IN THIS ARTICLE
Allocators are increasingly seeking to better understand asset managers’ DEI efforts. We explore how asset managers and OCIOs can best respond: by treating the manager’s DEI approach as an enormous growth opportunity for their entire business.

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More and more allocators are placing significant importance on working with managers who prioritize their DEI efforts. From high net worth retail investors to the most sophisticated institutions working with individual asset managers and OCIOs, a DEI review is part of every new manager hiring decision today.

Of the many obstacles managers face in increasing their diversity, the biggest is the current lack of any investment industry DEI standards. As the chart below illustrates, the asset management industry today is not as diverse as the society in which it operates.

Managers can best respond to allocators’ DEI concerns by treating their own DEI policies as an enormous growth opportunity. Winning asset managers need to have a clear and truthful statement of their DEI approach, both among their staff and in their portfolio holdings and, in the case of OCIOs, in their manager selection criteria.

Chestnut Advisory Group is a boutique growth strategy consultant dedicated to asset managers and OCIOs. We provide custom growth advisory for product, distribution, M&A and brand strategies. Chestnut is a woman-owned, practitioner-led firm.
Making the Most of the DEI Growth Opportunity

Allocators are increasingly seeking to better understand asset managers’ DEI efforts, to align themselves with managers who prioritize DEI, and to allocate more capital to diverse-owned managers. In this article, we explore how asset managers and OCIOs can best respond: by treating their own DEI approach as an enormous growth opportunity.

This article is part of our Future of Investments research project, incorporating responses from over 450 investment professionals in four key cohorts: asset managers, institutional investors, RIAs, and investment consultants.

Growing Demand for Managers Who Prioritize DEI

Manager DEI efforts are increasingly driving asset flows, according to the managers themselves. In our research, 40% of asset managers said their DEI and ESG efforts are having a high impact on their asset flows, followed by approximately 1/3 of both investment consultants and RIAs.

The diverse wealth marketplace is large (for example, there are more than one million High Net Worth investors in America that are Black, Asian, Hispanic or Latino) and this group is growing faster than the population overall. These investors have largely built their wealth outside of the equity and bond markets, and as a result, offer a significant market opportunity for wealth managers.

Most diverse wealth investors want their asset managers to offer a culturally diverse workforce and transparency around their DEI policies. In one recent study, nearly 80% of Black investors and 72% of Hispanic and Latino investors noted the importance of investing with firms that make diversity, equity and inclusion a priority. Just under half of Asian investors said the same.

Non-diverse wealth investors care about managers’ DEI efforts as well. In our recent research, almost a third of RIAs said their DEI and ESG efforts are having a substantial positive impact on their asset flows.

Institutional Investors Are Increasingly Seeking DEI Data from Managers

Institutional investors are applying their traditional data-driven approach as a first step in assessing asset manager DEI approaches. In mid-2021, the eVestment database introduced a DEI questionnaire as part of their service, based

Diverse Private Clients Focus on Managers’ DEI Efforts

The retail marketplace is larger and growing much faster than the institutional segment, particularly across the Americas markets. The growing diversity of high net worth investors is placing a new focus on asset managers’ DEI efforts.

1 Source: UBS, Invest to Advance report, 2022
on the input of many investors and consultants. eVestment understands the lack of data is an issue, and provides managers fields in which they can describe the diversity of their investment teams even when they do not have hard data to report.

OCIOs are also asset managers, and as such are making major efforts to educate their clients about their firms’ DEI efforts. For example, NEPC published a 52-page 2021 DEI Progress Report. Among the reams of data included in the report, NEPC shares data on its employees and new hires by race and ethnicity as compared with past years and investment industry demographics. This level of transparency by NEPC marks a shift in the industry and will ultimately be a positive differentiator of the firm in the industry.

Not surprisingly given the results above, investors and their advisors are now examining the diversity of their investment managers. Lack of data is probably the biggest barrier here, which puts investment firms in a potentially difficult position: there are real employee privacy issues and regulations that must be tackled, with very different standards around the world.

Nonetheless, efforts to gather DEI data and set standards are being made:

- **The CFA Institute is recommending a DEI protocol and implementation guide.** Signatories are asked to confidentially report on DEI progress to the CFA Institute annually, using the Institute’s framework, and the data will be reported on an industry level.

- **The ILPA (International Limited Partners Association) has created a DEI Roadmap including a diversity metrics template for private asset class firms.**

- **The ILN (Investment Leadership Network) recently introduced an Inclusive Finance Playbook** including metrics that allocators and asset managers can use to assess DEI policies.

- **DEI questions are increasingly included in institutions’ RFPs and DDQs.** For example, LACERA’s quarterly manager scorecard now explicitly rates all their public and private markets managers on diversity. Their five page manager diversity questionnaire asks for details on the ethnicity of each manager’s

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**Diverse Investment Teams Outperform**

Investors’ interest in greater diversity at their asset managers is bolstered by research showing that diverse investment teams produce better investment results. One study of traditional asset managers found that investment teams with gender or ethnic diversity outperform non-diverse teams by 20bps annually. And yet another study found that women-led hedge funds outperformed the relevant index by over 600 bps in 2020.

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2 Willis Towers Watson, *Diversity in the Asset Management Industry*, 2020

3 Hedge Fund Research, HFRI Women Index vs industry composite, 2020

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Some are willing to share their diversity stats (so presumably they’re proud of them) and some won’t (presumably hiding something). It’s like with ESG, if all of us keep asking the managers these questions, they will eventually get the message.

- Investment Consultant
board, executives, investment professionals, and support team. It also asks for the percentage of total compensation received by minority investment professionals at the firm.

- **Investment consultant databases are updating their DEI data collection practices** to make measuring the demographics of asset managers more straightforward, and to get information about firms’ diversity policies and procedures.

- **eVestment launched an extensive diversity questionnaire** in 2021, as previously discussed, although manager uptake has been slow. In a recent study, only 18% of US-based private asset managers provided DEI data on both ownership and investment teams.

### Current Diversity Gap Between Managers and the Markets They Serve

Whatever the source, the actual data all demonstrate the gap between investment industry demographics and that of the markets they serve.

As the chart on the cover of this article illustrates, a 2021 US Congressional report on diversity at the 31 largest asset managers in the United States found that women comprised 26.2% of the executive workforce, while people of color comprised 16.6%. Only 3% of investment firm executives were Black.

Another recent study, this one covering 224 institutional investor portfolios, found that only 29% of the managers had at least one woman on the portfolio management team, and just 13% of the portfolio teams had a woman in a lead or co-lead position.

### Investment Managers Cite Obstacles to Building Diverse Teams

In our research, over 20% of asset manager respondents say they have a policy to increase their firm’s diversity (see chart below), and only 2% said that diversity is not a senior management priority. Managers listed difficulty recruiting and retaining diverse talent as the largest barrier to improving investment team diversity.

The difficulty recruiting diverse talent to asset managers may be related to the traditional way in which hiring takes place in the industry, i.e. via personal contact networks. This would explain why managers located in markets with objectively diverse populations tell us, ‘where we’re located is an issue.’ Managers seeking to increase diversity may need to recruit more creatively than they have in the past and/or expand their networks. For example, the Ontario Teachers’ Pension Plan has changed its recruiting strategy to include partnerships with community organizations such as #10000BlackInterns in the UK to reach a diverse group of candidates.

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4 Knight Diversity of Asset Managers Series, John S. and James L. Knight Foundation study
5 Diversity and Inclusion: Holding America’s Largest Investment Firms Accountable, US Congress Majority Staff Report, 2021
6 Ibid
7 Hedge Fund Research, HFRI Women Index vs Industry Composite, 2020
8 BenefitsCanada
And be welcoming! One asset manager we spoke to told us “Our firm is 25% women-owned and about 33% of senior management is female. No one of color though. So the pictures on our website may discourage talented people of color from applying to us, so we never get a chance to speak with them and show them what we’re really about.”

Data Is Key to Addressing Investors’ Interest in DEI

Manager Diversity Is Beginning to be Measured

Diverse ownership of an asset manager is easier to measure than staff diversity, and therefore increasing ownership of diverse-owned managers is often one of the first goals set by investors seeking to improve their own DEI efforts.

Endowments, foundations and some investment consultants are leading the charge here. For example, in its published 2021 DEI Progress Report, NEPC reported that approximately 59% of the firm’s clients now have diverse-owned managers in their portfolios.

Good Intentions Not Yet Driving Much Diverse-Owned AUM

Nonetheless, these efforts to date have not driven much in the way of AUM to diverse-owned managers. According to a recent study, 12.2% of US asset management firms are majority-owned or co-founded by women and minorities, although diverse-owned firms only managed 1.4% of industry AUM in 2021. Overall, diverse representation in the investment management industry is greater on investment teams than in ownership.

Our study confirms that being a diverse-owned manager in and of itself does not drive much in the way of asset flows. We asked managers who say they are viewed as a diverse manager to rate the impact of their diverse manager status on their asset flows. Only 20% of respondents said their diverse manager status had a high impact on their flows, while 38% of respondents said it had a low impact.

Biggest Barrier to Hiring More Diverse-Owned Managers: No Target or Policy

Our research identifies key barriers to hiring diverse managers (see chart below). The largest barrier seems to be simply the lack of a policy around hiring diverse managers. Almost half of investors and 30% of consultants cited this reason.

Another barrier some respondents identified was the “chicken and egg” issue of manager scale. One OCIO executive we spoke with told us “Given the size of our [OCIO] business, any manager we use must have scale or be scalable. Oftentimes these [diverse-owned] managers lack scale.”

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9 Knight Foundation, Knight Diversity of Asset Managers Research Series, 2021
Conclusion: Best DEI Practices for Asset Manager Growth

Chestnut’s clients know that there are three critical questions all successful asset managers have addressed (we call these the Golden Circle of Asset Management):

• What do your target investors want?
• How can your firm deliver?
• Why you?

Each of these questions can be considered through the lens of DEI.

Thoroughly Understand Your Target Investors’ DEI Interests

Not all investors have the same views on DEI and virtually all allocators are grappling with DEI policies and measurement issues at their own organizations. In a recent wealth marketplace study, for example, over half of Asian high net worth investors said they had no preference to invest in firms with a DEI focus over other firms. In contrast, many endowments are actively working to set explicit diverse manager goals. A number of state and local plan investors already have diverse manager goals, although often these center on separate emerging manager programs rather than applying to the overall portfolio.

Don’t ‘Diversity Wash’: Authenticity Is Critical

Asset managers need to have a clear and truthful statement of their DEI approach, both among their staff and in their portfolio holdings and, in the case of OCIOs, in their manager selection criteria. As the industry has yet to set agreed-upon DEI standards and practices, most managers don’t yet have a DEI policy or philosophy. Managers should own that fact rather than try to hide it.

Our best advice for most managers today is to be extremely clear about what you are doing about DEI, what you are thinking about doing, and who is doing that thinking. Ultimately, we expect all asset managers will need to develop a clear DEI policy with measurable goals whose implementation can be monitored.

Managers must avoid spin on their diversity efforts, which can lose credibility. True story: One firm that added a second woman to its portfolio manager ranks touted that it had “doubled” the number of senior women on its investment team. The consultant who told us this story was not impressed. Another tactic is to remove all photographs of the investment and leadership teams from the company website - an attempt to cloud the lack of organizational diversity from anyone analyzing their online presence. This attempt to circumvent transparency will ultimately marginalize those asset managers in the search process.

Managers Need to Invest in their DEI Efforts to be Credible

This isn’t a nice-to-have. Hiring and/or training investment teams on DEI requires a substantial ongoing investment that is also intentional on delivering outcomes. It is fair to say that demand for diverse investment talent today exceeds supply, particularly in the senior ranks. The same can be said for DEI initiatives - whether those initiatives result in hiring talent to lead the DEI effort, or practices around recruitment and retention.

At a minimum managers must meet current DEI table stakes: fully complete all DEI questions in databases, RFPs and DDQs. Taking it to the next step, engaging with industry groups working to establish DEI standards and practices shows commitment and enables the manager to understand new standards as they are being set.

Lastly, demonstrating intentionality around DEI requires applying a DEI lens to all aspects of a

Source: UBS, *Invest to Advance* report, 2023
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manager’s business, such as:

- External board members
- Supplier relationships
- Trading partners
- Philanthropic organizations
- Internships
- Management/professional training
- Pay parity mandates and transparency
Research Methodology

As the investment industry faces unprecedented challenges, Chestnut Advisory Group and *Pensions & Investments* partnered to conduct comprehensive research into the issues impacting the future of the investment industry, your organization, and your career. Over 450 professionals from across the industry participated in our study.

![Respondent Firm Type](image)

![Institutional Investor Type](image)

Source: Chestnut Advisory Group

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About the Author

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Over the past nine years Amanda has helped Chestnut’s clients navigate the rapidly changing industry landscape by creating and implementing custom strategic growth roadmaps. Her areas of expertise include distribution, brand and M&A strategy. Amanda brings over 25 years of industry experience to Chestnut’s clients. Prior to founding Chestnut, Amanda served as Global Director of AllianceBernstein’s senior portfolio management team. Previously, Amanda developed deep experience in sell-side equity research as Associate Director of Equity Research at Bank of America and as an Institutional-Investor All-America Team-ranked equity analyst at JPMorgan.

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Michele brings Chestnut’s clients the experience gained from over 25 years in senior business development, sustainable investing, and marketing roles.

Prior to joining Chestnut, she was Director of US Institutional Management at Jarislowsky Fraser LTD, where she led and developed a strategy for this Canadian asset manager to enter the US institutional marketplace. Michele was also a founding member of the firm’s Sustainable Investment and Diversity & Inclusion Committees.

Previously, Michele was a successful institutional equity salesperson at JPMorgan and Citi. Michele sold research on US and international equities to the world’s leading asset managers. Michele is also a former executive at the Skip Barber Racing School, the world’s leading motorsports education company.

Michele holds an MBA from Harvard Business School and a BA from Brown University.