta, have been accused of rolling back their DEI programmes without shareholder consultation.

Following the anti-DEI resolution at Deere, it publicly stated: "We fundamentally believe that a diverse workforce enables us to best meet our customers' needs and because of that we will continue to track and advance the diversity of our organization. We also believe that a diverse workforce that reflects the communities we serve is essential to our long-term success." While the anti-DEI resolution wasn't passed, Deere has still been impacted by the ongoing pressure. In response to this, the company announced last year that it would stop participating in "external social or cultural awareness events" and "take steps to ensure the absence of socially motivated messages" in training materials and policies.

This led As You Sow to file a pro-DEI resolution at the same 2025 AGM, which Deere once again recommended a vote against. The resolution asked Deere to "Report on Effectiveness of Efforts to Create a Meritocratic Workplace", noting that quantitative data was sought so that "investors can assess and compare the effectiveness of companies' efforts to ensure meritocratic workplaces through DEI efforts."

Alongside the resolution at Deere, As You Sow has filed at several other companies that have been criticised for rolling back on DEI proposals, including Ford, Goodyear, Harley Davidson and Tractor Supply.

The current pushback against DEI has seen a number of shareholder resolutions at AGMs on the topic, both in support of and against corporate DEI programmes. The filing of thoughtful and considered shareholder proposals, as well as voting, continue to be critical stewardship tools for investors to communicate their expectations of a company, and should be consistent with investors' engagement asks.

Alignment between asset owners and managers is essential in achieving responsible investment aims. Asset owners should engage with their managers to determine how they have voted on DEI resolutions, how they plan to vote on upcoming resolutions and if this is in line with expectations.

ESG SNIPPETS

Nature conquers at COP16

Countries recently agreed to a strategy for mobilising at least $200bn per year by 2030 during COP16 talks in Rome. A permanent arrangement for providing biodiversity finance to developing nations was also agreed, despite the US deciding to withdraw most of its nature funding. However, vast progress will be needed to have a chance of halting and reversing biodiversity loss over the next five years. Worryingly, only a minority of countries have so far submitted full action plans.

> Biodiversity continues to be a focus in international cooperation. Asset owners should think about how to integrate biodiversity into their investment decision-making processes through considering nature reporting alongside climate, as well as continuing to include biodiversity and nature on engagement agendas.

EU taken to extra time on sustainability

The European Parliament and Council have voted to adopt a proposal to delay the enforcement of the Corporate Sustainability Reporting Directive (CSRD) by two years and the Corporate Sustainability Due Diligence Directive (CSDDD) by one year. This provides companies with more time to prepare and reduces their administrative burden; however, it could slow the progress of the EU's green agenda and weaken its leadership in setting global sustainability standards.

> While the CSRD and CSDDD delays offer companies a temporary reprieve, asset managers should still strive for increased transparency through ESG reporting. These delays provide an opportunity for asset owners to continue engaging with their managers to understand their plans and approaches for reporting. The fundamental shift towards enhanced sustainability disclosure and due diligence persists, demanding that asset owners and managers keep focusing on the longer term.

Stewardship suffers by SEC

The new guidance sees the SEC's interpretation of the 'ordinary business', 'micromanagement' and 'economic relevance' rules for shareholder proposals tipped in favour of the companies by making it easier for them to exclude shareholder proposals. Guidance bringing more onerous filing requirements for asset managers that hold more than 5% of a company was also introduced.

> The current anti-ESG sentiment in the US could weaken asset managers' abilities to engage effectively on behalf of their clients. Asset owners should take the time to understand how their managers are navigating this challenging backdrop and ensure that manager alignment with their beliefs and goals remains.

Bullish on bullets

Adapting to the volatile geopolitical picture, the UK and various European governments announced increased defence spending to 2.5% of GDP. On the back of this (and very strong performance from the defence sector), Labour parliamentarians signed an open letter calling on banks and fund managers to "rethink ESG mechanisms that often wrongly exclude all defence investment as unethical." There have already been developments on this front, with one of Europe's largest asset managers now allowing nuclear and conventional weapons companies into most of its sustainable funds, in one of the largest policy reversals on arms to date.

> While many equity strategies exclude controversial weapons from investment portfolios, these typically don't have broader defence exclusions. Excluding companies with any tie to controversial weapons removes around 0.5% of the MSCI World Index. Exclusion of conventional weapons is more commonly a feature of sustainable funds and represents a much larger prohibition. We recommend asset owners review the policies of the funds they hold to ensure their investments are aligned with their principles.

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Important Information

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