



Ethnic and Racial Diversity at Asset Management Firms

*Authors: Danielle Walker, Reporter,
and Billy Nauman, Managing Editor*

Introduction

Calls from institutional investors and industry leaders for asset managers to disclose information on diversity have largely fallen on deaf ears, but as pressure mounts, a growing number of firms are offering a glimpse into how their workforces are constructed as well as their efforts to attract groups that are underrepresented in the field.

Even with such limited information available, the work that has been done to this point shows the lack of diversity in the industry to be drastic. For instance, firms owned by women and minorities manage only 1.1% of the industry's \$71.4 trillion in assets, according to a May 2017 study commissioned by the John S. and James L. Knight Foundation and the Bella Research Group.

Additionally, minority- and women-owned (MWO) asset managers must fight institutional investor and investment consultant bias, as they often prefer to do business with larger asset managers with brand recognition, a September 2017 report by the U.S. Government Accountability Office (GAO) reveals. MWO managers also face perceptions of weaker performance, despite no evidence supporting this theory, the study states.

Diversity information on asset management employees that are not directly involved with portfolio management is scarce, and while the asset management industry faces both gender and racial diversity gaps, much of the research on diversity issues to date has been gender-focused.

The goal of this report, however, is to highlight trends among ethnic and racial minorities at asset management firms across numerous job functions and departments.

In this joint survey conducted by *FundFire* and the Money Management Institute (MMI), we collected data on ethnic and racial diversity from 23 asset management firms representing more than \$5.3 trillion in assets. The managers provided the information confidentially between April and June of 2017.

Survey respondents were asked to provide information on the percentage of staff in various positions that identified as white (non-Hispanic or Latino), Asian, Hispanic or Latino, black or African American, American Indian or Alaska



Danielle Walker
Reporter,
FundFire
212-542-1209
dwalker@fundfire.com

Contents

Diversity by the Numbers 2

Where Are the Black and Hispanic Asset Management Professionals? 6

Employee Referrals Key to Bringing in Diverse Senior-Level Talent 7

Trouble Attracting & Keeping Minorities in PM, Distribution Roles 8

For Some Firms, Diversity Is a Workplace Culture, Not Performance, Issue 9

Are Schools Providing the Help Asset Managers Need? 10



Billy Nauman
Managing Editor,
FundFire
212-542-1273
bnauman@fundfire.com

Native, Native Hawaiian or Pacific Islander, two or more races, or an “other” race — classifications used by the Equal Employment Opportunity Commission (EEOC).

Firms reported the diversity makeup of global professionals at the executive committee level and those who were in U.S.-based managing director, senior and non-senior portfolio manager, senior and non-senior distribution, portfolio manager associate, analyst, and technology and operations positions.

Diversity by the Numbers

A major finding across the employee sample in this survey was that the percentage of white staff dips below 80%, on average, only in less senior roles such as portfolio manager associate (76.9%), analyst (73.4%), and technology and operations (59%) positions in the U.S.

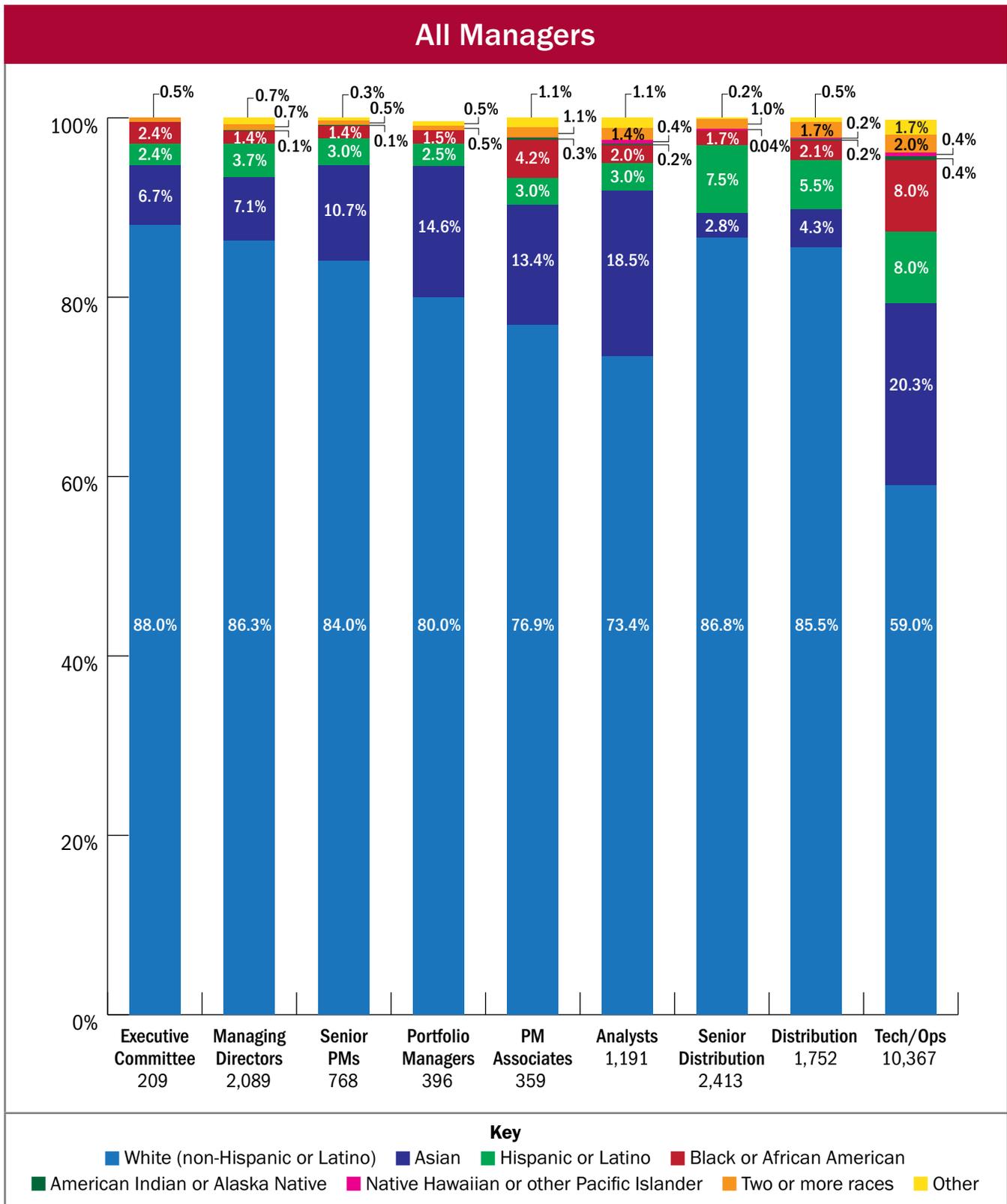
Diversity gaps are the largest at the executive committee level, where 88% of professionals in these positions, 184 out of 209 total employees, are white. Following closely, however, are U.S.-based senior distribution professionals, where 86.8% of staff (2,094 out of 2,413 total) are white.

Additionally, 86.3% of U.S. managing directors at firms in the survey (1,803 out of 2,089 total) are white; while 85.5% of non-senior distribution professionals in the U.S. (1,498 out of 1,752 total) are white.

Twelve of the survey respondents are smaller managers with less than \$100 billion in assets under management, including some minority-owned firms. Eleven large managers, each with \$100 billion or more in assets under management, also participated in the confidential survey.

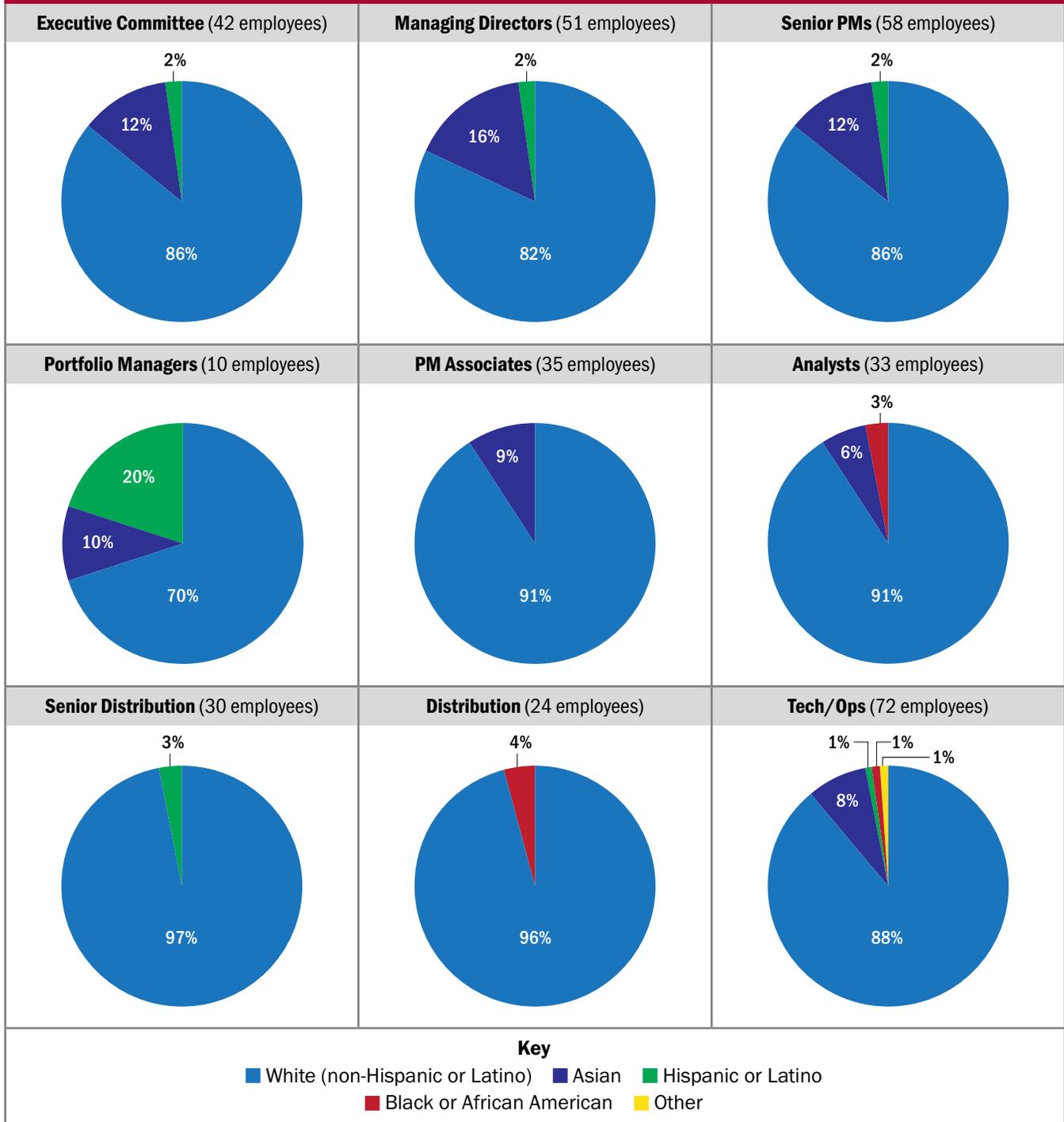
Despite participation of minority-owned firms among the subset of small manager respondents, non-white staff are, on average, more absent in several roles. Of note, nearly 97% of U.S.-based senior distribution professionals (29 out of 30 employees reported) at small managers are white; 96% of non-senior distribution professionals in the U.S. (23 out of 24 employees reported) are white; and around 91% of both analysts (30 out of 33 employees) and PM associates (32 out of 35 employees) in the U.S. are white.

continues on page 6



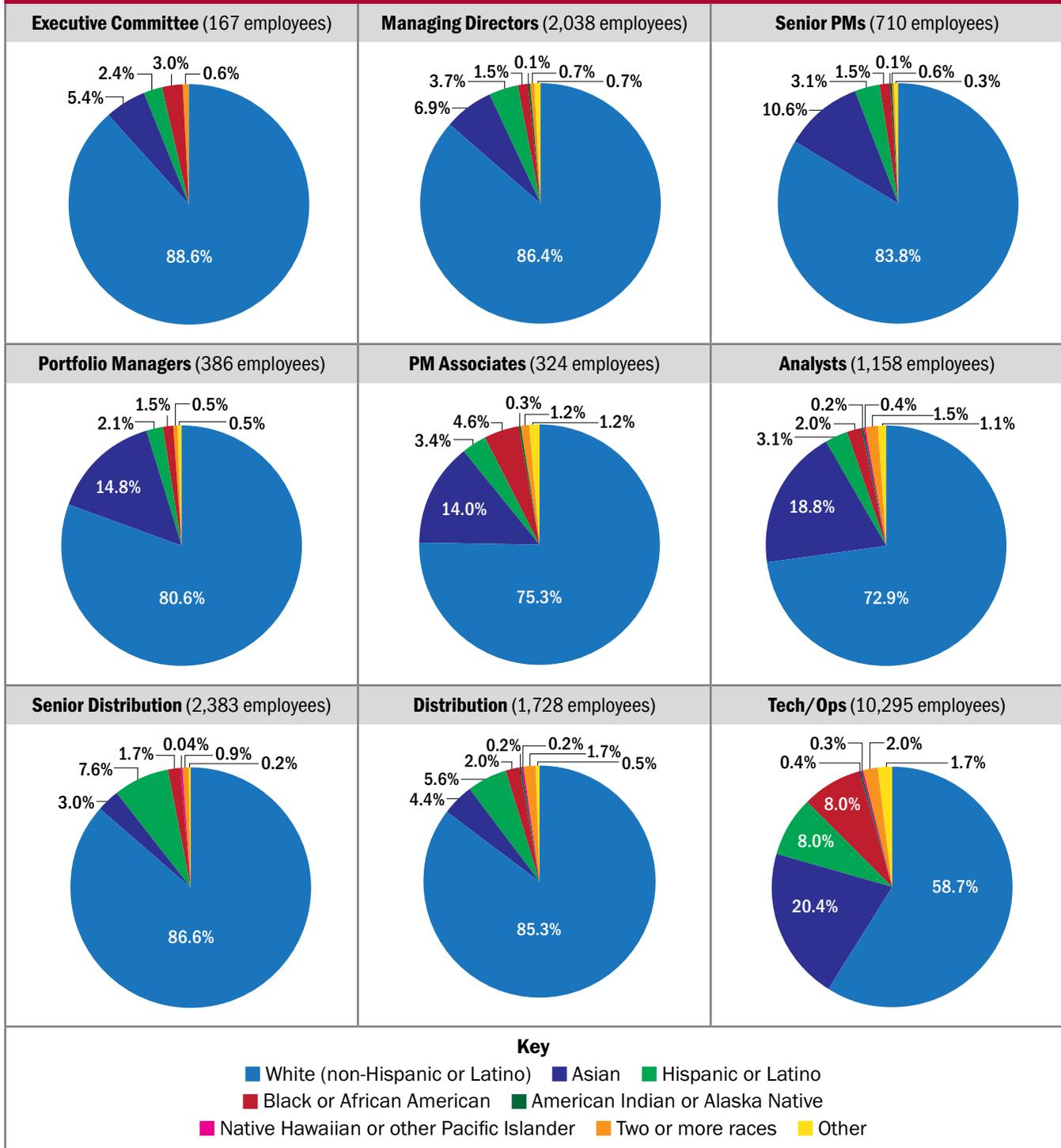
Note: All of the breakouts for positions are U.S.-based employees, with the exception of executive committee roles, which are global. Not all of the asset management firms provided data for every role. See key for number of firm respondents.

Small Managers (Less than \$100B in AUM) Diversity Profile by Position



Note: All of the breakouts for positions are U.S.-based employees with the exception of executive committee roles, which are global. Not all of the asset management firms provided data for every role. See key for number of firm respondents.

Large Managers (\$100B or more in AUM) Diversity Profile by Position



Note: All of the breakouts for positions are U.S.-based employees with the exception of executive committee roles, which are global. Not all of the asset management firms provided data for every role. See key for number of firm respondents.

Survey Key: Number of Firm Respondents

All Managers

Executive Committee – 23	Managing Directors – 17	Senior PMs – 17
Portfolio Managers – 12	PM Associates – 13	Analysts – 15
Senior Distribution – 17	Distribution – 16	Tech/Ops – 18

Large Managers

Executive Committee – 11	Managing Directors – 9	Senior PMs – 9
Portfolio Managers – 9	PM Associates – 8	Analysts – 9
Senior Distribution – 9	Distribution – 9	Tech/Ops – 9

Small Managers

Executive Committee – 12	Managing Directors – 8	Senior PMs – 8
Portfolio Managers – 3	PM Associates – 5	Analysts – 6
Senior Distribution – 8	Distribution – 7	Tech/Ops – 9

Among the 23 manager respondents, large and small, some did not provide diversity data for each role, either opting not to provide the data or because the role does not exist at the firm. Percentages are calculated on averages of the total number of employees reported in each role.

Where Are the Black and Hispanic Asset Management Professionals?

Among minority employees at asset management firms, black and Hispanic professionals are present in fewer numbers than Asian professionals in similar positions, the survey found.

Out of 209 professionals in global executive committee positions, only 6.7% (14 execs) are Asian. Black and Hispanic professionals each represent just 2.4% of executive-committee level employees — there are only five black executives and five Hispanic or Latino executives at this level across our survey sample of asset managers.

Professionals identifying as American Indian or Alaska Native, Native Hawaiian or other Pacific Islander, of two or more races, or an “other” race were even more absent from asset management firms, though the number of white versus Asian, black or Hispanic employees in the survey sample appears more disproportionate considering current U.S. demographics.

U.S. Census Bureau data shows that, as of July 2016, the U.S. population was 61% white (non-Hispanic or Latino), nearly 18% Hispanic, 13% black, and 5.7% Asian.

Across U.S.-based roles in the survey, the percentage of black professionals is below 2% in managing director (1.4%), senior portfolio manager (1.4%), portfolio manager (1.5%), and senior

“It has been difficult to find a qualified African American for our investment team.”

Head of distribution at small manager

distribution (1.7%) roles. Out of 2,089 managing directors reported, only 30 are black; among 768 senior PMs, 11 are black; among 396 PMs, 6 are black; and just 41 of 2,413 U.S. senior distribution professionals are black.

Black professionals accounted for 2% of U.S. analyst positions and 2.1% of non-senior distribution positions, the survey found.

Of note, the role with the highest percentage of black professionals, 8%, is U.S. tech and ops positions at asset management firms. In these roles, 831 out of 10,367 employees from the firms participating in the survey are black.

Similarly, tech and ops jobs have the highest percentage of Hispanic professionals, with nearly 8% of such employees, or 814, identifying as Hispanic or Latino. Around 7.5% of senior distribution professionals (182 out of 2,413 employees) are Hispanic.

Across other U.S.-based roles, Hispanic professionals represent just 3.7% of managing directors (77 out of 2,089 MDs), nearly 3% of senior portfolio managers (23 out of 768 senior PMs), 2.5% of portfolio managers (10 out of 396 PMs), 3% of PM associates (11 out of 359), 3% of analysts (36 out of 1,191), and 5.5% of non-senior distribution employees (96 out of 1,752).

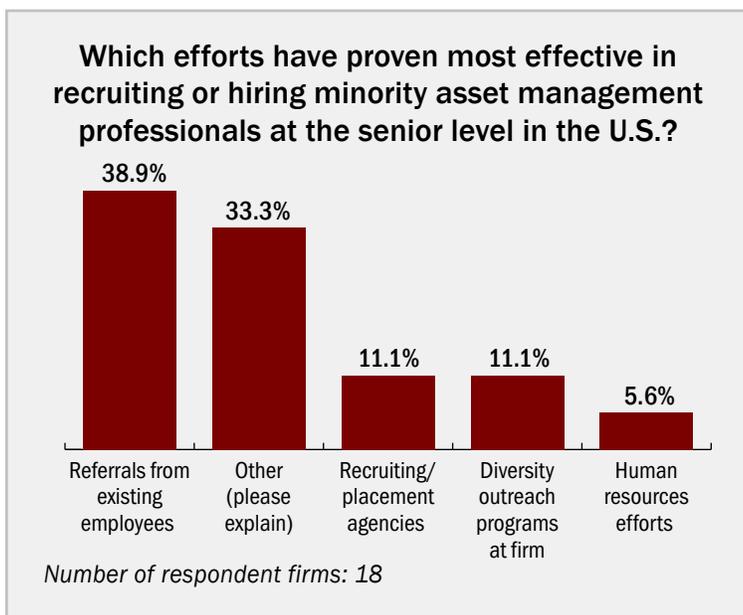
In comparison, Asian professionals at asset management firms account for 7.1% of managing directors, 10.7% of senior PMs, 14.6% of portfolio managers, 13.4% of PM associates, 18.5% of analysts, 2.8% of senior distribution employees, 4.3% of non-senior distribution employees, and 20.3% of tech and ops employees in the U.S., the survey found.

Employee Referrals Key to Bringing in Diverse Senior-Level Talent

Nearly 40% (38.9%) of asset managers said that referrals from existing employees have proven to be the most effective way to recruit and hire minority asset management professionals into senior positions in the U.S.

Eighteen firms responded to the survey question, which also included the options: “recruiting/placement agencies,” “diversity outreach programs at firm,” “human resources efforts,” and a write-in explanation for the most effective recruiting and hiring tool for attracting senior U.S. minorities.

The head of diversity at a large asset manager shared that “referrals from existing employees seem to be the best way to find and attract diverse senior executives. Whenever possible, we work with our [employee resource groups] to network,” the respondent wrote. “Although the return tends to be quite low due to very specific



qualifications and relatively small pools of qualified candidates, we do leverage our relationships with various diversity-focused associations... particularly when we are able to engage employees who are members or alumni of these groups to help us network," they continued.

While "referrals from existing employees" garnered the most votes from firms — 7 out of 18 manager respondents said these efforts proved "most effective in recruiting or hiring minority asset management professionals at the senior level in the U.S." — around 33% of firms (6 managers) provided write-in responses to this question.

Two large managers providing write-in responses said the most effective recruitment tools were a combination of diversity outreach and human resources efforts, while one large manager shared that a mix of recruiting/placement agencies, employee referrals, and HR efforts were most effective.

When asked which efforts were most effective in *retaining* minority asset management professionals at the senior level in the U.S., a majority of respondents (72.2%) chose a "focus on building an overall culture of diversity in the workplace."

For this question, which also had 18 respondent firms, "diversity outreach programs at firm," "internal mentorship programs," "career development resources for minorities," and a write-in or "other" option were also answer choices.

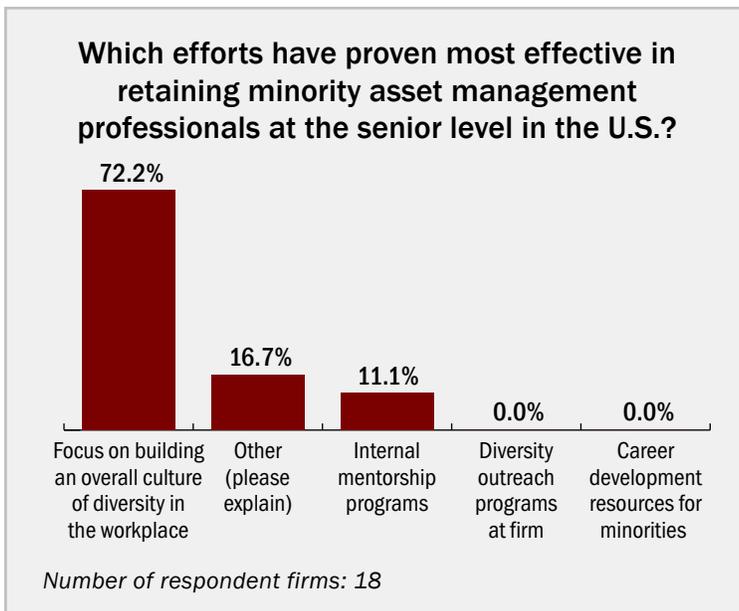
Trouble Attracting & Keeping Minorities in PM, Distribution Roles

For many firms, distribution (44.4% of firms) followed by portfolio management (33.3%) are the areas presenting the biggest obstacle in attracting and retaining minority professionals in the U.S.

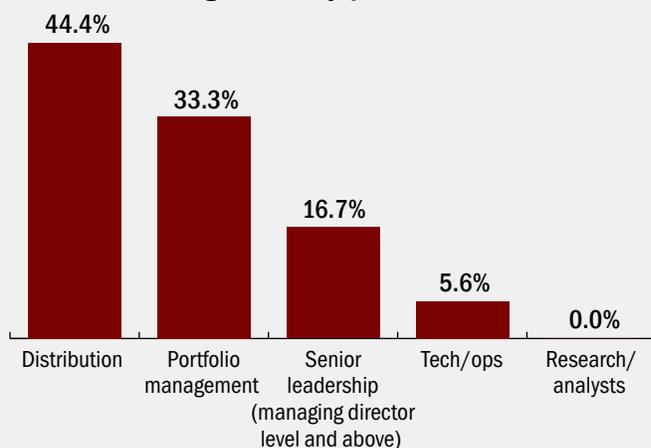
Eight out of 18 respondent firms saw filling U.S. distribution roles as their top dilemma, with the head of diversity and inclusion at one large manager noting "a combination of the availabilities in the marketplace, plus the dependence on established networks to fill open roles, which we found brings more commonality than diversity," as fueling the trend.

Regarding portfolio management positions, which 6 out of 18 respondent firms flagged as the area of their U.S. asset management business presenting the biggest obstacle from a diversity recruitment and retention perspective, an executive at one firm said specifically: "It has been difficult to find a qualified African American for our investment team."

The global head of diversity at one large asset manager shared other factors contribut-

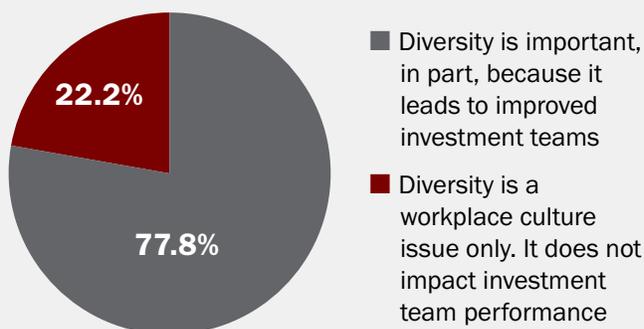


Which area of your U.S.-based asset management business has presented the biggest obstacle in attracting and retaining minority professionals?



Number of respondent firms: 18

Does management believe that more diverse investment teams perform better, or is diversity seen as simply a workplace culture issue at the overall firm?



Number of respondent firms: 18

ing to the lack of diverse talent in portfolio management roles.

“Lack of exposure and awareness of opportunities in [asset management]. Also, lack of role models contributes to the attraction obstacle,” the executive wrote.

Such trends are also reflected in other areas of the survey, where 80% of U.S. portfolio managers (318 out of 396 PMs) are white. Among U.S.-based senior portfolio managers, the lack of diversity is even more acute, as nearly 84% of professionals in these roles (645 out of 768 senior PMs) are white.

Among the 2,413 senior distribution professionals in the U.S. reported in the survey, 86.8% are white, while 85.5% of non-senior distribution professionals (1,752 across all races) are white, the survey found.

For Some Firms, Diversity Is a Workplace Culture, Not Performance, Issue

While studies have shown that companies with diverse workforces tend to perform better financially, some asset management firms see diversity as a distinctly culture-oriented issue, with no bearing on investment team performance, this survey found.

In 2015, McKinsey & Company released a report that found that companies, across industries, in the top quartile for racial and ethnic diversity were 35% more likely to produce financial returns above their national industry medians.

Additionally, 2014 research co-authored by Sheen Levine, a professor at the Institute for Social and Economic Research at Columbia University, found that ethnically diverse trader teams priced assets more accurately, while ethnic homogeneity promoted conformity and mispricing.

“Ethnic diversity leads all traders, whether of majority or minority ethnicity, to price more accurately and thwart bubbles,” the report stated.

In our survey, asset managers were asked, “Does management believe that more diverse investment teams perform better, or is diversity seen as simply a workplace culture issue at the overall firm?”

Among 18 firms that responded to the question, nearly 78% (14 firms) chose the answer “Diversity is important, in part, because it leads to improved investment teams.”

Still, some firms, albeit a small number, around 22% (or 4 firms), selected the other answer choice: “Diversity is a workplace culture issue only. It does not impact investment team performance.”

Are Schools Providing the Help Asset Managers Need?

Half of asset management respondents, 9 out of 18 firms, chose “improved college and university engagement,” inclusive of internship programs with managers, as the single effort that could have the biggest impact on closing the industry’s diversity gap.

Nearly 28% (5 out of 18 firms) said that “changing industry culture” could similarly have the biggest impact on prompting such progress.

Only one respondent firm replied that “investors requiring managers to meet minimum diversity standards to be hired/retained” would effect the biggest change on diversity gaps, while one firm also replied that “improved transparency/managers reporting their diversity makeup” would have this impact. No managers selected “focusing on pay disparities” as their response.

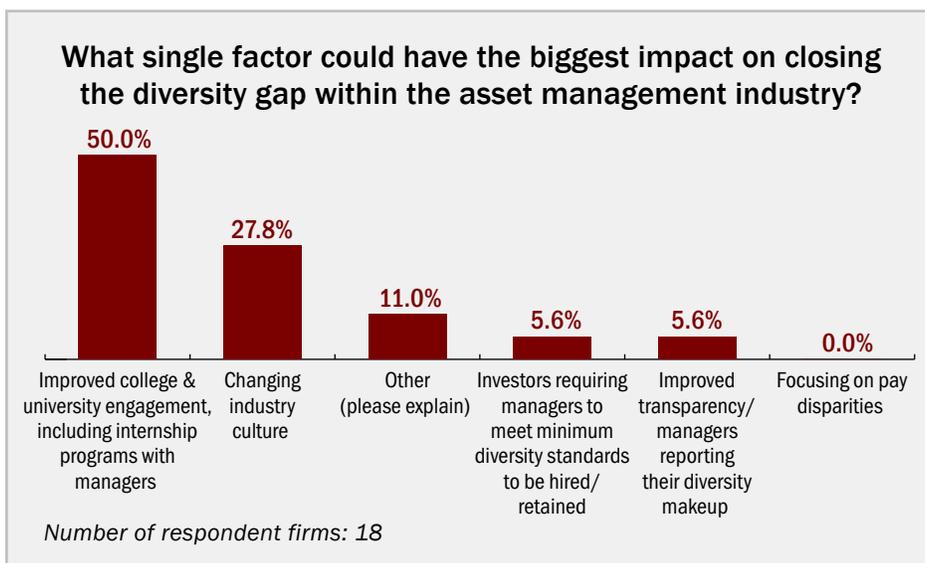
Of note, two firms opted for write-in responses for this question, with one large manager choosing both improved college/university engagement and changing industry culture and another large firm stating “developing, attracting and retaining diversity candidates to our industry” as a possible solution.

Some asset managers have leveraged a number of external partnerships in hopes

of attracting more diverse talent through the college and university pipeline.

MMI’s Gateway to Leadership program, founded in 2007, has placed more than 180 diverse students, who are primarily minorities, in internships with 40 MMI member asset management firms, as of October 2017, for instance.

MMI recently expanded its program to other minority groups, including female and Hispanic students, and those from smaller colleges.





In part, changing the face of the asset management industry will undoubtedly entail an image shift, moving away from the perception of a Wall Street boys' club to a more inclusive workforce embracing gender and racial diversity as well as diversity of thought emanating from varied backgrounds and experiences.

A manager of HR technology and operations at one large manager shared that the obstacle of attracting and retaining minorities in senior leadership roles, in particular, “could be that there is a lack of candidates at the level we need to fill the roles, given the historical nature of this being a non-diverse industry.” ■