



Asset Owner Diversity Charter Toolkit

This document supports signatories in their commitment to the implementation of the Asset Owner Diversity Charter.

July 2021

About the Asset Owner Diversity Working Group

In Autumn 2020 the Asset Owner Diversity Working Group was formed with an objective to formalise a set of actions that asset owners can commit to in order to improve diversity, in all forms, across the investment industry. The group has been developing a charter which asset owners can sign up to and which would commit them to a number of asks.

The aim of the project is threefold:

- to encourage asset owners to signal the importance of D&I to managers
- to improve transparency and standardisation of D&I data
- and to ultimately improve D&I across the industry.

Acknowledgements

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A special thanks to the Diversity Project for hosting the charter on their website.

For more information contact diversitycharter@brunelpp.org or visit www.diversityproject.com/assetownerdiversitycharter

This guide is for information only. It is not legal or investment advice.



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Introduction

Diversity is a systemic inequality issue and especially problematic in the financial sector. In the wider financial sector, disappointingly only 20% of women are on executive committees and 23% are on boards across 468 financial institutions in 37 countries researched by Oliver Wyman¹. The financial sector has the worst gender pay gap, with research by Fox & Partners revealing women finance firm directors earn 66% less than men². Fewer than 1 in 10 management roles in financial services are held by black, Asian or minority ethnic people³.

There is a strong business case for diversity in corporate leadership, now more than ever the most diverse companies are likely to outperform less diverse peers. McKinsey & Company reported in 2019 that companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the fourth quartile. In the case of ethnic and cultural diversity, findings are equally compelling: in 2019, top-quartile companies outperformed those in the fourth one by 36 percent in profitability.⁴

Despite several regime shifts, gender diversity is low at the industry level overall with women making up just around 17% of FCA-approved individuals., this figure is remarkably unchanged since 2005⁵. According to Knight Foundation⁶, ethnic minorities and women owned asset management firms⁷ managed only 1.3% of global Assets Under Management in 2017.

Whilst asset managers have been ramping up their engagement on diversity with portfolio companies its time, they begin to truly walk the talk. The financial reporting authority is working with the Prudential Regulation Authority on a joint approach to diversity and inclusion. As part of their regulatory work and the listing framework the FCA will be exploring whether diversity requirements will be part of the premium listing rules. The FCA are also considering whether the diversity of management teams – and the inclusivity of the management culture they create – could be part of their consideration of senior manager applications.⁸ The pressure for diversity engagement will further accelerate with the arrival of various legislative requirements such as Sustainable Finance Disclosure Regulation (“SFDR”) and its obligation for investee companies to disclose Principal Adverse Impact indicators (“PAI”) of which 2 compulsory PAIs are directly related to diversity⁹.

Diversity for asset managers is at a critical tipping point, as asset owners we have a crucial role in holding them to account. The Asset Owner Diversity Charter was formed with an objective to formalise a set of actions that asset owners can commit to improve diversity, in all forms, across the investment industry. We seek for our signatories to collaborate and to build an investment industry which embodies a more balanced representation of diverse societies.

The charter has two key components, first is the Asset Manager Diversity and Inclusion Questionnaire which aims to standardise complex diversity metrics beyond just gender to improve on disclosures. The questionnaire results will feed into a progress report to inform engagement on improving diversity and inclusion. The second component is the Asset Owner Charter Toolkit which is a supporting document to aid in the implementation of the Charter and includes critical topics such as manager monitoring and selection.

Manager Selection

Manager selection and appointment is often the time when Asset Owners have the greatest access to senior figures at Asset Management firms, and the greatest ability to shape the mandate they wish the Asset Manager to fulfil. With this in mind the manager selection process is primarily a chance to assess the Asset Manager's commitment to diversity in order to make an informed selection but is also an opportunity to signal to the Asset Management community that diversity is a crucial issue that Asset Owners weight in their decision-making.

Include diversity questions in manager selection, ensuring it forms part of the scored criteria.

Asset Owner Diversity Charter

As signatories to the charter, we ask that asset owners commit to including diversity and inclusion as part of manager selection. Where scoring is applied the questions fall under the scored criteria and where manager selection is outsourced to investment advisors, that it is included as part of their scored assessment.

Asset owners' approach to manager selection varies, there is no one size fits all, however there are steps and reinforcing actions which we can take to signal the importance of diversity inclusion and drive change.

Reinforcing actions:

- When providing context about your organisation, for example in an RFI/P cover letter or during introductions at the start of the meeting, emphasise your organisation's commitment to diversity and inclusion;
- Ask diversity questions during the "meat" of your discussion, e.g. when digging into the background and skills of the team, or the culture of the business, not as a separate item at the tail end of the meeting;
- Address diversity questions to senior leaders such as portfolio managers, CEO, or CIO in addition to speaking to experts such D&I champions or HR professionals at the firm;
- Where scoring is a part of the manager selection process, ensure that the diversity and inclusion questions are scored and not optional questions
- If using external investment advisors to support manager selection, ensure that diversity and inclusion is part of their assessment
- Ask open questions and follow your initial line of questioning with follow-on "what", "why", "how" queries in order to dig below the surface;
- If possible, speak to employees with different seniority levels or in differing roles in order to "triangulate" experiences;
- Contact ex-employees of the firm to ask about their experiences and opinions on the firm's commitment to promoting a diverse and inclusion workforce.

The manager selection process takes a great deal of time and resource, both for asset managers providing responses and for asset owners evaluating them. Whilst our preference is that the charter questionnaire is used as part of manager selection, we acknowledge that given the depth of the questionnaire it may not be feasible to include at this stage, particularly for asset owners who are at the beginning of their journey with incorporating diversity and inclusion into manager selection.

Once the asset owner diversity charter questionnaire has been rolled out and more widely adopted, it is our hope that this will also be included as part of the manager selection process where possible.

Example Questions

- Please outline your approach to encouraging diversity, in all its forms, and healthy human capital. Please disclose current diversity projects and outline any specific commitments relating to these issues and how you measure and report on their success. (Include any supporting policies)
- What actions have you taken in the last 12 months to improve diversity and inclusion within your organisation? What improvement have you seen?
- What key steps are you taking to make progress against your targets? If targets have not been set please detail why.
- How do you ensure your recruitment process is as open and unbiased as possible?
- How do you ensure that your annual review and promotion process is as open and unbiased as possible?
- How do you ensure equal access to mentoring?
- What training do you carry out / what process have you put in place to minimise the risk of unconscious bias throughout your organisation?

Manager Appointment

When appointing managers, it aids future discussions and ongoing manager monitoring if diversity reporting is included into the management agreement or side letter. This reaffirms the importance of diversity and inclusion and can remove barriers to disclosure.

Include diversity disclosure within new investment management agreements, and where possible into existing agreements.

Asset Owner Diversity Charter

Manager monitoring

Research by McKinsey & Company reports that the most diverse firms are 35% more likely to outperform the least diverse firms. They also report that this gap is growing. Whilst some progress has been made the investments industry continues to lag behind other industries in making progress, despite being a laggard to start with.

Include diversity in ongoing manager monitoring.

Asset Owner Diversity Charter

Attention from the FCA is increasing, as well as looking at listing rules, they are considering whether the diversity of management teams – and the inclusivity of the management culture they create – could be part of their consideration of senior manager applications.

To reinforce the importance of diverse and inclusive teams, charter signatories should include diversity as part of their regular conversations with managers and ensure it forms part of their ongoing manager monitoring.

Transparency can be a powerful tool to hold companies to account. The introduction of mandatory disclosure, such as gender pay gap reporting, and government reviews such as the Hampton Alexander Review and Parker review has raised awareness of diversity and pay disparities and helped deliver change. Greater disclosure would equip asset owners to better understand their managers approach to improving diversity and weed out tokenism.

Survey appointed managers annually using the Diversity Charter Questionnaire.

To improve data availability and to equip signatories with their ongoing manager monitoring, we have developed a diversity questionnaire and ask signatories to commit to surveying managers at least annually.

Each asset manager will be on a different journey to improve diversity and inclusivity and face different barriers. The idea is not to benchmark asset managers against one another, but to understand each firms strategic priorities, approach to diversity and inclusion, and to assess their progress against that as broadly as possible, holding firms to account. The Asset Owner Diversity Working Group also aims to produce a progress report a year a year from launch to dispel any myths, identify best practice and future expectations. This will further equip asset owners in their ongoing manager monitoring.

Questionnaire Road Test

The Asset Owner Diversity Working Group carried out a road test of the questionnaire in January 2021. The questionnaire was sent to a range of asset managers, varying in size and location, asset owners, investment advisors and industry peers inviting feedback on a voluntary basis.

The main questions posed were:

- What metrics are available/in the pipeline and what reporting standards/definitions are used?
- What are the barriers for collection and disclosure?

Findings

Unsurprisingly gender was the most readily available metric. All respondents could provide gender metrics at a company level with many able to provide further breakdown by executive, department, and roles. Where gender pay gap reporting was mandatory this would also be provided, some respondents indicated this could be provided voluntarily.

There were many managers who could also disclose age and ethnicity metrics, and some were able to provide breakdown beyond company level. Beyond gender, age and ethnicity granular breakdown is problematic. This was either due to it not being tracked, collected, prohibited by local law or the risk of data being deanonymised. Some respondents stated they had been working on projects to begin recording metrics beyond gender, with a particular focus on ethnicity. Collection methods for metrics beyond gender is usually on a voluntary basis via staff surveys and the ability to disclose data depends on the response rates from staff, which is likely to be low initially and improve over time.

We also asked respondents whether they could disclose HR metrics such as staff turnover, leave adoption and promotions. The availability of this data varied, in almost all cases this could only be provided at a high level and was not being tracked across diverse groups.

Since carrying out the road test a number of reports have been published addressing some of the barriers to data collection, we recommend asset owners read these reports and share them with their asset managers.

Resources

[The Diversity Project: Holding up the Mirror – diversity data in the investment, wealth management and savings industry.](#) (April 2021)

[The Investment Association: Diversity Data Guide - Collecting and analysing data on the inclusion and diversity of your workforce.](#) (June 2021)

Diversity and Inclusion Questionnaire

The questionnaire contains both qualitative and quantitative questions which span across five key areas:

Board	Who has responsibility and oversight for the diversity strategy and targets? If there are no targets, explain why?
Promotion	How do you ensure you operate an equal opportunity development and promotion process?
Culture	How are you fostering inclusivity? Do you undertake staff surveys, ensure policies are accessible? Is take up measured?
Recruitment	Often sighted as a barrier. How are barriers being broken and how are firms ensuring the process is inclusive and bias is removed?
Industry	How are firms improving representation and perception of the industry? How are involved and supporting collaborative initiatives?

Each manager may be focusing on different strategic priorities, by asking a subset of questions it equips asset owners to identify these priorities and any gaps. The idea is not to make judgements based on a single snapshot, nor to benchmark asset managers against each other, but to understand each firm's strategy, policies and approach to D&I and assess their progress against that as broadly as possible, holding firms to account for this.

Findings from the road test have been incorporated into the questionnaire template, however the questionnaire has been designed to be progressive and the ability to provide responses will vary across each manager dependent on the barriers they face. Where managers are unable to disclose metrics they have the opportunity to detail their approach in the qualitative section of the questionnaire. Over time the ability to disclosure should improve.

Future Development

There are several areas the group aspired to include within the core part of the questionnaire, in particular socio-economic background. New research – commissioned by the City of London Corporation and authored by the Bridge Group found that almost nine in ten senior roles in financial services are held by people from higher socio-economic backgrounds (as defined by parental occupation at 14). This compares with a third of the UK working population as a whole.¹ Feedback from the road test indicated that there is a lack of standardisation and data availability in this area. However, HM Treasury and the Department for Business, Energy and Industrial Strategy have commissioned the City of London Corporation to lead an independent taskforce to boost socio-economic diversity in UK financial and professional services. We aim to progress the survey over time and will look to the socio economic taskforce findings to inform future refinement of the questionnaire.

Leadership and Collaboration

In the development of the asset owner charter, supporting toolkit and questionnaire the group have liaised with many organisations and initiatives seeking to break down barriers and accelerate diversity and inclusion across the investment industry. These conversations and the feedback received from the questionnaire road testing have been instrumental in developing our approach.

Leadership and collaboration with the investment industry to identify diversity and inclusion best practice.

Asset Owner Diversity Charter

The Asset Owner Diversity Working Group have also shared the questionnaire it has developed with a group of UK and Global investment consultants. We have collectively shaped and agreed adoption of a core set of our questions to reduce duplicate requests and improve standardisation. This will help reinforce the importance of progress on diversity and equip managers to invest in the right processes and resources.¹⁰



Resources & Initiatives

Continued leadership and collaboration are instrumental to drive forward change. There are a variety of resources to help guide what best practice looks like and numerous initiatives to get involved in:

Diversity Project 10 Standards

The Diversity Project has been leading on inclusion and its #Time4Inclusion standards commitment and standard (available [here](#)).

These are a fantastic primer for those looking to improve standards. The 10 standards are:

1. The senior leaders in our firm have included diversity in their personal objectives.
2. We measure and monitor the diversity of our employees (e.g. age, gender, ethnicity, sexual orientation, disability) and report this data regularly to the executive committee and board.
3. We have a diversity and inclusion strategy appropriate to the business which include measurable objectives.
4. Both the strategy, and progress towards it, are reviewed annually by the management team, shared with employees and adjustments made to the programme as necessary.
5. As appropriate, we have reviewed practices around recruitment, promotions, mentoring and sponsorship opportunities, work allocation (for example, how portfolios are allocated amongst fund managers or how project or client teams are put together), parental leave, pay generally and agile working – for all staff – to promote an inclusive culture.
6. We have published the gender pay gap, along with our plan to address the underlying causes where a gap exists. We have sought to identify any other pay gaps which might exist (e.g. ethnic pay gap).
7. We actively contribute to the Diversity Project (e.g. be involved in two or more Diversity Project workstream initiatives and are represented at the Steering Committee and/or Advisory Council).
8. We have taken part in any relevant benchmarking surveys or research initiatives.
9. We have worked collaboratively with others to share experience and worked to help tackle common barriers to diversity.
10. We have provided constructive feedback to the Diversity Project where more focus is needed or a new approach is required.

Resource/Initiative	Description
Change the Race Ratio	Signatories are campaigning to Change the Race Ratio, starting by setting targets for greater racial and ethnic diversity at the Board, ExCo and ExCo minus one. They must be accompanied by a commitment to publish those targets and progress towards them, and the creation of a culture that enables diversity to thrive.

Resource/Initiative	Description
Race at Work Charter	The Business in The Community Race at Work charter is focused on race equality throughout the workplace. Charter signatories commit to improving equality of opportunity in the workplace and commit to implement four five key actions.
The Investment Association	Numerous reports on ethnicity, LGBT+, gender pay gap, Class and data collation
Women in Finance Charter	The 'Women in Finance Charter' asks financial services firms to commit to implement four key industry actions. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. The Charter reflects the government's aspiration to see gender balance at all levels across financial services firms.
PLSA	The Diversity & Inclusion made simple guide introduces some of the concepts and good practice associated with diversity and inclusion (D&I), including: <ol style="list-style-type: none"> 1. What D&I means; 2. A summary of the benefits of D&I; and 3. Some practical steps for trustee boards to help promote greater inclusivity
Socio Economic Taskforce	HM Treasury and the Department for Business, Energy & Industrial Strategy (external link) have commissioned the City of London Corporation to lead an independent taskforce to boost socio-economic diversity in UK financial and professional services.

¹ <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2019/November/Women-In-Financial-Services-2020.pdf>

² <https://www.reuters.com/article/us-britain-women-pay-idUSKCN2AT10K>

³ <https://www.randstad.co.uk/s3fs-media/uk/public/2019-10/fs-salary-survey-paying-attention-2018.pdf>

⁴ <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

⁵ <https://www.fca.org.uk/publication/research/research-note-gender-diversity-in-uk-financial-services.pdf>

⁶ https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf

⁷ https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf

⁸ <https://www.fca.org.uk/news/speeches/why-diversity-and-inclusion-are-regulatory-issues>

⁹ Unadjusted gender pay gap and board gender

diversity. https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

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