

Diversity and Inclusion in SEI's Manager Research Process

At the core of SEI's investment offerings is the hiring and monitoring of specialist investment managers that are known for their expertise in specific markets or with specific investment styles. Our Manager Research Team evaluates and selects these managers through a combination of both qualitative and quantitative analyses—giving special consideration to team diversity.

Why consider diversity? As you'll learn in this paper, diversity within a group has been shown over the past several decades to be a key component of effective decision-making, which is crucial to successful investment management.

What do we mean by diversity?

At SEI, we define diversity in three ways:

Identity: Gender, ethnicity, nationality, ability, sexuality

- › **Observable:** What you "see" is generally what you "get"
- › Has been **increasing focus** on this type of diversity in business, legal, political and social circles

Experiential: Life experiences

- › **Education:** Shapes how we think and how we view the world
- › **Work:** Shapes our talent and skills, and molds our perspectives on business models, organizational structures and firm cultures
- › **Home:** Exposes us to different cultures, religions, histories, tastes, sounds and more

Cognitive: Ways of thinking

- › **Contextual**—often applied during problem solving
- › Sometimes shaped by the other two types of diversity (possibly also biologically influenced)
- › Not readily observable (you can't see it on the street or read it on a piece of paper)
- › Directs how we are likely to interact with others, socially and professionally

It is commonly thought that identity diversity begets cognitive diversity. After all, people with differing identities tend to have differing ways of seeing the world.

But this is not always the case.

Research by Morningstar published in 2016 showed that mixed-gender investment teams performed better than all-male investment teams.¹ A survey published in 2014 by Harvard Business Review found that companies across industries whose leaders exhibited at least three “identity diversity” traits and three “experiential diversity” traits out-innovated and out-performed others.² And McKinsey & Company’s 2020 research showed that companies in the top quartile for gender diversity are 15% more likely to outperform; while the top quartile of racially and ethnically diverse companies are 35% more likely to outperform.³

How we evaluate diversity at SEI

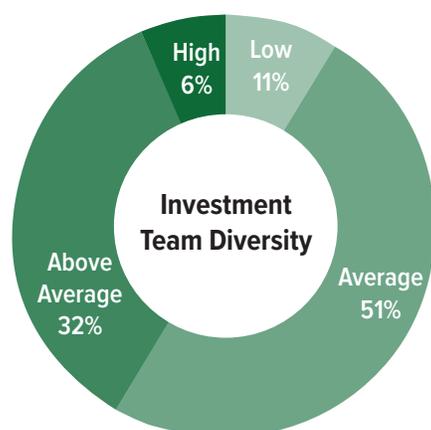
In our Manager Research team’s due-diligence process, we try to capture the many elements of diversity within an investment team using several methods:

- › **Observation**—evaluating the mosaic of information that we gathered and the analysis that we conducted
- › **Documentation**—encouraging investment teams to complete evaluations, such as the Predictive Index of Gallup Strengths Assessment
- › **Quantitative (or computer-driven) analysis**—dissecting the various inputs investment teams use to arrive at their decisions. For example, a team may apply both quantitative and fundamental inputs. In this instance, the team may share with us those scores and how they are combined.

We then compile the results of these insights to assign a diversity score to each strategy’s investment team.

The diversity scores of the investment teams that manage the Recommended and Approved strategies on SEI’s Manager Research platform are shown in Exhibit 1.

Exhibit 1: Diversity Scores of Investment Teams of All Recommended and Approved Strategies⁴



Team Rating	Value	Description
High	1.00	The investment team is broadly diverse in terms of ethnicity, gender, experience, talent/skills and thinking styles
Above-Average	0.75	The investment team is modestly diverse in terms of ethnicity, gender, experience, talent/skills and thinking styles
Average	0.50	The investment team is minimally diverse in terms of ethnicity, gender, experience, talent/skills and thinking styles
Low	0.01	Members of the team are fairly similar with little diversity across any dimensions noted above

As of September 30, 2021. Source: SEI.

¹ Sargis, M., & Pavlenko Lutton, L. (2016, November 28). Morningstar’s fund managers by gender: The global landscape. Morningstar. <http://corporate1.morningstar.com/ResearchArticle.aspx?documentId=782040>

² Sylvia Ann Hewlett, M. M. and L. S. (2014, August 1). How diversity can drive innovation. <https://hbr.org/2013/12/how-diversity-can-drive-innovation>

³ Hunt, V., Layton, D., & Prince, S. (2020, February 14). Why diversity matters. McKinsey & Company. <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>

⁴ See Appendix for additional information about SEI’s Manager Ratings.

Why considering diversity is important in selecting managers

All three types of diversity can offer a variety of benefits, which is why we include diversity as part of our larger manager due diligence process. However, in terms of decision-making, research indicates that **cognitive diversity is the most influential** of the three.⁵

Uncertainty about the future requires that investment professionals gather information, and then analyze it, weigh it and make prudent judgments.

In gathering information, some people take a scholarly approach; others are perceptive and use intuitive skills to draw conclusions. The type and amount of information gathered may be determined by one's personality (as indicated by measures such as the Predictive Index or enneagram—both of which are gender- and ethnic-neutral).

In analyzing that information, different approaches can be taken. For example, social scientist Philip Tetlock referred to the insider versus outsider view in his book *Superforecasting: The Art and Science of Prediction*. According to Tetlock, intelligence and knowledge are important resources in investing, but they are not sufficient; how they are used is what separates good investors from superior investors. Such knowledge and information can take two general forms: outsider and insider. Outsider knowledge refers to that intelligence that has broader applicability than the investment decision at hand. Insider knowledge refers to intelligence about the specific investment under consideration. Applied together, both views provide balance in making informed investment decisions and help combat behavioral biases.

When it comes to weighing that information to finally make an investment decision, how is it assessed? Is the minority view given credence? Is there proper devil's advocacy and constructive debate? In all stages essential to decision-making, diversity may help shape better outcomes.

A last word

Diversity alone does not guarantee successful decision-making.

Instead, making good decisions requires careful and thoughtful input solicitation, open and transparent communication, orchestration of constructive debate and leadership to weigh disparate views into a cohesive thesis. All of these elements are evaluated in SEI's due-diligence process, forming the mosaic of insights that shape our manager due-diligence decisions.

⁵Reynolds, R. & Lewis, D. (2017, March 30). Teams solve problems faster when they're more cognitively diverse. Harvard Business Review.

Appendix: SEI Manager Ratings

Conviction/Rating		Definition
No Conviction	<p>None</p>	SEI's Manager Research Group believes the manager likely does not have adequate skill to accomplish the given investment objective. May be accompanied by significant organizational, process or product-specific risks or concerns.
Low Conviction	<p>Low</p>	SEI's Manager Research Group believes the manager may not have adequate skill to accomplish the given investment objective.
Moderate Conviction	<p>Moderate</p>	SEI's Manager Research Group believes the manager may have adequate skill to accomplish the given investment objective.
Moderate Conviction— Approved	<p>Moderate</p>	SEI's Manager Research Group—supported by full due diligence and an Investment Evaluation, vetted by the Manager Review Committee—believes the manager has adequate skill to achieve the given investment objective.
High Conviction	<p>High</p>	SEI's Manager Research Group believes the manager is likely among the best in its alpha source to accomplish the given investment objective.
High Conviction — Recommended	<p>High</p>	SEI's Manager Research Group—supported by full due diligence and an Investment Thesis*, vetted by the Manager Review Committee—believes the manager is among the best in its alpha source to achieve the given investment objective.
Approved (on Watch)	<p>Moderate</p>	Watch status indicates rating is under review for potential downward revision given recent and specific developments. Ideally to be resolved in six months or less. Only applies to High Conviction — Recommended and Moderate Conviction — Approved managers.
Recommended (on Watch)	<p>High</p>	
Favorable		Used for due diligence building blocks (Philosophy, Process, People, Portfolio, Firm, Product, Performance) to reflect SEI's analyst opinion.
Neutral		
Unfavorable		

* Except non-alpha mandates, which require an Evaluation.

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Glossary of Terms

- An **enneagram** is a personality assessment that measures dominant behaviors and patterns across nine basic personality types.
- **Fundamental input** refers to basic investment research in which the fundamentals of the investment and the expectations about the future of those fundamentals are valued and assessed.
- The **Gallup Strengths Assessment** measures individual talents and patterns of thinking, feeling and behaving, to identify key strengths.
- A **non-alpha mandate** is one whose primary goal is not to outperform an index or whose success is not defined by relative performance alone. Examples include passive mandates, money markets, or managed volatility mandates.
- The **Predictive Index** is a behavioral assessment that measures workplace behaviors, or the way an individual thinks and works.
- **Qualitative analysis** is based on analyst research and subjective views.
- **Quantitative analysis** is based on computer-driven models.