
DIVERSITY, EQUITY & INCLUSION: The Path to Transparency



Executive Summary

The ongoing conversations and industry-wide efforts to promote a more diverse, equitable, and inclusive investment industry are gaining momentum, and industry participants are making more commitments to advocate for change.

However, there is a need for a clearer definition of diversity and alignment between asset owners, consultants, and asset managers on the data used to measure diversity, equity, and inclusion. The change efforts are not solely reliant on asset managers, as some consultants and asset owners are making commitments to internal initiatives as well.

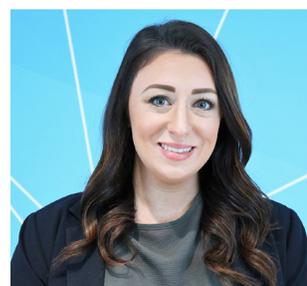
This paper discusses:

- The collective efforts on the entire investment industry ecosystem, including asset owners, consultants, and asset managers, to adopt and implement the standardization of diversity and inclusion data.
- The current state of diversity within asset management firms at both the ownership and portfolio management levels.
- How the use of D&I data will impact stakeholder decision making, board member composition, and investment policies in the future.

Key Findings:

- 584 asset management firms reported some level of female or minority ownership.
- 54.07% of key professionals at the firms reporting D&I data to eVestment are white males. The second largest group is Asian males, at 12.44% followed by white women at 9.11%. Black males only made up 1.73% of the key professionals at firms reporting data and black females made up only 0.55% of key professionals at reporting firms.
- 288 firms indicate they have mentorship programs available for women and minorities and 244 firms indicate they have a pay-parity policy in place.

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Going Beyond the Headline Numbers

As the demand for more transparency and standardization increases, asset owners are hungry to see more diversity, equity, and inclusion among the asset managers they do business with and across the industry. In promoting the [CalPERS and CalSTRS 2021 Diversity Forum](#), Marcie Frost, CEO of [California Public Employees' Retirement System](#), said she has seen modest improvement in diversity in the money management industry over the last few years, but it has much further to go. "Asset owners want to do business with investment managers led by diverse management because diversity adds to performance," says Frost.

There also is demand for more robust data and a broader definition of diversity. While diversity is often measured at the firm ownership level, this does not tell the whole story. Diverse ownership can serve as a piece of the diversity strategy, but does not account for the sole diversity success metric. "There are additional ways to define diversity that may add to and improve the conventional definition when the objective is to consider the influence of diversity on investment outcomes," as stated in Verus's research paper, [Broadening Diversity Consideration](#).

There are more ways to define and account for diversity at a firm, outside of firm ownership, in both qualitative and quantitative measures. Per the [Institutional Investing Diversity Cooperation](#) (IIDC), "...Diversity is multi-dimensional. Investment decisions are not always made by owners and owners are not always responsible for the success of a firm. Diversity within a team is equally beneficial and should also be measured."

Ownership information doesn't tell the whole story, but it's a start.

While some organizations have made progress and commitments to promoting diversity, equity and inclusion, others have been slow to adopt or are still in the early stages of developing a comprehensive plan. Many industry professionals have called for more transparency and standardization.

584

Asset management firms indicating female or minority ownership

“Asset owners want to do business with investment managers led by diverse management because **diversity adds to performance.**”

Marcie Frost
CEO, California Public Employee's Retirement System

The [CFA Institute recently recommended](#) a diversity, equity, and inclusion (DEI) protocol. The code and implementation guide, drafted by the CFA Institute Steering Committee and trade association [Nicsa](#), will promote best practices and standardization for the asset management industry as it relates to DEI.

% of Firm Ownership					
Group	1-25%	25-50%	50-75%	>75%	Total
Asian	148	16	35	101	300
African American	50	6	15	28	99
Hispanic	22	11	35	24	92
Female	349	94	64	51	558
"Other"	47	15	10	41	113

Source: eVestment Analytics

The Flywheel Effect

For years, investors, consultants, and asset managers have touted their focus on the environment, social good and corporate governance, and within that, diversity and inclusion. That talk seems to have shifted to action as asset owners and allocators are now demanding more transparency into the initiatives their current and prospective asset managers have in place to promote diversity, equity, and inclusion within their organizations. That action means investors are requesting, and in some cases, requiring managers to provide quantitative and qualitative data on their D&I initiatives.

This push and pull interaction of investors requesting and managers submitting data is building momentum. The more pressure asset owners and allocators put on asset managers, the more willing managers are to provide data. Managers who are ahead of the curve in terms of D&I initiatives are more than willing to share those with their current and potential investors.

In early 2021, eVestment, a part of Nasdaq, released a new [Diversity and Inclusion \(D&I\) questionnaire](#) that provides asset managers the opportunity to fully articulate their firm's approach to diversity, equity, and inclusion. This centralized questionnaire also provides asset owners and consultants with a standardized data set for analyzing managers on D&I.

1,000+

Asset owners and allocators using eVestment for manager research

25,927

Long-only and hedge fund strategies in the eVestment database

20%

Firms updating eVestment's Diversity & Inclusion questionnaire

Request complimentary access to eVestment's Diversity & Inclusion dataset: evestment.com/diversity/

“Because investors use eVestment’s database to **make investment decisions**, asset managers have to understand **that if your data is not included, you might fall out of a search.**”

Lauren Dillard
EVP, Head of Investment Intelligence, Nasdaq

In an effort to promote transparency and standardization, eVestment announced it made this data available free of charge to asset owners. This means more eyes on the data and more demand for managers to provide it. In an interview with [Cheddar](#), Lauren Dillard, Executive Vice President and Head of Investment Intelligence at Nasdaq said, “Because investors use eVestment’s database to make investment decisions, asset managers have to understand that if your data is not included, you might fall out of a search.”

Additional efforts are being made by the investment consultant community, often regarded as the gatekeepers of the industry. In 2020, the Institutional Investing Diversity Cooperative (IIDC), was founded by Verus and twelve other institutional plan sponsors and investment consultants. “This is a critical issue for our industry, and we had no doubt that our fellow consultants would rally behind a call for clarity and more useful data that would allow us to measure diversity beyond firm ownership,” says Shelly Heier, President of Verus, in a [statement announcing](#) the IIDC.

Since the launch of the eVestment D&I questionnaire in January 2021, over 20% of asset managers in the database, representing 6,879 strategies, have reported their D&I data (as of August 2021). Collectively, Nasdaq and eVestment expect the asset manager and asset owner community to use the growing D&I data as table stakes in the future.

Dillard said, “We want to normalize this data as part of the investment process. Making the data available, making it normalized, means investors can put it through their processes and policies and incorporate the data how they see fit.” She adds, “Diversity and inclusion data is already being incorporated in decision making. It’s just not being incorporated in a standard way. What we realized was, many people were asking for the same information in different ways.”

Providing a Baseline for the Gender & Ethnic Makeup of Portfolio Teams

Beginning to collect, standardize and aggregate the gender and ethnic makeup of portfolio teams provides a snapshot of the current state and a baseline for tracking and measuring the impact of manager’s DEI initiatives.

Verus research points out the “desired outcomes of diversity as twofold; first, we recognize that diverse viewpoints and methods of problem-solving are often characteristics of cognitive diversity which may lead to more robust investment decision making, and second, that diversity within investment management organizations is inherently a social good with positive impact on the community at large.”

	Male	Female	Non-Binary	Decline to State	Total
White	54.07%	9.11%	0.00%	0.29%	63.47%
Asian	12.44%	4.73%	0.00%	0.03%	17.20%
Other, Multi or Decline to State	8.65%	3.27%	0.00%	1.15%	13.07%
Hispanic, Latinx or Spanish	2.82%	0.71%	0.00%	0.00%	3.53%
Black	1.73%	0.55%	0.00%	0.01%	2.29%
Middle Eastern or North African	0.23%	0.05%	0.00%	0.00%	0.27%
Indigenous/Tribal People	0.17%	0.04%	0.00%	0.00%	0.21%
Total	80.11%	18.46%	0.00%	1.48%	100%

Source: eVestment Analytics. Table totals may not add up due to rounding. Data as of 09 August 2021.

“Diverse viewpoints and methods of problem-solving are often characteristics of **cognitive diversity**, which may lead to more **robust investment decision making**.”

Verus, Broadening Diversity Consideration report

Managers can also provide information and commentary on their internal practices that promote diversity, equity and inclusion, such as mentorship programs for women and minorities and pay-parity policies.

In the McKinsey report, [Diversity Wins: How Inclusion Matters](#), it was found that companies with more than 30 percent women executives were more likely to outperform companies where this percentage ranged from 10 to 30 percent, and in turn these companies were more likely to outperform those with even fewer women executives, or none at all. A substantial different likelihood of outperformance – 48 percent – separates the most from the least gender-diverse companies.

288

Firms indicating they have mentorship programs available for women and minorities

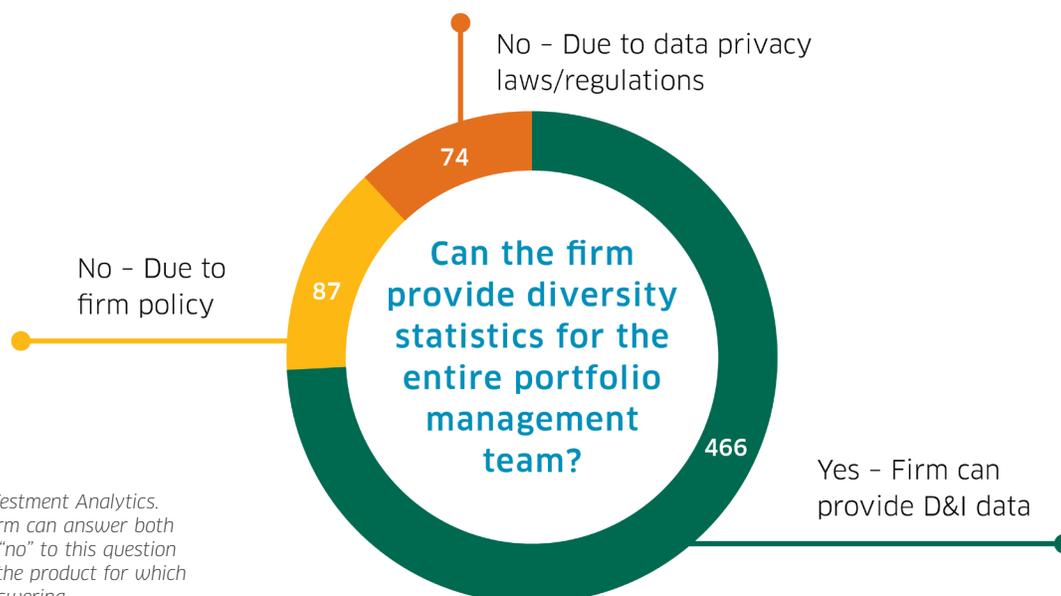
Furthering the case of ethnic and cultural diversity, McKinsey research found that the culturally diverse companies are 36 percent more likely to be profitable than the least diverse companies ethnically and culturally. This is slightly up from 33 percent in 2017 and 35 percent in 2014.

244

Firms indicating they have a pay-parity policy in place

Adhering to Policies, Rules & Regulations

In developing its questionnaire, eVestment recognized that under laws in various U.S. and international jurisdictions, providing diversity statistics might not be allowed. For instance, 87 firms reporting to eVestment report they cannot supply D&I data due to firm policy and 74 firms report they cannot provide data due to privacy regulations and laws in their area that impact all of some of the team. Similarly, for very small teams, providing diversity statistics could highlight personally identifying information that firms or members of firm teams might prefer to keep private. In these instances, the commentary sections become even more important.



Source: eVestment Analytics.
A single firm can answer both "yes" and "no" to this question based on the product for which they're answering.

Going Forward

As diversity and inclusion conversations continue and the demand for more data and transparency increases, those who have been slow to adapt will soon need to provide answers. Additionally, there could be business implications for asset managers who opt not to provide information and could be at risk for being left out of searches or missing out on mandate opportunities.

Nasdaq, eVestment's parent company, is also proposing changes be made to boardroom diversity and representation. In December 2020, Nasdaq [filed a proposal](#) with the U.S. Securities and Exchange Commission (SEC) to adopt new listing rules related to board diversity and disclosure. In August 2021, the SEC [approved Nasdaq's proposal](#) to enhance board diversity disclosures. This further encourages the creation of diverse boards through a market-led solution. Beginning in 2022, new listing rules will require companies listed on Nasdaq's U.S. exchange to publicly disclose consistent, transparent diversity statistics regarding their board members on an annual basis.

Adena Friedman, President and CEO, Nasdaq [states](#), "Our goal with this proposal is to provide a transparent framework for Nasdaq-listed companies to present their board composition and diversity philosophy effectively to all stakeholders." Furthermore, "Nasdaq strongly believes diversity and inclusion are essential to inclusive capitalism and to the long-term growth of businesses and our economy."

Ultimately, we are all working toward an industry that embraces various backgrounds, accepts different perspective, and results in better investment outcomes for shareholders.

This change will be a collective effort from the entire ecosystem of industry organizations, leaders, and stakeholders to adopt and implement standards for diversity, equity, and inclusion data. For asset managers, providing diversity data remains voluntary, however, the demand from investors and their consultants may force their hand. The efforts to standardize data and provide transparency into DEI will continue. Decision-makers will expect more managers to supply their diversity data, favorable or not. Ultimately, we are all working toward an industry that embraces various backgrounds, accepts different perspective, and results in better investment outcomes for shareholders.

Asset Managers

To provide data to the eVestment D&I questionnaire, visit [evestment.com/submit-my-data/](https://www.evestment.com/submit-my-data/)

Asset Owners

To request complimentary access to eVestment's D&I data, visit [evestment.com/diversity/](https://www.evestment.com/diversity/)