



ADDRESSING BARRIERS TO DIVERSITY IN PORTFOLIO MANAGEMENT:

Performance Continuity & Turnover

Loss of performance continuity through leave of absence and the impact of low team turnover on diverse talent of all types. This guidance was developed and written by a working group of industry stakeholders in collaboration with the Diversity Project.

Background

New Financial's report, 'Diversity in Portfolio Management' identifies what it is about the asset management industry (and portfolio management specifically) that makes building a diverse work force so challenging. It also summarises what firms are doing to improve diversity, and outlines what more can be done to accelerate the pace of change.

This guidance paper aims to address one of the five biggest barriers referenced in that report: the loss of performance continuity through a leave of absence. Whilst this tends to relate to raising children, and therefore disproportionately affect women (although with changes in shared parental leave policies and take-up, this may change) it can also relate to other caring responsibilities and long term sickness.

Investment culture

The problem typically manifests in two distinct ways depending on the investment culture of the firm.

Traditionally, many investment firms had a star fund manager culture, where one individual was named as portfolio manager. While this is still popular in retail investment firms, institutional fund management is increasingly a team pursuit. Extended leave for firms with a star fund manager culture is particularly challenging as the firm may name someone else in the interim, and subsequently it may not always be easy for the person on extended leave to assume prior responsibilities on their return. If there were an agreed way to capture performance track records for periods of leave, it might reduce the number of instances where this happens.

In firms with a team portfolio management culture, the challenge is more often related to how portfolio management responsibilities are communicated externally. Even where

there is a team approach, the external communications may still focus on one individual - missing both the opportunity to credit people appropriately, and for people to build their reputations and track record.

Level of turnover

A second issue identified in the research related to the low level of turnover in portfolio management teams. Whilst things are changing, consultants and asset owners have historically had a preference for low team turnover, and retail investors are often attracted to star fund managers with strong media presence. As a result, asset management firms have understandably been cautious of making team changes. This means that it can be difficult for all types of diverse talent to progress into lead portfolio manager roles. However, if we are to encourage more diversity in teams, some turnover needs to be welcomed with positivity.

The business case

The business case for encouraging more diversity in asset management is strong. Not only is there evidence that diverse teams make better decisions, but moving away from reliance on individual star portfolio managers should improve the sustainability and resilience of asset management firms and investment strategies. Addressing the lack of diversity in portfolio management roles should also, in turn, help to address the gender pay gap (one of the largest in any sector the UK).

This paper looks to provide guidance to asset management firms, consultants and asset owners to help address these key issues. If we are going to create a truly inclusive culture in the investment and savings industry, then all market participants must play their part.



Guidance for asset owners

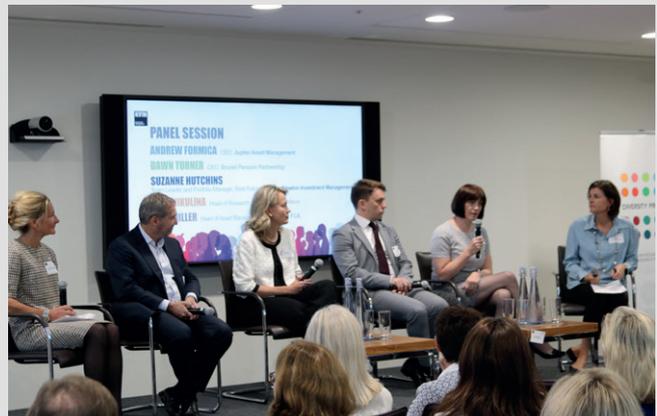
- Share your views on diversity and inclusion with asset managers and incorporate this into your selection process.
- Appreciate that portfolio management is a team pursuit (and not undertaken by one individual) and benefits from diverse perspectives. Get to know the whole team responsible for managing your assets and implement succession plans.
- Ask questions of your asset managers around their policies and programmes for supporting extended periods of leave. Ask about take-up of shared parental leave by men and women and also turnover of employees post extended leave to assess perception vs reality.
- Check that the KPIs you use in selecting and monitoring asset managers are not unintentionally penalising diverse talent eg length of track records required, levels of team turnover, length of tenure required. If you use screening techniques in selection, check what proportion of the universe is ruled out by your KPIs.

Guidance for consultants

- Share your views on diversity and inclusion with the asset managers and asset owners in any events you organise or updates you provide.
- Ensure that questions about diversity and inclusion are part of all research meetings to emphasise the importance you attach to this topic.
- Ensure that the asset management firm's policies around all kinds of extended leave and take-up of shared parental leave (for men and women) are factored into your assessment of a firm's culture.
- Question the hiring process when portfolio managers are hired. Was the process inclusive and was diverse talent considered?
- Recognise that fund management is almost always a team endeavour. Turnover in a team can be a positive if it generates greater diversity of thought, knowledge and networks as well as addressing the issue of succession.
- Do not rush to decisions when key portfolio managers leave. This can put pressure on investment managers to hire a well-known name to fill the gap or rush to make decisions which may not support talent development and diversity.
- Challenge the view that long tenure is automatically a positive. By way of example, in a rapidly changing world, having viewpoints from younger people or from people coming in with diverse experience or networks is increasingly important.

Guidance for asset management firms Long Term - Policies & Procedures

- Be more transparent about the process to appoint a fund manager - is it as robust and transparent as it might be?
- Develop succession plans for all key roles - and think about the diversity of the talent pipeline.
- Monitor the turnover of staff returning from a period of extended leave. Does the data indicate a problem?
- Simplify and promote your extended leave (including shared parental leave) policies. Share case studies to encourage others to take up the opportunity and remove any potential stigma. Are your shared parental leave policies for men and women equal, and if not, is this having an impact on take up?
- Provide more information about your extended leave policies to potential recruits/interviewees so that they don't have to ask.
- Revisit your remuneration policies - do they over-emphasise the importance of the lead PM in terms of generating outperformance or attracting new assets? Consider simple pro-rating of both fixed and variable compensation.
- Revisit your hiring policies - was the process inclusive and has diverse talent been considered?
- Check that you are recruiting for the team as a whole rather than trying to find the best qualified individual who may not add diversity
- To support work life integration, develop technology platforms which facilitate more flexible working practices.
- Have a clear program in place for those returning to work after leave of absence and share that policy so that returners feel supported and encouraged to return.



Short term

- Where portfolios are managed by teams, ensure that this is communicated externally and that all decision makers are named.
- Do not delay naming decision makers.
- Ensure that those going off on any type of extended leave remain as named team members on any product or fund so that their individual track record can be maintained.
- Raise the profile of successful returners for role modelling purposes.
- Recognise and role model team leaders who demonstrate inclusive behaviour towards those taking extended leave.
- Revisit planning/support around extended leave.
 - Where possible, ensure that conversations are held with those going off on any form of extended leave, before, during and after their period of leave. Ensure that everyone is clear what is going to happen during and after the leave in terms of hand-over plans, keeping in touch, future responsibilities etc. Involve your HR business partner in these discussions.
 - Take care of the person taking on roles and responsibilities of the PM on leave and ensure that they and the rest of the team understand what the transition plans are. Recognise the value of the care-taking role and reward accordingly.
 - Provide training to line managers who have (or are likely to have) a team member going off on leave. Help them to be sensitive to issues around timings of meetings, breastfeeding for maternity leave returners etc. Recognise and reward line managers who handle extended leave and transitions effectively.
 - Revisit the support you provide for those taking extended leave in terms of mentoring, technology and keeping in touch.
 - Ensure that those going off on extended leave are still considered for promotions during their absence; their temporary absence should not be a barrier to promotion.
 - Be clear about what happens to remuneration including bonuses when people go off on extended leave.
 - Where relevant, ensure that those going off on extended leave are still considered for bonuses and pay rises during their absence.
 - Where someone has been on long-term sick leave, consider making reasonable adjustments to provide a supported transition back to the workplace.

Conclusion

This paper highlights that the lack of diversity in portfolio management can only be addressed if everyone involved in the asset management world acknowledges and addresses the role they play in maintaining the status quo. The writers of this paper also acknowledge that there is a lot of good practice out in the industry and we would request that organisations and individuals share their case studies and stories.

For more information or to share your stories contact jane@diversityproject.com

In collaboration with:

