

DRIVING CHANGE: DIVERSITY & INCLUSION IN INVESTMENT MANAGEMENT



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CFA Institute thanks our Steering Committee, host companies, and all organizations that participated in the Diversity and Inclusion workshops for their input and guidance.

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"The hardest part of my job is building a diverse workforce." —chief investment officer of a public pension plan

The observation above summarizes what investment leaders know well: As the investment management industry faces an increasingly competitive environment, with margin pressures, technological disruption, and changing consumer preferences, firms must focus on their "people model" as a key part of their strategy. The successful investment firm of the future will be differentiated by its culture and its ability to attract the best talent. An inclusive culture that leverages diverse views effectively will be an important element determining a firm's success.

In the recent Future of Finance report *Investment Firm of the Future*, 53% of CFA Institute members said the business case for improved diversity in the industry is strong or very strong, but only 14% said the uptake of diversity and inclusion practices will be fast.

The industry seems stuck when it comes to diversity and inclusion (D&I).¹

Why is this, and what can be done to change it? What is working and what isn't when it comes to recruiting, promoting, and retaining top talent? How do firms attract a diverse candidate pool and successfully recruit diverse candidates? What does an "inclusive" work culture look like? Have we moved beyond D&I as a "check the box" initiative?

As one chief diversity officer at a financial services company said, "How do we ensure our leaders are educated on D&I and are clear on the expectations on them? We ask leaders to move the needle, but we don't give them the tools."

Most importantly, what can we learn from companies that have succeeded? These are just some of the questions we set out to answer in a series of industry workshops that formed the basis for this paper.

A common understanding of D&I is an important starting point, and we refer to the Centre for Global Inclusion's Global Diversity and Inclusion Benchmarks (GDIB), which define diversity and inclusion as follows:

"Diversity refers to the variety of similarities and differences among people" and includes a wide range of factors, such as gender, ethnicity, disability, and work style.

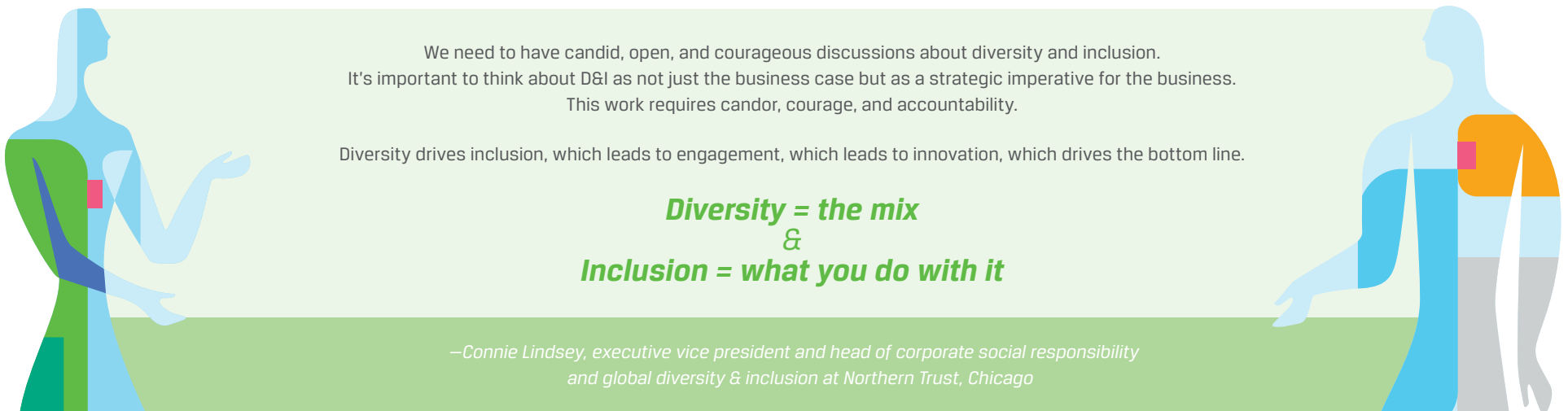
"Inclusion is a dynamic state of operating in which diversity is leveraged to create a fair, healthy, and high-performing organization or community. An inclusive environment ensures equitable access to resources and opportunities for all."

We need to have candid, open, and courageous discussions about diversity and inclusion. It's important to think about D&I as not just the business case but as a strategic imperative for the business. This work requires candor, courage, and accountability.

Diversity drives inclusion, which leads to engagement, which leads to innovation, which drives the bottom line.

**Diversity = the mix
&
Inclusion = what you do with it**

—Connie Lindsey, executive vice president and head of corporate social responsibility and global diversity & inclusion at Northern Trust, Chicago



WHY DOES THIS MATTER NOW?

Just as there are rewards for the right actions, there are risks involved in doing nothing. Several factors are creating urgency to address D&I.

External pressures

Millennial talent: According to the Pew Research Center,² more than one in three Americans (35%) in the labor force are millennials,³ making this group the largest generation of the US workforce. Moreover, this is a cohort that cares about D&I, and at many top business schools, the financial industry is no longer the industry of choice for millennials, as tech firms have gained ground.

The 2018 Deloitte Millennial Survey⁴ found that most millennials (83%) and members of Gen Z (80%)⁵ believe that business success should be measured in terms of more than financial performance and that corporations should set out to achieve a broad balance of objectives that include an emphasis on diversity and inclusion in the workplace. Also, there is a link between diversity and loyalty. "Good pay and positive cultures are most likely to attract both millennials and Gen Z, but diversity/inclusion and flexibility are important keys to keeping them happy," according to the report (pp. 2, 5).

Regulators and policymakers: Diversity is part of the larger conduct and culture focus of regulators. Examples include HM Treasury's voluntary Women in Finance Charter⁶ and the new UK gender pay disclosure requirements.⁷

Client demand: Requests for D&I data are on the rise. Several large investment consultants are now including diversity questions in their due diligence processes,⁸ and in an unpublished survey by CFA Institute of more than 800 institutional investors, 83% said gender diversity is important to them: The majority (55%) believed that gender diversity in investment teams leads to better performance through diverse viewpoints, and the remaining 28% simply preferred to hire an investment firm with a corporate culture that is supportive of gender diversity.

Society: In his January 2018 letter to CEOs,⁹ Laurence D. Fink, founder and chief executive of BlackRock, said, "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society." He also said companies must ask themselves, "Are we working to create a diverse workforce?"

Structural changes to the industry

Teams dominate: There has been a shift from the "star portfolio manager" model to investment teams. According to Morningstar,¹⁰ "75% of actively managed US equity funds and fixed-income funds are run by teams" (p. 6).

The composition of those teams matters. Mauboussin and Callahan's research¹¹ on collective intelligence tells us that diverse teams do better on complex problem-solving tasks—like those we face in our industry. Many investment firms are recognizing that the diversity of their employees can be as much a part of investment management success as diversification of their investment portfolios. We expect that in the future, a diverse and inclusive firm culture will be a competitive differentiator for firms in attracting top talent.

Awareness of biases: Behavioral finance is a subject of continued interest to the industry and is now mature enough that most are aware of common investing biases. This awareness has helped prepare the industry to think more deeply about how behavioral biases affect decision making more broadly and the benefits of diversity in overcoming groupthink.

Financial columnist Jason Zweig¹² reminds investors that "behavioral finance is not the study of how 'other' people behave. It is the study of how we all behave. It is not just a window onto the world; it is also a mirror onto ourselves."

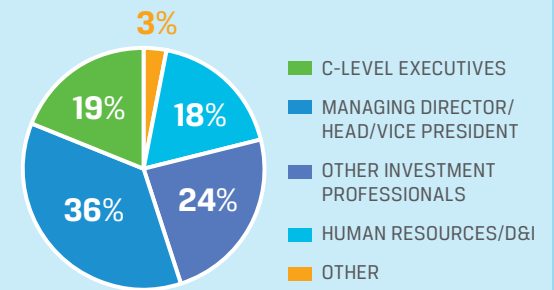
We all have something to learn when it comes to understanding and mitigating our biases.

Methodology

We collected data through a series of workshops that were held from October 2017 to May 2018.

These events took place in Toronto, Boston, San Francisco, Chicago, Philadelphia, and New York City, with a total of 344 participants across 99 companies, representing approximately \$38 trillion in assets under management.

C1. COMPOSITION OF ROLES



Two Practical Notes

1. The workshops were under the Chatham House Rule,¹³ so no comments will be attributed, although a list of supporting firms is on page 3.
2. We held sessions only in North America and focused on common situations in the region. We opted to have a tight focus in these initial workshops, as a beta proof of concept, with the expectation that similar exercises can be done in other regions, even while recognizing that diversity discussions vary greatly around the world.

WHAT WE DID

In the workshops, firms could openly discuss what they are doing, what's been working, and what comes next. This guide compiles the best of those ideas.

Our methodology was inspired, in part, by the *Harvard Business Review* article "Why Diversity Programs Fail," by sociology professors Frank Dobbin and Alexandra Kalev,¹⁴ and we used much of their advice in the design of the sessions.

They recommended engaging managers in the process and creating opportunities for people to meet other colleagues who are unlike them, to increase their range of diversity experience and learning. We asked participating firms to bring three to five participants of varying levels of seniority and with diverse perspectives. Many met colleagues for the first time at these events.

Also, they noted that social accountability is important, so the act of joining a session like this was a signal to others that this was an issue of importance and worth the time to address.

In further discussion with McKinsey & Company,¹⁵ Dobbin noted that firms are taking "an evidence-based view" when it comes to trying new programs. They want to learn from others about what works, rather than trying the same things they have done before but with a few tweaks in the hope that it will work the next time around. They want to find companies that have succeeded.

This paper is a guide on D&I practices that draws on the findings of the workshops. It does not unveil all the solutions, because in this fast-moving area, there are not well-defined best practices yet for the industry. It should, however, bring us closer to understanding the true current state of D&I, and it shares ideas to move us forward together.

We used the 2017 version of "Global Diversity & Inclusion Benchmarks: Standards for Organizations Around the World." According to the Centre for Global Inclusion website, these benchmarks help organizations "determine strategy and

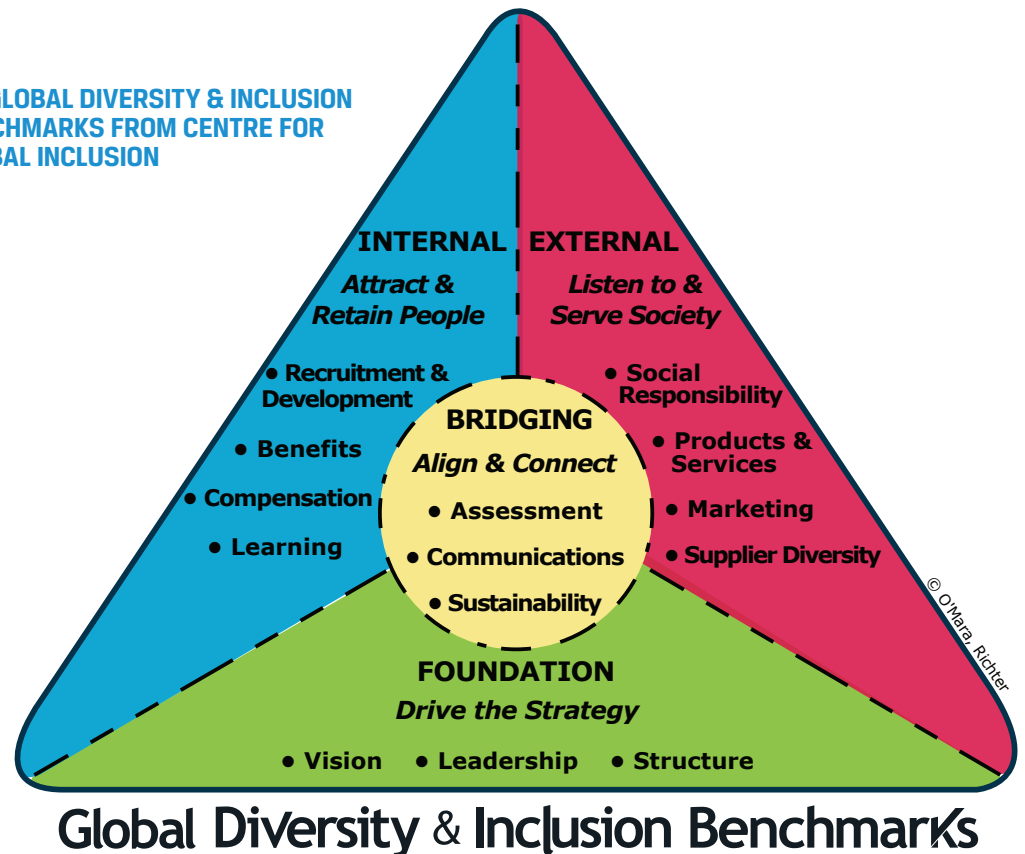
measure progress in managing diversity and fostering inclusion." Co-authored by Julie O'Mara and Alan Richter and 47 expert panelists originally in 2006, the GDIB has been updated three times. It is now researched and disseminated by the Centre for Global Inclusion, 95 expert panelists, and the two authors. It is cyclically refreshed to reflect the evolving global landscape.

The chart illustrated in C2 includes four groups with 14 categories and 266 benchmarks. Every firm is unique, and the GDIB can improve the quality of D&I work with any combination of approaches, geography, and industry. For this exercise, we focused on the six categories most salient

to investment management: vision, leadership, recruitment and development, assessment, communications, and products and services.

Despite the fact that many roles in the industry are changing because of rapid technological advancement, talent will always be central to effective investment firms. Empowered employees openly collaborating with each other is the end goal for most managers. It will not become reality without paying attention to how decisions are made and who is included in them. An organization that can capably navigate these challenges will have gained a risk management tool and a culture poised to succeed.

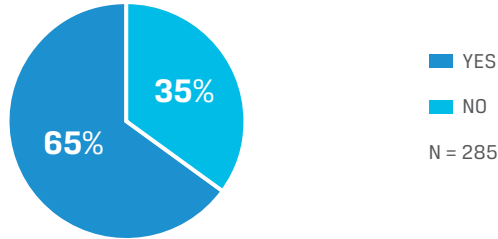
C2. GLOBAL DIVERSITY & INCLUSION BENCHMARKS FROM CENTRE FOR GLOBAL INCLUSION



WHAT WE FOUND: THE DATA

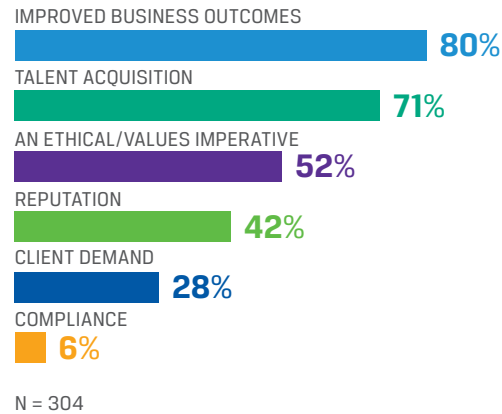
For financial services firms in general, PwC reported in May 2017 that 88% have diversity and inclusion as a stated value or priority.¹⁶ We asked a question more directly about goals or actions to indicate a commitment to D&I and found that approximately two-thirds have a diversity goal. This number was highest in Philadelphia and Chicago (76% and 73%, respectively) and lowest in San Francisco (58%).

Q1. DOES YOUR FIRM HAVE A STATED DIVERSITY GOAL?



The two greatest motivations for firms' efforts around diversity and inclusion were improved business outcomes and talent acquisition. In the past, compliance was a significant motivator, but now very few respondents (just 6%) said compliance was a driving force behind their activities. Notable differences by market included a greater sense of client demand for diversity in Philadelphia (57% cited this as a factor), and reputation was a more important factor in Toronto (54%) than elsewhere.

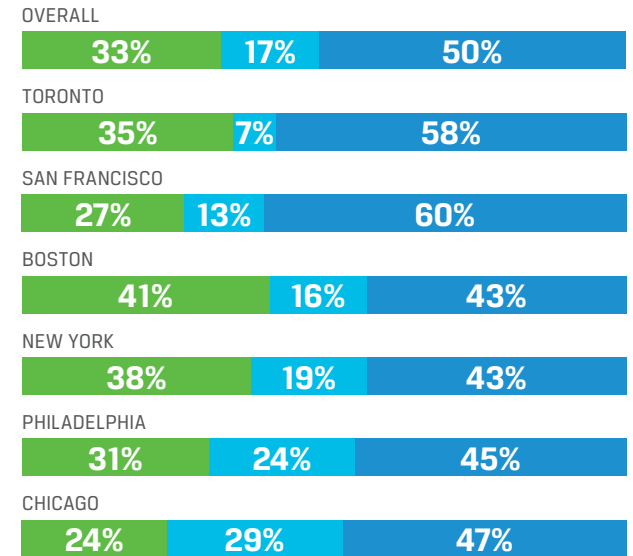
Q2. WHAT MOTIVATES YOUR FIRM'S EFFORTS REGARDING DIVERSITY & INCLUSION? (select up to three)



In broader terms, the discussion around motivations for pursuing diversity often revolves around two main areas: "the business case for diversity" (i.e., with more diverse perspectives, business outcomes will improve) and "because it is the right thing to do." We asked more directly about how firms are balancing priorities between business outcomes and values. Overall, half said the two are equally important, but among the others, approximately twice as many prioritized business outcomes.

The ranking was the same in all cities except Chicago, where, of those who had a leaning, the values argument was dominant. This finding was interesting for two reasons: First, the Chicago group was the most racially diverse, and second, the Chicago group had the highest proportion of those who said D&I is part of their job (45% versus 40% overall), suggesting that those with leadership roles in this area are often driven most by values.

Q3. FOR YOUR ORGANIZATION'S D&I EFFORTS, HOW DO YOU PRIORITIZE THE BALANCE OF VALUES AND BUSINESS OUTCOMES?

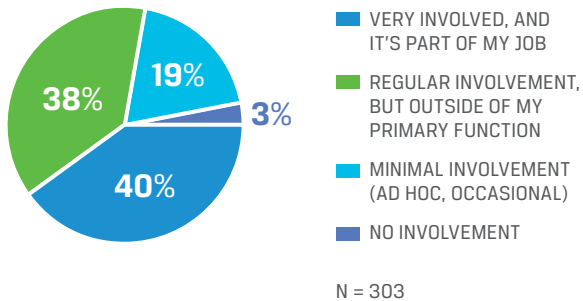


■ BUSINESS OUTCOMES > VALUES
■ VALUES > BUSINESS OUTCOMES
■ VALUES = BUSINESS OUTCOMES

N = 299

Having a predominantly values-based or business outcomes-based mindset will impact actions and communications. Furthermore, the *Harvard Business Review* article "Why Your Diversity Program May Be Helping Women but Not Minorities (or Vice Versa),"¹⁷ asserts that messaging around diversity is received differently by women and racial minorities. The authors found that women tended to prefer language that focused on "value in difference" whereas racial minorities tended to prefer "value in equality" approaches. This finding demonstrates that it can be difficult to apply lessons from one area of diversity work to all areas.

Q4. WHAT IS YOUR INVOLVEMENT IN DIVERSITY EFFORTS AT YOUR FIRM?

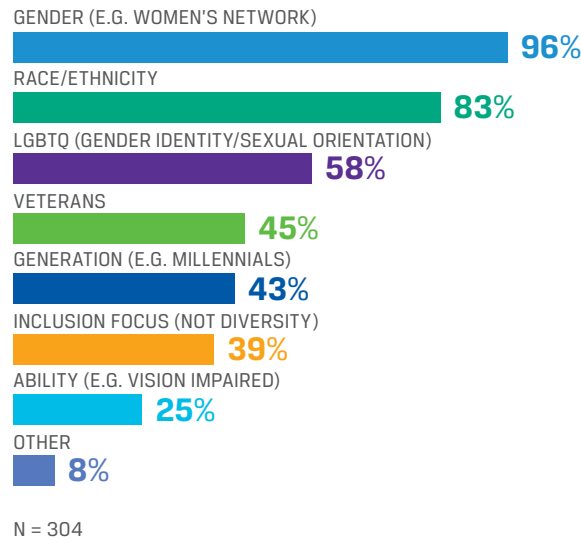


Because this is a developing area, however, very few participants (a total of about 10, or approximately 3%) said they have been looking at this subject for more than five years. As a result, the sessions allowed all participants to learn new things, and we focused on including investment professionals, as well as those in middle and senior management who could drive the most change. Many commented, however, that diversity responsibilities are often add-ons and time invested is not necessarily recognized or rewarded, suggesting that the business outcome rationale is not fully and authentically supported.

As noted earlier, we introduced a very broad definition of diversity, but we recognize that organizational efforts are often focused on one or more dimensions of diversity.

We asked what firms mean when they talk about diversity, and in many cases, firms have employee resource groups (ERGs) or business resource groups (BRGs) to provide employee networking and support and to leverage diverse perspectives. ERGs may be described as affinity networks, whereas BRGs are more directly informing business decisions.

Q5. WHAT FOCUS AREAS DOES YOUR FIRM HAVE FOR D&I? (check all that apply)

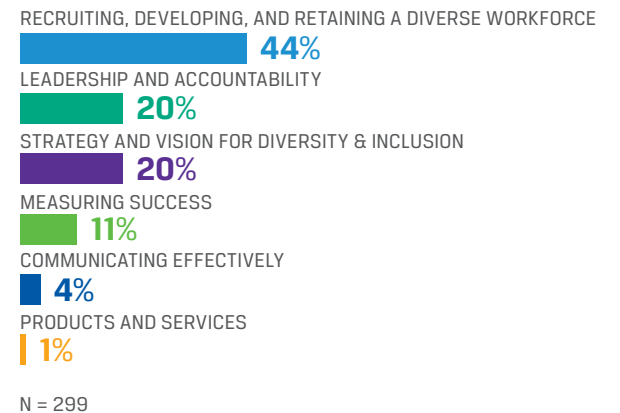


As shown in the chart for Question 5, the most prevalent focus area is gender diversity, at 96%, with race and ethnicity next, at 83%. Diversity is a topic that varies by location, however, and we saw this in significant differences across cities. Regarding gender, 85% of those in Chicago said this was a focus area, whereas every other market was at 97%-100%. Race was less of a focus in Toronto and Boston, where 64% and 72% of the respondents, respectively, cited it as a focus area. At the other end of the spectrum, 97% of participants in Philadelphia cited race as a focus area. LGBTQ (gender identity/sexual orientation) was

typically the third most prevalent area, although it ranked second in Toronto.

Those in Toronto were also the most likely to consider ability (e.g., vision impaired), cited by 36% of participants. Philadelphia was the most likely to cite veterans (60%) as a focus area. Those in Boston and San Francisco were the most likely to say they focus on inclusion rather than diversity (44% and 49%, respectively). Accordingly, some firms have named their efforts inclusion and diversity (I&D). We next asked participants to rate the relative importance of six educational needs. Not surprisingly, the top rated by far was the very tangible category of Recruiting, Developing, and Retaining a Diverse Workforce (44%). The foundational elements of Strategy and Vision and Leadership and Accountability followed, at 20% each. Measurement and communications are ongoing challenges for most firms, and only a small number are considering ways to leverage D&I in their products and services. Every BRG, however, should encourage the business to demonstrate the connection between D&I and business outcomes.

Q6. WHAT IS YOUR ORGANIZATION'S MOST PRESSING NEED RELATED TO PROFESSIONALISM IN THE DIVERSITY & INCLUSION SPACE?



These are in fact six areas of the GDIB. According to the Centre for Global Inclusion website, these benchmarks help organizations "determine strategy and measure progress in managing diversity and fostering inclusion."

We looked at these categories in more detail using the benchmarks, first giving each participant time to rate his or her firm and then having the participants from each firm debate among themselves to arrive at a consensus rating for each of the categories.

GDIB summary info

The distribution of self-assessment scores for each of the categories, using data from 78 firms, is shown in C3. Because firm-level self-assessments included debate and discussion among colleagues, firms that sent only one participant are not included in the firm-level totals. The scale is as follows:

1. **Inactive:** No D&I work has begun; diversity and a culture of inclusion are not part of organizational goals
2. **Reactive:** A compliance mindset; actions are taken primarily to comply with relevant laws and social pressures
3. **Proactive:** A clear awareness of the value of D&I; starting to implement D&I systematically
4. **Progressive:** Implementing D&I systematically; showing improved results and outcomes
5. **Best practice:** Demonstrating current best practices in D&I; exemplary for other organizations globally

C3. DISTRIBUTION OF FIRM SELF-ASSESSMENT SCORES BY GDIB CATEGORY



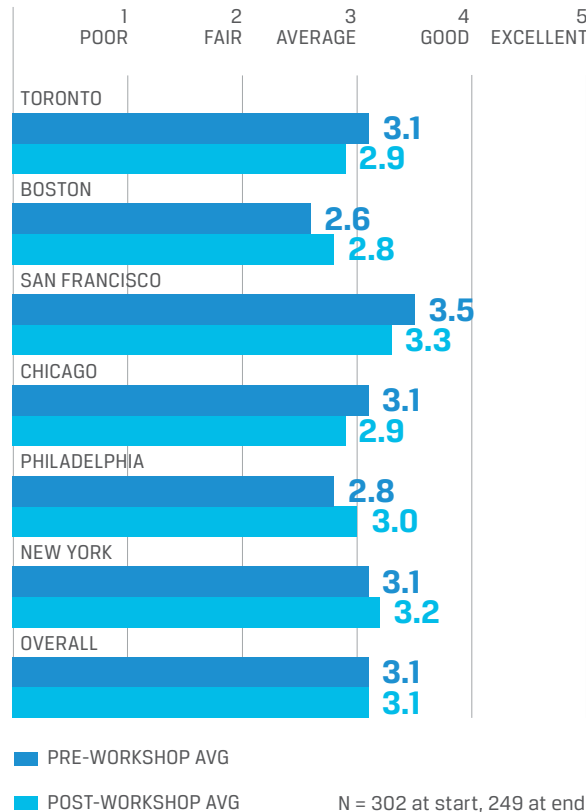
N = 78

2.7 The average composite rating shows firms are still in the Reactive phase

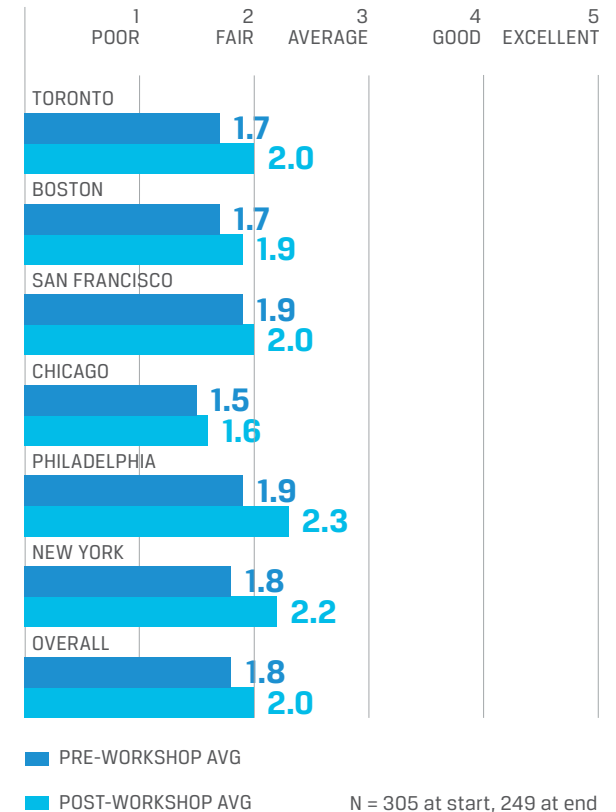
The GDIB authors noted in conversations with CFA Institute that many organizations find that moving from Level 2 to Level 3 requires a lot of change, and this was evident in the self-ratings from our workshops as well. Although we had set out to uncover D&I best practices at investment management firms through the discussions, we discovered that these are still in formation, and tools like the GDIB are useful for seeing where the biggest challenges are for the industry.

We compared these bottom-up ratings based on the GDIB assessments with a high-level top-down polling assessment, both before and after the workshops. Our polling scale was a simple 5 = excellent, 4 = good, 3 = average, 2 = fair, and 1 = poor. In these polls, firms tended to rate the industry very harshly on D&I before the workshops but somewhat better after the sessions. Participants rated their own firms higher—a score of about 3—before the workshops but with a mix of reactions following the sessions.

Q7. HOW DO YOU THINK YOUR FIRM IS DOING ON DIVERSITY?



Q8. HOW DO YOU THINK THE INVESTMENT INDUSTRY IS DOING ON DIVERSITY?



WHAT WE FOUND: THE IDEAS

The following action list represents ideas that came up repeatedly in the workshops, and the "Additional Detail" column also includes experiences from other industries. As the body of research in this area expands, ideas will evolve, and thus there will be pitfalls around their implementation. Our list, therefore, outlines important concepts, recommended actions, and common pitfalls. The order of the list reflects the maturity of an organization's D&I program, from foundational to external efforts.

This list was reviewed by workshop participants and reflects their input along the way. One of the areas of most feedback was how to categorize the items, and the diversity of suggestions reflects how many perspectives there are on these nuanced topics. Our individual experiences around diversity vary, and the ideas on the list include many related concepts. So we encourage you to use the ideas in whatever groupings you find useful and draw from the list as needed for different audiences. As we seek to move the industry forward, this is meant to be a dynamic list—one that can only evolve as firms put these ideas into practice.

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
1	<p>Define diversity</p> <p>Diversity priorities vary by geography and industry. It needs to be considered and defined by each organization. It can change over time, but without specificity you will not be able to set clear goals or focus.</p>	<p>Commit to a specific, useful definition of diversity that leads to common understanding and shared language. Discuss your firm's motivations for pursuing an inclusive culture, and be aware that individuals in your firm may have differing motivations around diversity.</p>	<p>"Diversity includes everyone."</p> <p>"Everyone knows what diversity means."</p>	<p>Diversity does include everyone, but lack of specificity will dilute your efforts. Ask, "What are we prioritizing in this environment?" The Global Diversity and Inclusion Benchmarks offer a broad definition of diversity for reference that goes beyond visible diversity. Fairness and business outcomes are common motivations for diversity and inclusion.</p>
2	<p>Intersectionality</p> <p>This term recognizes that individuals are a combination of characteristics (which intersect), and categorizing them in only one dimension reduces the opportunity to leverage their perspective.</p>	<p>When creating an intentionally diverse group, do not oversimplify the demographic profile of individuals. Challenge assumptions based on a sample of one. Diversity should cover both visible and invisible dimensions.</p>	<p>Asking a meeting participant to speak on behalf of an entire demographic: "Let's ask Susan to know what women think on this."</p>	<p>Recognize that identity is a complex subject for everyone. Increasingly, people resist "categories" of diversity, so while these are still useful, it is best to allow individuals to categorize themselves through self-identification and without limitation. (See the 2009 TED talk "The Danger of a Single Story," by Chimamanda Adichie.)</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
3	<p>Culture vs. policy Middle managers are key to embedding culture. If only the C-suite says it, it is a policy, but if others say it, it is the culture.</p>	<p>Track who talks about D&I to understand how infused it is in the culture: Are you missing those in middle management?</p>	<p>"If the leader says to do it, everyone will fall in line."</p>	<p>Consistent, meaningful, and honest communications set a "tone at the top" that is more likely to trickle down and be adopted by line managers.</p>
4	<p>Biases Being aware of biases doesn't protect you from acting on them.</p>	<p>Employ creative training techniques that will help uncover biases and provide tools to identify them in the future. Simulations and role-playing formats allow people to test real situations to see their natural reactions.</p>	<p>"We are all the same." "I do not see color." "The training will fix it."</p>	<p>Unconscious bias training is popular and can be useful. As with any training, however, the effectiveness wears off over time unless it is regularly reinforced. Such training should be voluntary and seen as the first step in a more comprehensive training plan. Doing an Implicit Association Test, or IAT,¹⁸ and looking at group biases can be helpful. There are also tools to identify potentially biased language in job postings.</p>
5	<p>Storytelling Stories have a powerful effect on the human mind. They influence our attitudes, fears, hopes, and values, and they build connections.</p>	<p>Encourage the use of stories within and across organizations, in two ways: (1) Personal stories help people understand how experiences have shaped their colleagues and thereby enable greater leveraging of diverse perspectives, and (2) stories are the basis of qualitative evidence about how D&I progress is made.</p>	<p>"Most D&I learning comes in formal training classes." "Without hard data, it is impossible to measure D&I progress."</p>	<p>It is a powerful outcome when people begin to see their shared humanity through something as simple as sharing a story or experience. Storytelling promotes connected, authentic working relationships and fosters a better understanding of diversity and inclusion. As Mihir Desai says, "If it becomes all about spreadsheets and screens, then we detach ourselves from humanity."¹⁹ Storytelling and examples can be useful in training.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
6	<p>Data</p> <p>Measure things that matter, not what is convenient. Benchmarks can be an effective tool in the diversity space, especially as data are shared more broadly and tracked over time.</p>	<p>Beyond tracking employee demographics, use such tools as the Global Diversity and Inclusion Benchmarks to identify gaps and strategic action items. Do a gender pay gap analysis. Ask about inclusion when conducting employee engagement surveys.</p>	<p>"Diversity and inclusion are impossible to measure."</p>	<p>"We're in an industry with numbers and measurement: If you're not adding numbers to the conversation, you are not having a real conversation." It is important to recognize "soft data" when assessing firm culture; this type of data is less precise (e.g., surveys about sentiment) but can be more material than hard data.</p>
7	<p>Communication</p> <p>One of the biggest D&I challenges is making sure employees know what is being done. Such knowledge can improve employee morale and engagement and create informed organizational ambassadors.</p>	<p>Have regular communications from senior leaders about diversity efforts. Provide talking points to help the broader management team initiate discussions, but with the caveat that "official" talking points are simply a resource for authentic conversations.</p>	<p>"Everyone knows we are doing this."</p>	<p>Repetition and authenticity are essential. Many of our workshop participants learned new things about their organization's D&I efforts at these events, and many said that corporate D&I messages did not resonate with investment teams. Because D&I efforts are about cultural change, communications are often a leading indicator as people learn to adapt: Say it, believe it, do it. This can be effective, but over time, words without action are counterproductive. Internal and external D&I communication should be aligned.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
8	<p>Candidate slates</p> <p>Interview lists are an important area for analysis, and having a process that checks for diversity at this stage can be useful.</p>	<p>When engaging an executive search firm, explain your firm's definition of diversity and select search firms that have a track record of providing diverse candidate slates.</p>	<p>Diverse candidates are eliminated because they "don't fit into our culture."</p>	<p>Some firms have begun to apply a version of the "Rooney Rule," which requires National Football League teams to interview at least one minority candidate when filling head coaching vacancies. This practice raises questions of tokenism, however, and there are some indications that a slate requires at least two diverse candidates for a higher chance of being hired. Also, beware of the "fit trap," where high-potential diverse candidates are included but rarely hired because of a lack of cultural "fit," which sends a negative message to those watching and to those interviewing.</p>
9	<p>Know your candidate</p> <p>In an attempt to create equal footing, some firms institute "blind" hiring practices in which résumé data associated with certain demographic information are excluded, but the effectiveness of this approach can be limited.</p>	<p>During the hiring process, seek to learn broadly about the background and perspective of each candidate and consider how differences can be leveraged to improve your firm's effectiveness. Although every interviewer should be educated about the kinds of off-limit questions and topics that could offend or cause legal issues, being too hesitant to connect at a personal level also hinders the process and could give the impression of an intolerant firm culture.</p>	<p>"We can't be biased because we use blind hiring practices."</p>	<p>Blind hiring will not fix the lack of diversity at your firm and can have unintended consequences. It is difficult to remove all identifying language and is not practical at the most senior levels, where networking is central to hiring. It is also important to get to know your candidate, including their dimensions of diversity. The firm will not help a candidate succeed if its culture is not inclusive to begin with. Firms must be prepared to understand candidate needs and challenges, as well as opportunities for organizational growth.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
10	<p>Interviewers</p> <p>The interview process is an opportunity to show a firm's diversity to a prospective employee and to get diverse viewpoints on the candidate's ability to succeed at the firm.</p>	<p>Create diverse interview panels whenever possible, leveraging the diverse viewpoints in your firm. Structure the feedback process so that all voices are heard.</p>	<p>The loudest voices dictate who gets offers.</p>	<p>If people from historically under-represented populations are regularly asked to contribute time to these efforts, it should be recognized and compensated as an essential function, not an extra burden for them relative to their peers. An inclusive process for gathering feedback will help prevent groupthink, and a written component will help track individual views.</p>
11	<p>Returnship</p> <p>Some firms offer programs that recruit those who have taken a career break.</p>	<p>Create a returnship program or other ways to "fill the pipeline from the middle." Encourage recruiters and interviewers to consider nontraditional career paths.</p>	<p>"Investment jobs have changed so much over the years that a career break makes you quickly irrelevant."</p>	<p>These increasingly popular programs offer a way for firms to recruit experienced people and benefit from an often-overlooked but highly motivated segment of the workforce. As family structures and generational views on career paths evolve, these programs will fill an important need. Alumni groups/networks are helpful in maintaining post-work relationships and sometimes result in returnships.</p>
12	<p>Mentors and sponsors</p> <p>Mentors help prepare people for career success, and sponsors advocate on their behalf. Mentors typically give wide-ranging advice, whereas sponsors are focused on advancing the career of their protégé.</p>	<p>Encourage mentoring at your firm, and urge leaders who are well regarded and influential within the organization to become sponsors. Teach them what each role entails.</p>	<p>"A mentor will advance your career for you."</p>	<p>Sponsors are key to helping people prepare for higher levels of responsibility. When decisions about your career are being made, sponsors are the ones in the room with influence. When done well, sponsorship will also help the sponsor's career as a leader. Reverse mentorship programs also exist, in which senior leaders seek to benefit from the counsel of those who are earlier in their careers.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
13	<p>"Cultural taxation"</p> <p>This is a phenomenon in which people from historically underrepresented populations are doing extra work to advance firm diversity (i.e., they are overtaxed), and there is a negative correlation between doing this work and getting promoted.²⁰ In other words, doing "diversity work" is penalized because it takes them away from other work.</p>	<p>Create processes to ensure that employees engaged in D&I efforts are adequately compensated and recognized for their time and that such efforts are considered when making personnel decisions. Build in time for these activities instead of making them add-ons.</p>	<p>"High-visibility assignments will lead to promotions."</p>	<p>Many of our workshop participants reported that they are asked to work on diversity "from the side of their desk" because no time is allotted for it. While good diversity programs include senior leaders, it is risky to assume that greater visibility—which often comes from diversity work—is the same as having more advancement opportunities, especially if such work is not valued as central to the business. If employees are being expected or relied on to speak up and bring a different perspective, it can also be emotionally draining because it introduces tension into the process.</p>
14	<p>Internal networks</p> <p>Firms and individuals benefit from building relationships across an organization, and exposure to people unlike yourself creates a familiarity that fosters inclusion.</p>	<p>Create programs that facilitate exposure to people across the organization—for example, internships, cross-training, rotational programs, and "ride-alongs" (e.g., shadowing or attending meetings with senior leaders).</p>	<p>"Diversity programs are the only way to build an inclusive culture."</p>	<p>Exposure beyond existing networks creates opportunity. In addition, the more people learn about diversity through natural interaction, the more those in the majority become aware of areas of sensitivity, which, if unchecked, could have individual and organizational reputational consequences. Functional and geographic mobility are good ideas.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
15	<p>Retention</p> <p>Keeping diverse employees is a challenge for many firms, yet many do not know how to make improvements.</p>	<p>Conduct "stay interviews" with employees to understand why they choose to stay at the company and what might make them leave. Third-party interviewers will be most effective, and consider carefully who is asked to participate so people do not feel singled out.</p>	<p>"Our high turnover among diverse employees is because of competitors, not internal practices."</p>	<p>Stay interviews can be done at different frequencies to understand the cultural state of the organization. They are like exit interviews but are done proactively to retain talent. Losing diverse employees can demoralize leaders who are committed to diversity and are trying to build a diverse pipeline and can tempt them to invest less time in training and sponsorship. "What if you train someone and they leave? What if you don't and they stay?"</p>
16	<p>"Always on" recruiting</p> <p>Continue to build a network of diverse candidates even when there aren't openings.</p>	<p>Adapt your recruiting mindset to an "always on" approach, recognizing that opportunities may arise quickly, outside of typical recruiting schedules. Attend conferences and expand the network beyond familiar recruitment pools (i.e., the usual colleges and alumni networks).</p>	<p>"We are all competing for the same few women and minority candidates."</p>	<p>The first impression for new entrants to the industry is not necessarily inclusive, with little diversity among finance faculty and finance clubs. Historically black colleges and universities, Hispanic-Serving Institutions, historically women's schools, and public colleges and universities are rich sources of talent and diversity that broaden the pipeline.</p>
17	<p>Compensation</p> <p>Some firms are beginning to have D&I key performance indicators, or KPIs, as part of executive compensation.</p>	<p>Tie leadership-level compensation to progress on culture and diversity metrics. When making promotion decisions, consider a person's ability to hire, develop, and lead a diverse team.</p>	<p>A temptation to optimize short-term metrics at the expense of long-term employee success and culture (a "check-the-box" approach).</p>	<p>Tying executive compensation to D&I KPIs demonstrates firm commitment to D&I as a core cultural value. The risk is that it can lead to tokenism. Success requires training, preparation, and an inclusive culture. Rolling assessment periods can reduce short-term incentives and improve accountability.</p>

REF NO	CONCEPT	RECOMMENDED ACTIONS	COMMON PITFALLS	ADDITIONAL DETAIL
18	<p>Outreach Actively engage in building the pipeline of investment professionals.</p>	<p>Align corporate citizenship with efforts that build the pipeline by generating awareness of and interest in math and investment management.</p>	<p>"There are few organizations we can partner with that reflect our corporate values."</p>	<p>Programs and partnerships that are focused on students can build the pipeline (e.g., mentorship, tutoring, and internships) through early exposure and engagement. Outreach activities demonstrate the depth of organizational values and have reputational benefits.</p>
19	<p>Open dialogue An inclusive culture is one in which societal issues and their impact in the workplace are acknowledged.</p>	<p>Encourage candid conversations about diversity topics and informal discussions about current events.</p>	<p>"Controversial topics don't belong at work."</p>	<p>Organizations that facilitate discussion among employees promote authentic engagement and strengthen a workplace culture of respect and understanding.</p>
20	<p>Business diversity Achieve top performance by being inclusive. The goal is to focus on improving performance by tapping firms with the best talent and to proactively consider women- and minority-owned firms.</p>	<p>When selecting asset managers, ask consultants to propose diverse slates of firms consistent with your definition of diversity. Differentiate between emerging firms and firms with diverse ownership. Report results and metrics by firm category.</p>	<p>"We cannot control a firm's or partner's diversity."</p>	<p>Business diversity in investment management means asking such questions as the following: Are the partners diverse? Who is managing the account? Does the composition of the team represent your firm's diversity and inclusion values? This approach is akin to supplier diversity, where firms engage community stakeholders in their procurement program, with the goal of creating opportunities for small, minority-owned, women-owned, veteran-owned, and local businesses, and then tracking the firm's level of spending with diverse suppliers.</p>

THE WAY FORWARD

Although we didn't uncover a definitive list of D&I best practices through this series of workshops, what we did discover was a rich dialogue around how this subject is progressing in the investment industry. In addition, in this highly competitive industry—competitive for returns and for talent—we found that firms have a desire to work together and learn from each other to strengthen the industry overall.

The next step is to put these ideas into action to prove their effectiveness and establish industry best practices. To that end, we invite firms to become "experimental partners" in the next phase of this project, which involves implementing ideas in this report and providing confidential updates to CFA Institute on their effectiveness. For more information on how to become an experimental partner, please contact diversity@cfainstitute.org. We will use these data to further educate those in the industry and evolve our common knowledge about effective D&I strategy and tactics.

In addition, the quantitative data in this paper provide a foundational understanding of the current status of D&I in the industry and can be revisited in the future as new strategies are applied. So although we have not answered all the questions and cannot offer all the solutions today, thanks to the contributions of the workshop participants, we have the basis for an intentional journey to a more inclusive investment management profession.

ENDNOTES

- 1 Many papers have documented the lack of diversity in the industry, and gender diversity has been covered the most. Morningstar found that in the United States, less than 10% of portfolio managers at mutual funds and exchange-traded funds are women ("Fund Managers by Gender," June 2015). In addition, a May 2017 Bella Research Group report by Josh Lerner, Anna Leamon, Meagan Madden, and Jake Ledbetter ("Diverse Asset Management Project Firm Assessment"), commissioned by the John S. and James L. Knight Foundation, found that women- and minority-owned firms manage just 1.1% of the industry's \$71.4 trillion of assets under management (Knight Foundation, "New Report Reveals Low Levels of Diversity in Asset Management Industry, Despite Similar Investment Performance at Women- and Minority-Owned Firms," press release [3 May 2017]). For an executive report on the study, see Josh Lerner and Bella Research Group, "Diversifying Investments: A Study of Ownership Diversity in the Asset Management Industry," Knight Foundation (May 2017).
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- 5 In this study, millennials and Gen Z are defined as those born in 1983–1994 and 1995–1999, respectively.
- 6 HM Treasury and John Glen MP, "Women in Finance Charter" (11 July 2018).
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- 11 Michael J. Mauboussin and Dan Callahan, "Building an Effective Team: How to Manage a Team to Make Good Decisions," Credit Suisse (8 January 2014).
- 12 Jason Zweig, "Behavioral Finance: What Good Is It, Anyway?" A Safe Haven for Investors (2015).
- 13 "When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed." See <https://www.chathamhouse.org/chatham-house-rule>.
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- 15 McKinsey & Company, "HBR McKinsey Award Winners: Why Diversity Programs Fail, and What World War II Can Teach Us about Success," New at McKinsey Blog (18 April 2017).
- 16 PriceWaterhouseCoopers, "Diversity & Inclusion Benchmarking Survey: Financial Services Data Sheet" (12 May 2017).
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- 18 Anthony G. Greenwald, Debbie E. McGhee, Jordan L.K. Schwartz, "Measuring Individual Differences in Implicit Cognition: The Implicit Association Test," *Journal of Personality and Social Psychology* 74 (1998): 1464–80.
- 19 Paul McCaffrey, "Why Everyone Hates Finance and What to Do about It," *Enterprising Investor* (22 May 2018). <https://blogs.cfainstitute.org/investor/2018/05/22/why-everyone-hates-finance-and-what-to-do-about-it/>.
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