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DIVERSITY IN PORTFOLIO MANAGEMENT

UNDERSTANDING THE DIVERSITY CHALLENGE FACING THE ASSET MANAGEMENT INDUSTRY, WHAT FIRMS ARE DOING ABOUT IT, AND WHAT STILL NEEDS TO BE DONE

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> There is broad consensus that diverse voices enhance investment performance by increasing diversity of thought, which improves decision-making and investment idea generation while guarding against groupthink. But the industry has a long road ahead to cultivate the diverse workforce that can bring all these benefits.

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INTRODUCTION

What this report is about

Financial services firms are under ever-increasing pressure from government, regulators and clients to recognise the importance of a diverse workforce and strive to improve the diversity of their staff, and quickly. Yet there are some sectors of the industry – including asset management – that don't appear to be responding to this pressure as urgently as they could.

This research aims to understand in tangible terms what it is about the asset management industry – and portfolio management specifically – that makes building a diverse workforce so challenging. It provides an overview of the concrete steps some firms are already taking to improve diversity, and a practical guide to what needs to happen in order to accelerate the pace of change. Our analysis looks at:

- **Setting the scene**: how homogenous is the universe of portfolio managers? Why does this matter, and why now?
- **What does it take to be a portfolio manager?**: what is the essential skill set, and what has become the expected norm?
- **Identifying the barriers to entry and progression for a potential portfolio manager**: are they unique to this industry? Do the barriers disproportionately impact women and people of diverse backgrounds?
- **The industry's response**: what are asset management firms doing to improve diversity?
- **The challenges ahead**: our reflections and analysis of what the industry still needs to do to prompt a sustainable change in portfolio management.

While we accept that government and society as a whole have an important role to play, this report focuses on what the industry itself can do to drive improvements in diversity. We have deliberately highlighted a wide range of interesting practices and ideas shared by participants in this research to stimulate firms to discuss, collaborate and take actions that will shift the industry's thinking from doing the bare minimum to setting high standards.

Methodology

New Financial conducted meta research to build a dataset on diversity amongst portfolio managers across as many diversity strands as possible. We also conducted interviews with more than 100 market participants from over 40 firms across the asset management industry, including portfolio managers (both past and present), aspiring portfolio managers, chief investment officers, asset owners, investment consultants, heads of HR, and heads of diversity and inclusion. All interviews were conducted by Olivia Seddon-Daines, with contributions from Elizabeth Pfeuti, Eivind Friis Hamre and Christian Benson, under the supervision of Yasmine Chinwala.

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NEW FINANCIAL
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New Financial is a think tank and forum that believes Europe needs bigger and better capital markets to help drive its recovery and growth.

We believe diversity in its broadest sense is not only an essential part of running a sustainable business but a fundamental part of addressing cultural change in capital markets.

We provided data to Jayne-Anne Gadhia's government-backed review of senior women in financial services, *Empowering Productivity*, and we are working with HM Treasury to review the progress of signatories to the HMT Women in Finance Charter.

New Financial is a social enterprise that launched in September 2014. We are funded by institutional membership.

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SUMMARY

Fig.1 Comparison of the top barriers to entry / progression and the most common industry actions

Top five barriers and actions based on frequency of mentions in interviews and our analysis of gender pay gap action plans

Top five barriers

1. The 'meritocracy myth'
2. Line manager's attitude
3. Low turnover of portfolio managers
4. Narrow recruitment patterns
5. Loss of performance continuity through leave of absence

Top five industry actions

1. Casting a wider net at entry level
2. Recognising and countering unconscious bias
3. Updating HR policies
4. Improving flexible working
5. Increasing support to potential female leaders

Highlights of the report

1. **Moving up the agenda:** diversity is moving up the agenda of the asset management sector. In the context of portfolio management, there is a broad consensus that diverse voices enhance investment performance by increasing diversity of thought. This in turn improves decision-making and investment idea generation while guarding against groupthink.

2. **Under pressure:** asset managers are under increasing pressure to improve diversity (and quickly) from both external and internal sources. Government, regulators and clients all want to see increased representation from women and minority groups, while employees are also becoming frustrated by the glacial pace of change.

3. **A low base:** our research paints a stark picture of portfolio management dominated by white, middle class, straight men. Only 4% of UK fund assets are managed exclusively by women, compared to 85% run by men. During our research we came across only 12 black portfolio managers based in London, and nearly two-thirds of the industry's leaders went to private schools.

4. **The perfect profile:** the essential skill set for a portfolio manager includes numeracy, intellectual curiosity, analytical ability and an aptitude for learning. However, this broad objective view of who could be a portfolio manager does not reflect the reality of the narrow, subjective criteria that determine who actually makes it.

5. **Barriers to entry:** we identified 18 barriers to entry and progression for portfolio managers. The top ranked barrier is the 'meritocracy myth': the asset management industry firmly believes that the best will rise to the top, that "merit" is objective, and that companies promote and reward based purely on performance – however, this is not the case.

6. **A generalist approach:** asset management firms are not yet tackling the lack of diversity in portfolio management specifically, nor does it appear to be a priority. While they recognise barriers to entry and progression exist, there is a relative lack of understanding of how these barriers are prioritised and their cumulative effect.

7. **A push to collaborate:** our research found a distinct lack of collaborative spirit amongst asset managers. The biggest barriers cannot be tackled by any one firm on their own – peers will need to come together to discuss and set industry standards, and work with the wider investor community, including asset owners and investment consultants to accelerate the pace of change.

8. **A disconnect:** there is a disconnect between our top barriers and the most common actions taken by firms to improve diversity. Only one of the top five actions points we identified directly answers a top five barrier, and we observed very little activity in response to the remaining four barriers.

9. **Signs of change:** asset management firms have begun a concerted effort to review, update and formalise their HR policies. While they may not be breaking new ground compared to other business sectors, this shift signals an encouraging change in thinking for an industry that has become stuck in its ways and sometimes been reluctant to embrace change.

10. **Widening the gene pool:** the industry is also turning its attention to improving diversity at entry level and raising the profile of asset management as a career to feed the future pipeline of portfolio managers. Firms are playing a more active role in graduate recruitment by introducing structured programmes and looking beyond STEM graduates and the same handful of universities.

SETTING THE SCENE: WHY IT MATTERS AND WHY NOW

Why is diversity important in portfolio management?

In this report we are not re-examining the general business case for diversity – there is a large and varied cannon of research and resources looking at the impact of different aspects of diversity on various measures. Instead, we are focusing on why diversity matters in the context of portfolio management. We found a strong consensus across the industry that more diverse groups contribute to more diversity of thought that enhances investment performance in three main ways (in order of priority):

1) To optimise decision-making
2) To generate investment ideas
3) To guard against groupthink and herd mentality

Why does diversity matter right now?

The asset management industry is facing powerful headwinds: rapidly evolving technology, regulatory changes, demands for greater transparency, and for higher returns at lower cost are all putting pressure on the traditional business model. All of these factors mean the sector, perhaps now more than ever, needs to be in a position to attract, retain and harness the talent and contributions from the broadest possible range of staff to innovate and compete.

There is also increasing pressure to improve diversity from several directions:

> Government: The UK government wants to encourage greater diversity – and particularly more women – in the financial services industry with initiatives such as the HM Treasury Women in Finance Charter and compulsory gender pay gap reporting (the asset management bonus gap of 65% is the biggest in financial services). Within the past year, the Treasury Committee published its Women in Finance report, and HM Treasury mentions the importance of diversity in its UK Investment Management Strategy.

> Regulators: The Financial Conduct Authority is explicitly incorporating culture and diversity into its discussions with regulated firms. This year, four contributors to the FCA's discussion paper Transforming Culture in Financial Services raised diversity as a means to tackle groupthink. Other bodies such as the European Banking Authority and European Securities & Markets Authority are beginning to incorporate diversity into their approach.

> Clients: Diversity is moving up the agenda for asset owners and investment consultants. While it is early days, New Financial's own research on Diversity from an Investor Perspective shows that diversity is beginning to influence how asset owners appoint and interact with their financial intermediaries. Diversity questions are coming up more frequently in RFPs, there are more of them and they are more focused. Asset managers need to be prepared to answer more questions about their approach to diversity when pitching for mandates.

> The evolving role of asset managers: As responsible stewards of capital, asset managers themselves are increasing their engagement with investee companies around diversity, particularly challenging boards to add more women. Asset managers need to at least be seen to be tackling their own diversity challenges in order to be credible critics.

"The most enduring principle of sound investment management is diversification, yet it is remarkably absent from team construction across all spectrums of the investment profession"

CFA Institute research

"For the asset management industry, diversity of perspectives is especially important to effectively engage with clients and to make the right investment decisions. By tapping into the widest talent pool, asset managers can encourage innovative thinking, respond to a wider range of clients, and develop more resilient and global business models"

HM Treasury, UK investment management strategy

Defining portfolio management

For the purposes of this research, we define portfolio managers as individuals with responsibility and ultimate accountability for investment decision-making. We deliberately chose to keep our definition narrow, as our starting point is that investment decisions are fundamental to what the industry is and does.

However, we recognise every asset management firm is different and has its own definition of the cohort often referred to as "investment professionals" or the "investment team" or "investment function". The difference between analysts and named portfolio managers will be very clear and rigid at some firms, while for others it is more fluid. Roles and job titles which sit within "investment" also varies by firm – some include support functions, operational functions, product approvals, RFP writers, sales, distribution and marketing.

SETTING THE SCENE: THE INDUSTRY TODAY

How diverse is the portfolio management industry?

It is widely acknowledged that the asset management industry – and particularly portfolio management – is dominated by white, middle class, privately-educated, middle-aged, heterosexual men. We conducted meta research to quantify and qualify this intuition. The reality is even starker than the industry may be willing to admit.

While this research covers all diversity characteristics for which we were able to source data, New Financial's own research on Diversity Disclosure shows gender is the primary area of focus for the majority of financial services firms, followed by ethnicity and LGBT. Other diversity characteristics such as socio-economic background, disability, age and neurodiversity are less commonly tracked. The quantity and quality of data presented here reflects this.

Gender

> The CFA Institute's Gender Diversity in Investment Management 2016 survey of its members found just **15% of portfolio managers were female**, 10% of CIOs, and 14% of research / investment / quantitative analysts. The roles with more women are performance / compliance analyst / officer and relationship / account manager, but women hold less than one in three of these jobs. CFA data indicates female CFA members are more likely than men to report having jobs that support or service those working in investment management.

> The Citywire Alpha Female 2018 report found only **one in 10 fund managers is a woman**, out of the 16,084 active fund managers tracked in Citywire's global fund management database. **Women also manage less capital than men,** are more commonly found in smaller niche areas of the market or those which are less liquid. Of the 1,452 managers running UK-domiciled funds, 4% of assets under management are run exclusively by women (one woman or female-only team), 85% are run exclusively by men (one man or a male-only team), and 11% are run by mixed teams.

> The Diversity Project/Mercer Benchmarking Study 2017 found **women account for 22% of investment managers and 47% of "adjacent talent"** (although the Mercer study's definition is much broader than the PM definition we use in this research).

> New Financial's analysis of gender pay gap reporting data by asset management firms shows **women account for 21% of the top quartile of jobs by hourly pay**, where the best paid portfolio managers will sit. This is below the financial services sector average of 28%.

> New Financial's own research Counting Every Woman shows that women are under-represented at the highest levels of decision making across the asset management industry – **27% of board members are female and 18% of executive committee members**. While neither measure equates to directly to portfolio management, they are useful indicators of the lack of female representation at the highest level of decision-making.

Ethnicity

> A joint survey conducted by FundFire and the Money Management Institute breaks down the percentage of white employees across different roles at 23 US asset management firms representing $5.3 trillion of assets under management. White staff account for:

- 86% of managing directors
- 84% of senior portfolio managers
- 80% of portfolio managers
- 77% of portfolio manager associates
- 73% of analysts

> The Diversity Project/Mercer Benchmarking Study 2017 found of investment managers:

- 1% are black / African / Caribbean / Black British
- 10% are Asian / Asian British
- 5% are from mixed / multiple ethnic groups
- 81% are white / white British.

To put this in context, 40% of the working age population in Greater London is BAME, according to census data.

Socio-economic background

A 2014 study from The Boston Consulting Group for the Sutton Trust found 61% of leaders of asset management firms went to independent schools, while the Diversity Project/Mercer Benchmarking Study 2017 found 38% of investment managers have a private school education.

LGBT+, Disability, Age

The Diversity Project/Mercer Benchmarking Study 2017 found 95% of investment managers are heterosexual, 4% have disabilities (compared with 11% in the UK), and 12% are 51-60 years of age.

WHAT DOES IT TAKE TO BE A PORTFOLIO MANAGER?

Key competencies

The CFA Society UK lists 16 competencies of a portfolio manager under three categories:

Technical
- Industry knowledge and awareness
- Idea generation
- Portfolio construction
- Technology and systems
- Risk management
- Regulatory awareness

Professional and business
- Intellectual curiosity
- Drive, resilience and adaptability
- Communication
- Marketing / Client management
- Dialogue with compliance
- Leadership
- Regulatory training and compliance

Ethics
- Navigate grey areas
- Self-policing
- Shaping ethical standards and culture

Skill set

We asked portfolio managers (both past and present) and wider industry participants with experience of working with both good and bad portfolio managers what skills they value in a portfolio manager. We found widespread agreement around the main attributes and skills that make a good or even great portfolio manager. The eight presented here are by no means definitive – portfolio managers obviously need a range of skills and these will vary depending on the type of portfolio and the type of manager.

While the skill set articulated by our interviewees is broad and inclusive, we were repeatedly told that in practice the criteria for recruitment and promotion are much narrower. An open discussion about how to address this disconnect in portfolio management across the industry appears to be in its early stages.

Top eight attributes

1. **Numeracy:** portfolio managers need to be numerate but do not need to be able to run complex equations in their heads or have a PhD in physics. They should be able to "get deep into a company"; look at a balance sheet and be able to spot anomalies and patterns. Much of the mathematical heavy-lifting and number-crunching doesn't necessarily fall on the shoulders of individual portfolio managers.

2. **Intellectual curiosity:** an enquiring and questioning mind is a critically important attribute of a portfolio manager. An interest in global affairs, economics, geopolitical and regulatory developments, how companies work, and how markets react, were cited as evidence of this attribute.

3. **Analytical ability:** portfolio managers need to know how to gather and analyse information, how to make decisions guided by evidence even when they don't have the full picture. They also need to know what an event or data point means in the context of their strategy and how it is likely to impact the future.

4. **Aptitude for learning:** learning from experience and understanding the probabilities of what will happen in the future based on what has happened in the past is key. This includes understanding the context of what is happening and learning how to reflect on and learn from their behaviour when things go wrong.

5. **The right balance of confidence and humility:** not allowing confidence to develop into arrogance is seen as critical. Portfolio managers need to be confident in their methods and strategy, even in the face of short-term performance pressure or financial loss, but have the humility to revisit ideas as the situation changes.

6. **Ability to challenge and openness to being challenged:** portfolio managers are paid to ask probing questions and have an informed view but their view will also be challenged by investors, consultants and other team members. In this context they need to have the ability to process and respond to criticism constructively.

7. **Courage of conviction:** consistency in approach and the strength of mind, the patience and the resilience to hold a view or maintain the line unless faced with factors that convince them to change their position, is highly prized.

8. **Communication:** portfolio management is a collaborative endeavour. To be successful, you cannot rely on numbers and analysis alone but must also have soft skills to engage with clients and consultants and to get the most from analysts and team members.

WHAT DOES IT TAKE TO BE A PORTFOLIO MANAGER?

The persona of a portfolio manager

Our research found that while investment market participants start out with a very broad objective view of who could take up a portfolio manager role, in reality their expectations and perceptions of the profile of a portfolio manager narrow dramatically and are far more subjective. Interviewees attributed this disconnect to the widespread notion of a portfolio manager as having an alpha (male) personality, exuding confidence when they communicate, self-promoting, and vocal when it comes to taking ownership of good performance.

Research (such as Kennedy, Anderson, Moore, 2013) suggests confident individuals attain higher status regardless of whether their confidence is justified by ability – confidence is effectively misinterpreted as competence. While we certainly met many portfolio managers through the course of our research who do not fit that stereotype, its existence is pervasive and has an impact on the portfolio management pipeline.

Interviewees said it was common that after three to five years, analysts who do not fit the "confident" mould start to receive feedback from portfolio managers that they don't communicate enough or that they don't robustly defend their point of view – but are they really speaking less or are they not being heard? Are they more softly spoken or have different communication styles? A person who takes on comments, criticism and feedback risks being perceived as weak rather than thoughtful. Awareness of this bias, be it conscious or unconscious, is the first step towards overcoming it.

"The skill set to be a portfolio manager is incredibly varied. The idea that only a small group of people have it is a myth"
CEO, large asset manager

"We talk about the general attributes you need (enthusiasm, keen to learn, analytical etc.) but this doesn't seem to materialise in who gets picked to be a portfolio manager"
Credit analyst, fixed income

"There is a structural issue in the industry – how we recruit and the image we create of a fund manager: that they are an "alpha" type who takes big, punchy bets. It's off-putting for individuals who don't fit that mould. Taking a team-based approach is one way to break this down. There is a broader base of skills and is not individualistic"
CEO, large asset manager

Do you need to be a CFA charter-holder to be a portfolio manager?

The role of the Chartered Financial Analyst Program came up repeatedly through our research. While the exams and training have increased the professionalisation of the asset management industry, interviewees felt strongly that being a CFA charter-holder had become a baseline requirement to get onto the portfolio management track. They argued that the disproportionate emphasis that the industry places on the CFA Program has unduly narrowed the available talent pool, impacted diversity of thought, and puts women at a particular disadvantage because of the nature, timing and structure of the exams.

CFA Institute believes the CFA Program covers the core competencies that are necessary for portfolio management, but it does not represent all a portfolio manager does, and there are other ways asset managers can and should assess a candidate's competencies. The curriculum covers a broad set of principles, tools, techniques and knowledge that reflect the practices of the industry rather than narrowing diversity of thought.

However, according to academic research from Adams Barber and Odean, only 18% of CFA Institute members are female. On average, it takes between three and four years to pass all three exams, and women complete it by the average age of 29, according to data from CFA Institute. This timing is incredibly challenging for a woman who may be working, studying, and starting a family all at the same time. CFA Institute is leveraging its convening power to work with universities and asset managers to attract more women, but asset management firms could take a more proactive role in identifying and supporting future female portfolio managers through the exams from a younger age.

"It [CFA] is the common route into the industry. It is like the driving license to be an investment professional"
Senior portfolio manager

"It [CFA] brings people up to speed who've not gone the traditional route, but I am wary of a lack of cognitive diversity. There's a danger that it produces a lot of people with a similar way of thinking"
Portfolio manager

"A certain sort of person can pass the CFA, it's an endurance test"
Former portfolio manager

"The whole process is very intense and might suit someone straight out of university who is still used to exams and studying, but if you have small children, it is just not viable"
CEO, large asset manager

BARRIERS TO ENTRY AND PROGRESSION

The hurdles to diversity in portfolio management

This research aims to identify and understand the main barriers to entry and progression for women and people of diverse backgrounds in portfolio management. Below is a list of 18 barriers identified through both meta research and interviews with a wide range of market participants.

The barriers are ranked by their impact on the portfolio manager pipeline as described by interviewees, and by frequency of mention. While many of these barriers are present in many different sectors of financial services (and in the corporate world more widely), the way in which they are prioritised and the relationship between them makes their cumulative impact unique to portfolio management.

"Performance alone is not enough, even if it's consistent over the years. If you are a woman you have to consistently perfect. You live and die by your quarterly numbers but if you are a male fund manager, you are cut more slack"
Research analyst

"Men with mediocre performance continue to be promoted because they have stronger sponsorship or are in with the right factions or have the right personality"
Research analyst

"Career progression is not solely tied to merit, but is also based on ability to fit a narrative of how a "portfolio manager" should act / talk / present him / herself"
Portfolio manager, global equities

"It is easy to get a diverse slate at entry level – it is just a question of willingness. There is more demand now from senior leaders for diversity on slates but when it comes to senior hires companies are overly reliant on their existing networks/circles, which are not especially diverse"
Portfolio manager, fixed income

"Being away from your desk as a material risk taker is a real barrier"
Multi asset fund manager

1) The meritocracy myth: the asset management industry firmly believes that the best will, and indeed do, rise to the top, based on the assumption that "merit" is objective and neutral and that companies promote and reward purely based on performance. However, interviewees repeatedly said the bar was set higher for women and people of diverse backgrounds and they were perceived to be "high risk", while underperformance from a favoured individual seemed to be excused or rationalised away by managers.

2) Manager's attitude: in this sector – arguably to a higher degree than in others – an individual's prospects on pay and promotion are largely determined by a single line manager, and are therefore vulnerable to their manager's attitude and biases about working styles, aspirations and career prospects. Interviewees also said management was inconsistent across different teams, influenced by size, product style and even asset class.

3) Low job turnover: low turnover on investment teams is prized by clients and investment consultants as a sign of stability, and this argument is often raised as a reason why asset managers find it is so hard to refresh the portfolio manager pipeline. In practice, if hiring decisions are made infrequently without a consistent process in place, idiosyncratic reasons for choosing a white heterosexual man sound perfectly reasonable in isolation. It is only when appointments are monitored over a longer time period that patterns emerge and become harder to justify.

4) Narrow recruitment patterns: at entry level, the industry takes the path of least resistance by hiring STEM graduates from the same handful of universities; at mid-career level the pool is narrowed further by how "talent" is defined, identified and selectively developed, coupled with a very rigid view of the skill set required for a PM role. And as seniority increases, so does the emphasis on like-for-like replacement.

5) Loss of performance continuity through leave of absence: there is no industry standard on how this should be managed. Coupled with a lack of transparency about how leave will be handled with regard to pay, bonus and promotion, an extended absence for any reason (e.g. maternity, bereavement, illness, sabbatical) is highly problematic for a portfolio manager's track record.

6) Presenteeism: commitment and dedication to the job is largely judged by face time. Options for staff to control and / or vary their working patterns depends on the manager or team, and is perceived to come at a cost.

7) The morning meeting: while this comes under presenteeism, the inflexible need to attend "the morning meeting" in person was mentioned by so many interviewees that we have listed it as a separate barrier in its own right. Many portfolio managers travel regularly and attend client meetings, so it is accepted that they will miss team meetings, but for other team members attendance is virtually compulsory.

8) Lack of transparency around career progression: the transition from analyst to portfolio manager is neither linear nor clearly defined, and favours those who create noise and build relationships with senior portfolio managers in anticipation of a tap on the shoulder to say "you're next".

9) Fuzzy HR policies: this comes up in four areas – first, HR staff are often under-resourced and unempowered so are less effective; second, a lack of transparent HR policies means individuals have to raise issues with their managers or HR and thus risk exposing themselves at work; third, asset managers tend to have a reactive rather than proactive approach, so are often making HR policies on the hoof and inconsistently; and fourth, where HR policies do exist and are available, they are not especially user-friendly.

10) Lack of awareness of portfolio management as a career: interviewees felt young people have very little awareness of the asset management industry – this is supported by research conducted by Investment 2020 showing that investment management is the least familiar sector within financial services and lagging far behind high street banking, investment banking and insurance.

11) Bonus culture: a lack of transparency around how pay and bonus is awarded, particularly the discretionary component which can "feel like a black box" often based on informal evaluations and subjective criteria. Too often, bonuses are paid on the basis of what someone earned the year before, what they expect to earn, or what the manager thinks they need to be paid, rather than on the basis of their financial performance or clearly-evaluated contribution. Asset management has the widest gender bonus gap of any sector in finance.

12) Shortage of role models: the industry suffers from a lack of female role models that are widely accessible and identifiable, and there are no black role models at all at most firms (throughout our research, we came across a total of 12 black portfolio managers based in London).

13) Client biases and expectations: what clients and investment consultants think a credible fund manager looks and sounds like matters when it comes to winning mandates, and informs the assumptions made by asset management firms about their clients' needs and expectations.

14) Sole / star manager culture: while there has been a shift in recent years across the asset management industry to emphasise a more team-based approach, interviewees said the legacy of star manager culture persists, and named managers take the credit and recognition for team efforts, particularly in the absence of a clear mechanism for recognising the team's contribution.

15) Lack of rigour in succession planning: again due to fuzzy policies, succession planning is uncommon, and where it does occur, diversity is rarely a factor. There is a widespread perception that hiring decisions are made quickly for client continuity, and when the pressure is on, processes break down.

16) Exclusive networking / lack of inclusive networking opportunities: the portfolio management community forms its own network that can be hard to break into for those who do not share common interests, restricting access to senior people and the ability to build a profile in the industry.

17) Tolerance of "banter": everyday sexism, racism, classism and homophobia is widespread, and it is insulting, exhausting and demoralising for the targeted group. According to a survey from investment industry network LGBT Great, banter is the number one concern for LGBT+ individuals with 40% of respondents saying they had either heard or experienced homophobic or transgender banter at work.

18) The co-portfolio management structure: while providing an alternative to star manager culture, the co-manager structure also has it flaws. Individuals perceived to be "risky" for any reason are appointed with a co-manager, and many interviewees likened the co-manager relationship to a marriage. A portfolio manager will choose someone they feel comfortable spending time with – in other words, someone like them.

SURVEY OF ACTION POINTS TO IMPROVE DIVERSITY

So what are asset management firms doing?

Every firm wants to know what their peers are doing. We surveyed 20 heads of HR at a range of asset management firms to better understand their priorities and actions to improve diversity. We also analysed the narrative reporting in the gender pay gap data submissions from 40 asset managers operating in the UK to identify the concrete steps that different firms are taking to improve diversity. In this section, we summarise the most common action points across the industry, with examples.

"Saying we just can't find the candidates is not good enough. If you want to get it done, like anything else you get it done."

Head of HR, Global asset management firm

"Potential graduate employees simply don't know what asset management is. Most think it is investment banking, hedge fund style shouting, big trading floors and very cut throat"

Portfolio manager

"My peer group was much more attracted by investment banking and consulting. Asset management was definitely the less glamorous sibling."

Portfolio manager

1) Casting a wider net at entry level

Our research found industry actions are heavily weighted towards improving diversity at entry level by playing a more active role in graduate (and for some, school-leaver) recruitment and building a more formal hiring process to ultimately feed their investment pipeline. This is a significant shift in thinking for asset managers. While investment banks and law firms have long relied on vigorous multiple-campus recruitment drives to attract large classes to highly-structured graduate training programmes, asset managers tend to be smaller so require fewer candidates, access routes to those roles is less obvious, and hiring often takes place on an ad hoc basis. Firms are also focusing on improving awareness of investment management as a career and expanding their recruitment options at entry level.

> Structured programmes - many companies are formalising their recruitment process:

- Legal & General Investment Management launched a new and improved suite of apprenticeship and graduate recruitment programmes for 2018 across all of its businesses.
- M&G is running a paid summer internship programme for university students, to give them the chance to experience investment management from the inside and demonstrate their strengths.

> Not just STEM, not just Oxbridge - some companies are actively considering applicants from a broader range of universities and a wider range of degree subjects:

- One global asset manager said it is actively seeking to improve cognitive diversity, and this is reflected in its graduate analyst intake target of 50:50 STEM to arts degrees. Notably, its most recent analyst cohort was 64% female.
- Man Group is seeking to partner with universities to launch an investment management "conversion course" for candidates with non-traditional educational backgrounds.
- The Diversity Project's early careers workstream ran a series of workshops where investment professionals visited seven universities outside the top eight to explain what the industry does.

> Focus on the under-represented - firms are actively targeting women and minorities:

- Aviva has moved to 55% female representation in its most recent global graduate programme, up from 29% the year before, as a result of "efforts to remove bias from the attraction, selection and placement processes and ensure a more gender-neutral approach".
- Schroders is ensuring a 50:50 gender split at its graduate assessment centres.
- Fidelity International has launched an investment management scholarship programme targeting students from low income backgrounds.

> Working with partner organisations - asset managers are also partnering with organisations:

- Bright Network, UpReach, SEO London and Investment 20/20, all of which target recruits from ethnic minorities and low socio-economic backgrounds.
- Next year, the Diversity Project plans to launch a 6-week pilot scheme targeting black undergraduates. The aim is to get candidates working on real business issues, but more importantly offer continuing network, feedback and support upon completion.

> Raising awareness - work is underway, particularly focusing on young people:

- Investment 20/20's YouTube video campaign seeks to challenge stereotypes; The Diversity Project's annual Women in Fund Management event showcases what a career in investment management can offer; and T.Rowe Price has launched a stock pitch workshop for women on business school campuses with its CIO, head of research and head of HR to generate interest in asset management.

2) Recognising and countering unconscious bias

Two thirds of the 45 asset management firms that reported gender pay gap data in the UK said they had introduced some kind of unconscious bias training in their action plan to reduce their pay gap.

- Fidelity requires all managers involved in recruitment to complete an interviewer training course which outlines the impact of unconscious bias in hiring.
- PIMCO has integrated unconscious bias training into all decision making processes including hiring, development, performance and promotion.

3) Updating HR policies

Asset management firms have begun a concerted effort to review, update and formalise their HR policies. While they may not be breaking new ground when compared to other business sectors, this shift is important because it signals a change in thinking for an industry accustomed to clustering around the lowest common denominator when it comes to improved planning with a view to best practice.

Encouragingly, firms are starting to standardise policies rather than working on an ad hoc basis, as well as making policies more transparent and user friendly. However, it is important to note that these changes are not specific to portfolio management, so big issues (such as how to handle performance continuity) remain.

> Enhancing maternity and parental leave - there are a growing number of asset managers that now offer market-leading leave packages for parents. These packages are often accompanied by internal communication campaigns to raise awareness of revised policies as well as providing role models – both men and women – who have benefitted from sharing responsibility for childcare to help tackle gender stereotypes:

- Jupiter Asset Management reviewed its UK maternity and shared parental leave policies to ensure they provide full support to new parents. It now offers 6 months of fully paid enhanced maternity and shared parental leave, and the policy is backdated to apply to those who had taken these periods of leave in the past year.
- Aviva in November 2017 announced that parents would be eligible for the same amount of paid and unpaid time off, regardless of gender, sexual orientation or how they became a parent (by birth, adoption or surrogacy). The company offers up to one year of leave, of which 26 weeks is at full basic pay.
- Columbia Threadneedle Investments announced in October 2017 that it would offer men and women 20 weeks' full pay when they become parents.

> Ongoing support for parents - firms are offering parent coaching programmes for staff and training for their line managers:

- PIMCO's families network runs its New Expectant parent Support Team (NEST) programme to provide support and guidance from more experienced PIMCO parents for first-time expectant parents as they enter parenthood.
- Columbia Threadneedle Investments offers practical support and engagement for working parents – such as maternity and shared parental leave workshops and issuing best practice guidelines to managers.
- Wellington Management is also offering coaching support and training for both new parents and their managers.

"The only successes we have had are around process. Processes tend to break down when the pressure is on and clients are watching. Defining processes clearly and ensuring they are followed is key. If this means slowing processes down to make them fair then so be it"

Insurer-owned asset manager

"Female portfolio managers have access to so much training to make them better at financial analysis but far less to address confidence gaps, issues around visibility and self-promotion. These need to be systematically tackled not on an individual level. There are resources around public speaking but no blueprint for the industry. We need a body of literature endorsed centrally on what's worked to tackle this."

Senior portfolio manager

4) Improving flexible working

Firms are trying to improve their understanding of flexible working, reviewing their flexible working arrangements and offering best practice guidance to employees and managers. Senior industry figures are publicly advocating an emphasis on output over hours worked, for example both Rachel Lord, head of Emea at BlackRock, and Euan Munro, chief executive of Aviva Investors, spoke about flexible working at the Diversity Project's Women in Fund Management event in July 2018.

- Columbia Threadneedle Investment has reviewed its flexible working arrangements and issued guidance to employees and managers.
- One asset management firm, having developed an agile working policy, is starting to conduct internal discussions about the use of technology and meeting etiquette, including best practice on how to run inclusive effective meetings when team members dial in.
- HSBC Global Asset Management is actively working with its "Flex employee network", which recently launched in the UK, to identify opportunities to enhance its flexible working proposition.
- M&G is giving prominence to male and female role models in senior roles who have flexible working arrangements.

5) Increasing support to potential female leaders

There are positive signs of activity around identifying high-potential women, offering them skill development and leadership training, as well as support on personal branding and profile building. However, again we found little evidence that this is happening in portfolio management specifically.

- BlackRock is running a three-part series for associates, which focuses on providing skills workshops, career planning guidance, and access to role models, as well as an EMEA-wide network of similarly motivated peers.
- Schroders has set up a pairing system for its most talented female employees. Senior sponsors will regularly meet with them to provide guidance on how to progress through the business. It is planning to extend its senior sponsor programme to top BAME talent, to support the development of people from minority backgrounds in senior roles.
- Columbia Threadneedle Investment announced it will introduce a quarterly "Women in Leadership" speaker series.
- Allianz Global Investors is introducing an "Unlocking your Potential" development programme to help equip talented VP-level female employees with the knowledge, tools and support to make conscious career choices, achieve personal growth and maximise their professional contribution.

6) Recruitment

There is evidence of asset managers reviewing recruitment processes and setting clearer expectations by using gender neutral job advertising, ensuring diverse representation on longlists and shortlists, introducing diverse interview panels and challenging and educating external recruiters.

- Schroders is committed to only using search firms that have signed up to the Voluntary Code of Conduct on Gender Diversity.
- First State Investment Services requests gender balanced shortlists for all recruitment and ensures all prospective candidates are interviewed by a woman if one is not already part of the interview panel. The firm has also introduced "name blinding" on incoming CVs in parts of its business so that the applicant's gender is not visible to hiring managers and has developed role profiles in a more general and accessible way to reflect gender neutrality.
- M&G is working with diversity focused search firms who go beyond simply providing gender-balanced long- and shortlists towards thinking creatively about how it shapes roles to attract senior female talent.

"We regularly track and monitor gender data, reviewing hiring, promotion, and attrition at the firm, regional, and functional levels. These scorecards ensure we continuously challenge ourselves to increase the diversity of our teams. We also measure and review performance ratings, promotion, and compensation to ensure fair and objective decision making."

BlackRock

"Policies are not the issue here. You can have all the policies you like. This is a cultural issue: interpretation of policies by managers"

US headquartered asset manager

7) Succession planning

Few asset management firms actively undertake succession planning at all, but there are signs they are starting to, and are considering diversity criteria in the process.

- Aviva is encouraging an inclusive approach to succession management, to actively challenge the possibility of unconscious bias in career discussions.
- CDC Group interviews senior female candidates who approach it regardless of whether it has an open role, in order to build a network of suitably qualified female candidates.
- One firm said they are actively mapping external talent and developing diverse talent maps, categorised by who is ready now, who is ready soon, and who will be ready in X number of years.
- One head of HR said that diverse candidates must be considered for mid- and senior level hires level on a "comply or explain" basis.

8) Using data and targets

A small number of firms are introducing targets for portfolio managers and research analysts to support their HM Treasury Women in Finance Charter targets. Others said they were responding to the low turnover barrier and the desire to set more tailored targets for investment professionals by reviewing their attrition rates.

9) Returnship programmes

A small number of firms are establishing programmes to target individuals (usually women) returning to work after an extended career break. For example Old Mutual's Wealth Returner Programme, Fidelity's New Horizons Women Returners Programme, and Invesco's partnership with The Return Hub to connect with financial services professionals who have taken a career break. However, while returnship programmes seem like an obvious win – why wouldn't you hire motivated and experienced people looking to get back into the industry? – take up of returnship programmes and the number of employees involved is still low.

10) Improving managers' ability to manage their staff

Managers play a vital role in identifying and training high-potential staff – however, many managers are promoted to managing teams because they are good at their day job, not because they are good people managers. Prestige in a job is signalled by money, but also by the size of the team a manager leads. Some firms are beginning to recognise this, and are taking steps to improve management of staff. A common theme amongst interviewees was a focus on leadership consistency across teams of different sizes and product types, and on holding managers to account.

- One asset manager has started to appoint a dedicated manager to work alongside PMs to make sure the rest of the team is managed effectively.
- Another has developed an "expectations of managers framework" to address manager capability and actively challenge managers on how their behaviour impacts their team. Expectations include whether a manger demonstrates client-centricity and creates an inclusive environment for staff.
- One asset management firm has introduced a 2:1 appraisal system for staff at the early career (less than five years) stage, where performance is assessed by both head of department and a career sponsor / mentor external to their team. This is something they are actively considering extending.
- One HR interviewee said their firm was reviewing what it means by "potential", to help managers explicitly understand what they should look for.
- Another said their firm is revisiting its "behaviours" framework, against which end of year performance ratings are in part based, to prevent them being interpreted differently by line managers.

Next steps

So far, this report has identified the widespread lack of diversity in portfolio management, the key skills required to be a good portfolio manager, the barriers to entry and progression in the profession, and what individual firms and the industry are doing to improve diversity. This section looks at what still needs to be done and how individual firms and the industry can accelerate change.

> Understanding the barriers

While virtually everyone in the asset management industry recognises that it has a diversity problem, there is far less agreement on how to address it. Many firms talk of changing their 'culture' as a way of improving diversity, but often overlook the cumulative effect of different barriers to entry and progression that are holding the industry back. Identifying these barriers at a firm and industry-wide level – and recognising that different groups of people will face different barriers in different firms and different functions – is a vital step towards improving diversity. While a practical approach focused on identifying and removing tangible barriers may seem piecemeal, without concrete steps to address these barriers, high level initiatives are likely to fall flat.

> A strategic fit

At the same time, it is essential for firms to link these barriers to their wider strategy. Initiatives to improve diversity can sometimes seem ad hoc and inconsistent, or they can even look like an afterthought. Without a clear understanding of how and why diversity is important to a firm and how addressing it fits into the context of a firm's strategy, any action to address the problem is less likely to have the desired impact. Plans to improve diversity should be closely linked to a firm's strategy and business plan and involve the same accountability at all levels of the business as any other strategic initiative.

> Collaboration, collaboration, collaboration

Asset management is a fiercely competitive industry and in many areas – including diversity – the industry has often been reluctant to collaborate. While there are plenty of diversity forums and networking groups for individuals, until the recent launch of the Diversity Project there has been no sustained effort to take a more collaborative approach to solving this problem at an industry level. While some challenges are firm-specific, most are prevalent across the industry and no single firm can drive sector-wide change on its own.

A more collective approach involving sharing data and experiences of what does and doesn't work could lead to the development of industry-wide standards on issues, such as how to deal with performance track records for portfolio managers returning from leave. This would also be an opportunity to involve the whole investment community, including asset owners, investment consultants, data and analytics providers, recruitment firms, and regulators to help accelerate change.

> Beyond gender

Most of the diversity initiatives in the asset management industry have focused on gender and there is a danger that this approach can distract from the relative lack of progress in areas such as ethnicity. For example, when it comes to BAME (black, Asian and minority ethnic) diversity the numbers across the industry are so low and the quality of data so poor that most firms don't even know where to begin. BAME also raises questions of intersectionality (the overlap between different diversity characteristics) that the industry needs to grapple with, such as black women or people from lower socio-economic backgrounds from different ethnic minorities. Embracing diversity beyond gender before being forced to by government would demonstrate a commitment to change and help embed diversity into the industry.

> A bigger ambition

Given that the diversity debate has been rumbling for so long in the asset management industry, it is understandable that many people are getting impatient about slow progress and demanding faster results. While this report outlines many practical steps that firms can take, a big part of the growing frustration in the industry comes from the lack of ambition in targeting the root causes of the problem. Most of what firms are doing today does not address the fundamental barriers. A bolder vision, combined with a realistic timeframe, a longer term view – and backed up by clear targets and a clear plan – is required to move the dial in an industry that has been stubbornly resistant to change.

> Targeting portfolio management

Portfolio management is the beating heart of the asset management industry, yet most initiatives and most of the data analysis has focused on the industry in aggregate. For example, the HM Treasury Women in Finance Charter and gender pay gap reporting both involve firm-level disclosure. Taking a more granular approach to data analysis and to initiatives to address diversity based on function will enable firms to identify generic issues that need to be addressed across their business (such as flexible working or widening the recruitment pool), and to isolate actions that could have a more immediate impact on diversity in different areas (such as performance continuity for portfolio managers or formal processes for client handover in sales and marketing functions).

> Better management

Many aspects of diversity come down to better and more consistent management of staff as individuals. In portfolio management (as with many other sectors of finance and the wider economy) promotions to senior management roles are often made on the basis of technical skills with less emphasis on wider leadership and management skills. Indeed, the skills and attributes that make someone a successful portfolio manager can actively prevent them from being a successful team and people manager. More focus on management training, and people management in particular, combined with more formal evaluations and a clearly defined team-based approach can help address this disconnect. At the same time, there is significant scope to involve HR at a more strategic level. In many cases, HR is seen as an operational or support function by portfolio managers, and many people in HR do not feel empowered to take a more strategic role. This can lead to inconsistent application of HR policies and a breakdown of trust between HR and the front line business.

> Widening the gene pool

An important way for asset management firms to improve diversity in the medium- to long-term is to significantly widen the gene pool from which they recruit, particularly at entry level. While many firms have launched specific diversity recruitment initiatives to target particular groups at entry level, at an industry level the pool of talent from which firms recruit is remarkably homogenous: graduates from a limited number of (mainly STEM) subjects from a limited number of universities. Many senior portfolio managers today would not meet the entry requirements that their firms apply to new recruits. While all candidates need to meet the basic attributes required to be a portfolio manager, not all recruits need to have identikit backgrounds. Better data collection and tracking of recruitment initiatives would help make the case for broadening the talent pool, and rethinking how firms screen, assess and select candidates would accelerate change.

> Career management

The industry can also do more to widen the gene pool internally. More clearly defined career progression coupled with a more explicit and formalised promotion process would help address the challenge of mid-career impasse that many of our interviewees described. The relatively low job turnover of portfolio managers can act as a blockage to the pipeline of future talent, but can be addressed by embracing internal mobility and rotating successful people in one area into different functions, different sectors or different regions to broaden their skillset and experience. This would help broaden the career path from analyst to portfolio management, and lead to more focus on transferable skills. At the same time, firms could be more transparent about future opportunities, take a more open approach to advertising internal vacancies, and encourage staff to nominate themselves for new roles.

> Flexible working

Flexible working could be a game-changer for firms to accelerate diversity. While all employees have the right under UK law to ask for flexible working arrangements, too often it is not seen as professionally or socially acceptable to take it, particularly for men in senior positions. While senior roles in the industry are demanding, there is significant scope for firms to embrace a more flexible approach to how and when people work, at least for defined periods. Most obviously, flexible working affects female staff returning from maternity leave, but the need for flexibility can change over time for different people (for example, sickness, caring, or career breaks). At a time when other industries are adopting a more flexible approach to work, the asset management industry will need to respond to attract and retain the best young talent. A good starting point would be for firms to collect more data on the take-up and profile of flexible working in their organisations.

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"Asset management needs a revolution!"

Head of HR,
UK-listed asset manager

10 suggestions for debate

Our aim with this research was to better understand the challenges facing the asset management industry in trying to improve diversity amongst portfolio managers. This report is part of a broader discussion on the importance and impact of improving diversity. Below are 10 discussion points raised by our research findings:

1. **Everything must change**: Portfolio management cannot remain an outlier in diversity statistics indefinitely just because it is difficult. Change is uncomfortable and requires planning, resources and time to bring benefits.
2. **A strategic priority**: Asset managers need to understand why diversity is important to their business, to strategy, and to investment decision-making. Without undertaking that high level thinking first, actions cannot be aligned to strategic goals and are unlikely to succeed.
3. **Understanding the barriers**: The dataset shows high levels of activity to tackle diversity, but hardly any of those actions target portfolio management. The industry must acknowledge that the nature of the diversity challenge in portfolio management is different and requires specific attention.
4. **A leap of faith**: While investing is all about taking calculated risks, when it comes to trying out something or someone different firms are highly risk averse and seem to require an unattainable guarantee of success before even considering change. But there is also risk attached to maintaining the status quo – be it regulatory, reputational, or failing to attract high quality staff.
5. **Collaborate**: While each and every firm has a part to play, none can solve the diversity problem alone. Peers will need to come together to discuss and set industry standards, and work with the wider investment ecosystem, including asset owners, consultants and regulators to resolve structural issues.
6. **Learn from others**: No firm need start their journey to improve diversity from scratch – there are myriad resources freely available from government reviews, industry bodies, networks and thought leaders setting out best practice guidelines.
7. **Learn about yourselves**: For an industry accustomed to number crunching, it is essential to capture, track and analyse diversity data consistently over time, particularly if the discussion is to move beyond increasing female representation.
8. **Partnering with HR**: The HR function is often seen as a hindrance and a cost, but business lines need to empower their HR teams to challenge and/or create process around hiring and promotion, and work together to understand where problems and solutions lie.
9. **All shapes and sizes**: Diversity is not just for the biggest asset managers with significant resources at their disposal. Even the smallest can take steps to improve their approach to diversity.
10. **Where to start?**: Achieving genuine sustainable change to the PM pipeline will require a multi-pronged approach tackling multiple barriers to entry and progression, prioritised by strategic need. There is no single action that is the best starting point, but the best time to start is now.