Sexism in the City

The Diversity Project's sole purpose is to improve diversity and inclusion in the investment and savings industry. It is a member organisation, with over 100 member firms including asset managers, asset owners, wealth managers and pension consultants. We are a not–for-profit Community Interest Company.

It is recognised among our members that diversity of *thought* is key to making good decisions and to performing well for clients. Leaders say they are committed to making cultural and systemic changes needed to attract, retain and develop the best talent. It is acknowledged that the industry remains overly male-dominated and that better gender balance at all levels is desirable.

Yet progress has been slow, uneven and issues remain. For example, over the past three decades there has been almost no improvement in the proportion of female fund managers: just 12%[1] are women, both globally and in the UK. Fund management is the lifeblood of the industry and in many ways, the real power base. It's a chicken-and-egg problem; the male-dominated environment discourages many women from even considering an investment career[2].

The Diversity Project has set goals around three core aspects of diversity: gender, ethnicity and social mobility. Since this Review focuses on sexism, we focus here on gender.

These goals are:
1. To achieve 20% female portfolio managers by 2026, 30% by 2030, up from 12% today.
2. To reduce the sector's 2019 gender pay gaps by 2026 and to halve these by 2030. (In 2019, these were the second worst pay gaps of *any* sector)

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[1] CityWire Alpha Female report 2022, defined as those named as managers of a fund

[2] The Think Future Study, KMPG/30% Club page 11, 'Women and men's industry preferences were largely similar, however Financial Services demonstrated the biggest gender difference. 55% of women polled [from 20,000 students at 21 universities] said a sector's reputation for gender equality would influence their decision about working in it.

3. 50:50 male:female graduate and school leaver recruitment

Our 'Goals and Progress' 2022 survey showed that 50% of the over 70 respondents have adopted at least one of these gender goals. 93% of firms are taking explicit actions to improve gender diversity, with 5.7 actions on average. 73% of firms have a plan to narrow their gender pay gap. The most popular firm-level initiatives are role modelling (by executives, successful female talent and allies) and monitoring the pipeline of female talent.

The Diversity Project's gender workstream, led by our Chair, Baroness Morrissey, has been working on several industry-wide initiatives. Our 'Investment Springboard' offered through UpReach[3], targets 50% female students on its annual mentoring and work experience programme for students from lower socio-economic backgrounds. We encourage members to engage with GAIN[4] to offer internships to young women and with Women Returners[5] so that women may re-enter the sector after a career break.

Post-pandemic hybrid working presents a new opportunity to create smarter ways of working to help both men and women combine long term careers and family life. We are helping members optimise smart working, conscious that some firms (particularly US-based) are increasingly demanding a return to conventional office-based work. Our member firms continue to offer flexibility. Recent data from Redington[6] shows the striking impact of flexible working on women's participation in investment teams:

[3] https://upreach.org.uk/investment-springboard/
[4] https://www.gainuk.org
[5] https://womenreturners.com/opportunities/diversity-project-cross-company-returner-programme-2023/
[6] Diversity Project member Redington analysed data drawn from 116 firms managing $38trn, most of which operate in the UK. 42% are headquartered here.

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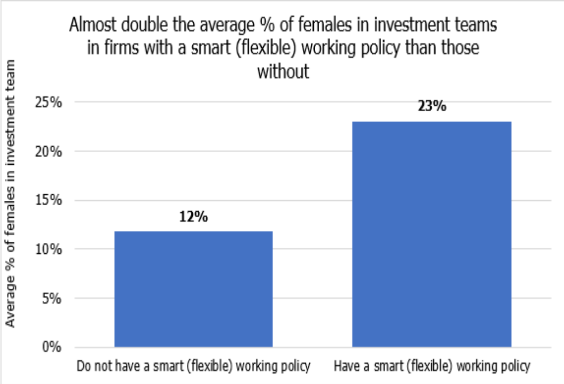

We also encourage members to adopt policies to level the playing field between men and women, such as equal paid parental leave, which has had a positive impact at early adopter firms. We raise awareness and offer advice to help firms support women going through the menopause.

All this work is ongoing. But it became clear that more targeted interventions were needed to address two persistent problems:

(i) the scarcity of female fund managers and
(ii) ongoing evidence of poor behaviours, including 'microaggressions' as well as overt sexual harassment, bullying and discrimination.

In 2023, the Diversity Project launched two new initiatives to tackle these issues.

The Pathway programme, a world first, is a one-year course designed to develop more female fund managers, complementing on-the-job experience and the CFA or similar qualifications. The curriculum has been devised by practitioners. It combines technical skills with leadership and behavioural skills, such as overcoming imposter syndrome and navigating maternity leave. Each participant has a sponsor to champion her within her firm. 60 women from 33 companies comprise the first cohort. Several firms doubted they could fill two places; they had ten times the number of applicants. Three participants have already been appointed fund managers. We are planning the 2024 programme. Fewer than 200 women are currently named fund managers in the UK; Pathway's scale and focus can deliver the long-awaited breakthrough.

Women are, however, only likely to join, persevere and succeed in our industry if the workplace is respectful and inclusive. The Diversity Project's second new initiative is 'Safe Space'.

Safe Space is a direct response to the recent CBI and Crispin Odey scandals. In February, the Diversity Project Advisory Council agreed we needed to know the extent of any such problems across our industry. Safe Space offers anyone who has experienced or witnessed poor behaviours (not limited to sexism, it might be racism, bullying, etc.) to come forward, share their story in confidence and seek help. Safe Space does not replace firms' own reporting mechanisms or the FCA's whistleblowing hotline; it supplements these. Since the Diversity Project is separate from any employer, we hope people will come forward even if they feel nervous reporting within their firm. Incidents are reported via a confidential online form. They must relate to something that occurred within the industry less than five years ago.

The Diversity Project Chair is the only person who sees the completed forms. Baroness Morrissey responds to the person reporting the incident if they request follow up. Help ranges from signposting to specialist resources to meeting in person or virtually. Helena collates the information on an anonymised basis so the Safe Space team can establish themes, severity and any specific concerns. This team of 16 volunteers includes four men, senior HR leaders, representatives from the Diversity Project's Race & Ethnicity and LGBTQ+ workstreams, a regulatory specialist, fund managers and executives, across a wide age range. Phase two of Safe Space will involve helping firms and the industry to improve, with measures aimed at both prevention and cure. The reporting service will remain open permanently.

Launched late May, Safe Space is relatively new. To date, 17 reports have been made. While the facility is open to everyone, these reports have all been made by women and one person identifying as non-binary. We have identified seven themes:

a) **Abuse of power:** Poor behaviours by senior male leaders (including sexual harassment), reported but not dealt with satisfactorily according to the alleged victim. The firm has 'closed ranks' behind the senior colleague; the woman ended up leaving.

There is a sense that 'if it's not criminal, it's not that bad'. This is corroborated by HR professionals.

b) Relatedly, **victims find it difficult to come forward**, anxious that doing so will 'wreck their career'. In some instances, witnesses have reported what they saw but the victim 'begged' for the incident not to be escalated, for fear of retaliation. This fear factor is very real - and with good reason, since there appears to be a tendency for boards/management to err towards leniency for the perpetrator. The sanctions process may seek to avoid causing damage to the perpetrator's career and/or company reputation, rather than protect the victim or potential future victims. This is so even in cases where there is evidence from multiple sources of severe wrong-doing. NDAs/Settlement Agreements are often used. These can help both parties move on, but may be used to silence victims and as an alternative to addressing problems. Sometimes, there is also **a distrust of HR**, perceived as protecting the firm rather than the employee. HR leaders in turn feel frustrated if incidents are reported long after they occurred, making it difficult to ascertain the truth and take action.

c) **Difficulty in addressing 'bad apples'**. Offenders can be 'put back in the system', with firms anxious to avoid destroying someone's career, judging such a penalty disproportionate. Unfortunately, the poor behaviour can recur at the next firm. Investment firms are regulated by the Financial Conduct Authority. The FCA's 6 Conduct Rules are broad e.g. 'Act with integrity' and **the FCA has left the determination of conduct rule breaches to firms. Application is inconsistent.** There are two other opportunities for firms to highlight behavioural problems: Fitness and Propriety requirements and regulatory references. Again, unless someone is in the Senior Manager and Certification Regime, firms themselves decide what standards apply to a certified individual deemed 'fit and proper'. Regulatory references refer back to the Conduct Rules; firms only need to report breaches of those rules. If they have decided not to categorise an incident as such, nothing is documented. Two individuals known to have been investigated for multiple sexual harassment charges where complaints have been upheld remain on the FCA's certified persons register with no indication of any wrong-doing. As well as perpetuating existing poor behaviour, if others see this going unpunished, there is no deterrent.

d) Gender and racially-inspired repeated **'micro-aggressions**'. One woman said she is questioned about leaving to collect children while men in her team are free to come and go. An ethnic minority woman said she is told (resentfully) by male colleagues that she is in the 'sweet spot' given the emphasis on DEI; in fact, she says she experiences daily discrimination and obstacles related to her gender and race, undermining her confidence and promotion prospects. In another case, a (black) woman reported being bullied by a senior (white) woman who complained that the firm's presentation materials should not feature black people so prominently. Another woman 'with the best performance in the team' discovered she was paid half the salary of a male co-worker doing the same job. In all cases, **when the women escalated the issues their working lives deteriorated sharply**. There is a particular challenge in addressing issues that might (to some) seem minor; the perpetrator may not understand the impact of their behaviour and complaints can be seen as an over-reaction. Yet the cumulative impact is debilitating and women who leave the industry indicate they reach a point where they have had enough. It is rational to leave if there is an uphill battle to be taken seriously, let alone succeed.

e) **Sexual harassment at social events - both industry-wide and individual company gatherings**. Incidents at industry events are often not reported by victims to their firms if the perpetrator is at another company: people are unsure if anything will be done.

f) Situations where mental health, neurodiversity and disability issues have been poorly handled by line managers. Understandably, **managers are out of their depth**. The issues are often either ignored or managers put those who are struggling on performance improvement plans.

g) **A tension between perspectives on biological sex and gender identity.** Reflecting broader society, several women have reported being ostracised for gender-critical views, while the person identifying as non-binary also feels excluded.

If we are serious about overcoming sexism in the City, these themes need addressing.

We summarise our early thinking around potential solutions below:

1. The tendency for **a minority to abuse power can only be addressed through strong, determined leadership**. We will consult with industry leaders on this issue, in particular those who are proven male allies. We are conscious that many people in our industry are happy with the status quo. This is not an insurmountable obstacle[7] but requires an approach that widely resonates and persuades even sceptics.
2. **Victims will only be encouraged to come forward if they see fair outcomes.** The investigations process may seem formidable, and could be conducted with more empathy. HR experts suggest it is unusual for vexatious claims to be made in our industry, but both accuser and accused must be heard and treated fairly. The victim may want the perpetrator to be given the opportunity to change. Firms should offer ongoing education around how to raise problems, including reporting promptly, and keeping contemporaneous records. The solution here also depends on addressing 3, 4 and 5.
3. We will explore **the optimal structure and reporting line for HR**, while noting that variously sized firms have very different levels of HR resource. The HR Director often reports to the COO or CFO and is effectively subordinate to heads of business areas. Reporting to the CEO elevates the role and can improve communications. We also heard from an HR lead who reports to her firm's Chairman, a more independent line. We will consult on whether some HR professionals (in larger teams) should be dedicated 'advisors' to employees. Compliance teams are typically divided into 'Advisory' and 'Monitoring'. The former offer advice to employees uncertain about a compliance issue; the latter monitor compliance with rules. A similar delineation could enable HR to balance the interests of firm and individual (and be perceived as such). Alternatively, a Pastoral Care Officer[8] could be appointed to help individuals coming forward, distinct from HR.
4. **Boards/management teams to undertake training on risks to their firm as well as the impact on individuals if upheld complaints are not properly addressed**. Odey Asset Management is a powerful case study. Training could be provided by employment lawyers. Board effectiveness reviews could include evaluating the handling of serious complaints, including escalation and sanctions processes. Requiring firms to disclose the number of NDAs and Settlement Agreements entered into annually

[7] The 30% Club, founded by our Chair in 2010, encountered resistance but the proportion of women on FTSE350 boards has since risen from 9.5% to 40%.
[8] For example, as the Liberal Democrat Party did following allegations of sexual harassment against former CEO Lord Rennard https://www.libdemvoice.org/lib-dems-appoint-pastoral-care-officer-37824.html

would reveal the degree to which they are relied upon today and might limit their usage.

5. **Clearer FCA guidance around the application of its Conduct Rules to specifically include personal behaviours.** The FCA to share examples around what is expected if a certified person has been subject to a disciplinary hearing and the complaint is upheld. To include implications for regulatory references and the Fit and Proper test.

In July 2021, the FCA/PRA/BoE published a joint Discussion Paper, DP21/2 'Diversity and Inclusion in the Financial Sector; Working Together to Drive Change.' In our response[9], the Diversity Project recommended the introduction of explicit guidance around 'non-financial misconduct', as reprinted here:
Question 25: Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?
Our recommendations are that the Regulators make it explicit that non-financial conduct is part of the requirements and standards of the regulatory system, including fitness and propriety assessments, to reinforce the principles set out in Megan Butler's 2018 letter to the Women and Equalities Committee. Examples of non-financial misconduct would include sexual or racial harassment or discrimination and bullying. As well as linking I&D to remuneration, explicitly including non-financial conduct in fitness and propriety assessments can be expected to encourage individuals' I&D maturity.
Also, Senior Managers already have a responsibility to ensure the 'business of the Firm for which they are responsible in their controlled function complies with the relevant requirements and standards of the regulatory system'. It would be helpful if the Regulators could also include in their handbooks some examples of non-financial misconduct that could impact on Conduct, the fit and proper assessment or firm culture, possibly including permitting the inappropriate or excessive use of Non-Disclosure Agreements.

It is disappointing that two years later, the regulators have not yet acted upon these recommendations.

[9] Our full response is available here: https://diversityproject.com/wp-content/uploads/2021/09/Diversity-Project-LGBT-Great-Dicussion-Paper-Response.pdf

6. **Thoughtful efforts to help people understand the implications of 'accidental' sexism on those around them.** Since men hold the majority of senior positions in the financial industry there is a risk of behaviours that undermine women, even if unintentionally. But programmes only work if the subject believes there is something in it for them. Several years ago, Deloitte recorded a video series where women in the firm anonymously shared why an experience made them uncomfortable. David Sproul, then UK CEO, said: "It was probably one of the most powerful things we did because it caused people to realise that…something some people would have thought was just banter was massively offensive to the person hearing that banter." The Diversity Project aims to develop a similarly impactful programme for our industry, including examples of both good and poor behaviour to demonstrate the contrasting impact. We note that standard DEI training is often perfunctory, online and involves facile examples, so people do not take it seriously.[10]
7. **More guidance around behaviour at social events.** Not one-off online training or a brief mention. Firms to remind managers ahead of events to repeat expectations to their teams. QR codes could be circulated so issues can be easily reported. Firms should clarify that if something is raised concerning an employee at another company, it will be followed up.
8. **Specialist resources when staff report complex or severe personal problems or differences** such as neurodiversity that may need special adjustments. This can start with a new approach to HR as outlined above.
9. It is difficult to reconcile some views – for example, gender-critical perspectives with those who are non-binary or transgender. Everyone has a responsibility to respect a different viewpoint, however, and **it is important that employers safeguard all employees.** Through Phase Two of Safe Space, the Diversity Project aims to help firms foster a culture where true diversity of thought is welcomed.

We would be pleased to expand on any of these points.[11]

[10] Research shows that simplistic mandatory training can be counterproductive https://hbr.org/2016/07/why-diversity-programs-fail

[11] This submission is made on behalf of the Diversity Project and does not necessarily represent the views of individual member firms