PRINCIPLES OF CULTURE & DIVERSITY STRATEGIES

INTRODUCTION

Culture and diversity are among the most widely discussed topics in the alternative investment industry. At the SBAI we believe that diversity is required to maintain a thriving and dynamic industry, and inclusive cultures are necessary to achieve this.

We also believe that most participants in the alternatives industry are genuinely supportive of improving culture and diversity. It can be challenging to know where to begin as the topic is wide, can be sensitive, and available resources on best practice are numerous. In this report we have not restated the benefits of diversity, or the problems associated with lack thereof, as we believe these are already well covered and have provided some links to interesting publications on the topic in the appendix to this report.

We have not explicitly defined diversity within this report. We believe that diversity is broader than the readily apparent aspects of gender, race, and ethnicity – and should include all factors that influence a person's life experience (and therefore the views that they bring to the table). Definitions of diversity will vary across regions and each organisation should identify which diversity elements they need to solve for themselves.

This report contains five principles which can act as a framework to help guide the thought processes of both asset managers and investors when defining their culture and diversity strategy. The principles are not prescriptive, as there is no one size fits all approach to promotion of positive firm culture and diversity, and strategies need to be tailored to suit individual firms and jurisdictions.

This is the first of a series of publications on Culture & Diversity. Other publications will include looking beyond the metrics to see how smaller asset managers can demonstrate a commitment to culture and diversity, as well as helping allocators and investors work towards increasing diversity within their portfolio.

PRINCIPLES

1	**LEADERSHIP: Senior Leadership Must be Accountable for Culture and Diversity** Leaders should take responsibility for culture and diversity, drive the agenda, and be both an advocate and a role model.
2	**STRATEGY: Set a Diversity Strategy that is Aligned with Business Goals and Supported by Measurable and Tailored Action Plans** Take stock of where you are today, identify your objectives, develop measurable and achievable actions plans for these objectives, and ensure they are regularly reviewed, measured, and adjusted where necessary.
3	**COMMUNICATION: Align Internal and External Communication with Diversity Strategies** Make a public commitment to your diversity strategy. Engage with your employees regularly and honestly communicate progress towards your diversity objectives. Ensure the public profile of your firm is in line with your diversity strategy.
4	**POLICIES: Review Existing Policies for Alignment with Diversity Objectives** Examine policies and procedures for recruitment. Ensure performance reviews and career development discussions are structured and promotion decisions based on objective criteria. Make sure employees feel free to raise any grievances.
5	**INCLUSION: Evaluate People on Skills Required for Inclusion** In interviews and performance reviews assess managers on skills required for an inclusive culture such as ensuring everyone is heard and managing disagreements.

Case Study: CDPQ – EDGE Certification

To build its leadership on diversity and inclusive culture, CDPQ decided to obtain the EDGE Certification, a global standard for gender and intersectional equity launched at the World Economic Forum in 2011.

The objectives were to evaluate D&I practices using a global benchmark and survey employees to prioritise the most impactful diversity actions, build an inclusive environment, and clarify career advancement criteria.

By becoming EDGE certified, CDPQ reinforced their legitimacy to advocate for greater diversity and inclusion with partners, portfolio companies, and managers.

Sponsored by the Chief Human Resources Officer, the initiative benefitted from the support of the Executive Committee, which helped position it as an organisational priority and boost the response rate of the employee survey. When making concrete commitments, senior leadership support was more essential and led to the adoption of organisational diversity targets – now regularly monitored by the Executive Committee – and the adoption of a diversity, equity, and inclusion policy by the Board of Directors.

More broadly speaking, this concrete achievement enabled CDPQ to put diversity, equity, and inclusion on senior leaders' agenda, which is paramount to instill a sustainable cultural evolution towards further fostering of a positive and inclusive culture.

PRINCIPLE 1: LEADERSHIP

Senior Leadership Must be Accountable for Culture and Diversity

Successful culture and diversity initiatives are fully supported by senior management, who set the tone from the top. Leaders with a personal commitment to diversity indicate that it is a key priority aligned with the success of the business.

Take Responsibility

Responsibility for culture and diversity within an organisation should be assigned to a member of the C-Suite or Executive Team.

Drive the Agenda

Employee Resource Groups, Networks, or Committees can be a valuable source of information on issues or suggestions for change. Senior leaders should engage regularly with these groups but not over rely on them to make the changes. Leaders should be responsible for driving forward any agreed changes and demonstrating full support to any initiatives.

Advocate and Be a Role Model

Senior leaders should be vocal and visible in advocating for diversity. Importantly, as well as this advocacy, senior leaders should be visible role models – ensuring to consider both culture and diversity in how they act and communicate, as well as within any policies they adopt.

Performance Reviews and Compensation

Assessment of the performance of senior leaders should factor in progress on how inclusive the culture of the firm is. Objectives that could be assessed include levels of engagement with employee groups, delivery of new initiatives, and any improvements made in the diversity of the organisation.

QUESTIONS FOR INVESTORS TO ASK

- Who in senior management is responsible for Culture and Diversity?

- How does senior management engage with any Employee Resource Groups, Networks, or Committees?

- Do senior management performance reviews include a culture and diversity element?

Case Study:

Aspect Capital – Junior Hiring Strategy

"Do we though?", a small but critical question asked by the HR team at Aspect Capital in 2017 when, in a meeting to agree a job specification, a colleague stated, "obviously we need a graduate in this role".

As a quantitative manager, Aspect has always had a strong emphasis on hiring individuals with top scientific degrees, and that had become a standard approach throughout the company.

The HR team, however, had recently investigated the new UK government-backed Apprenticeship Scheme and considered it a plausible solution for several junior process-oriented roles.

Having identified back-office roles where a pilot could be run, the hiring team approached the manager with the proposal, and were pleasantly surprised by the response. Rather than the anticipated reluctance, they were met with enthusiasm – "that's basically what I experienced in my first job in a bank, it's a great idea and we should definitely try it!"

They hired their first apprentice in July 2017 and the scheme has since had great success. Aspect now employs nine apprentices in a range of roles from reception to desktop support and through to data science.

The benefits have been plentiful, from accessing diverse pools of talent, giving opportunities to those who might not have previously considered a career in financial services, developing employees as mentors and managers – all to ultimately benefit investors.

PRINCIPLE 2: STRATEGY

Set a Diversity Strategy that is Aligned with Business Goals and Supported by Measurable and Tailored Action Plans

Setting out to improve the diversity of an organisation can be a daunting goal and it can be difficult to know where to begin. Outlining a small number of clear and achievable goals aligned with the objectives of your business not only highlights the importance of diversity but also makes diversity an achievable goal.

Take Stock
Spend some time assessing where you are now. How diverse is your organisation? How do employees perceive the culture of the firm? Where do you stand against peers? Use this data to understand the gap between where you are now and where you want to be.

Identify Objectives
Determine a small number of objectives that you would like to achieve in a specified time frame. Ensure the number of objectives are appropriate and that they are clearly defined and measurable.

Develop Action Plans
For each objective develop a clear action plan. This should include the steps that will be taken to achieve each objective, the person responsible for the objective, and the time frame it is expected to be achieved in. Completion of the action plan should be considered in the performance reviews of the responsible person and the senior leaders responsible for diversity.

Review, Measure, and Adjust
Ensure there are regular review points for these action plans. Measure progress towards success at these points and identify if any steps on the action plan need to be changed or if new steps need to be added.

QUESTIONS FOR INVESTORS TO ASK

- What are the firm's diversity objectives for the year?

- Have action plans been put in place to achieve these objectives?

- How often are action plans reviewed?

- Does achievement of these action plans feature in performance reviews?

"A company's culture is critical to its success. We developed our culture by focusing on core values we felt represented our beliefs and should guide the decisions we make. While we could physically point to our values on a page, we did not have a mechanism to measure their presence within our culture.

In 2018 we developed an anonymous survey to evaluate our culture and identify opportunities to enhance the working experience. Employees were asked to rate the existence of our core values and answer a series of satisfaction questions.

"We now have three years of data and can measure progress and identify trends,"

The survey provided us with tangible, numerical results. We then held focus groups to obtain additional colour on the themes that emerged. These two new tools not only gave our employees a voice but also encouraged them to be part of the solution. Their feedback was used to inform and design programmes to address any opportunities for improvement.

We now have three years of data and can measure progress and identify trends. We are proud to report that nearly every score has increased since 2018; the biggest positive changes have been observed where we have implemented targeted programming."

PRINCIPLE 3: COMMUNICATION

Align Internal and External Communication with Diversity Strategies

Failures in communication and transparency can hinder the success of diversity strategies. Employees should be given transparency on initiatives introduced and the intended-versus-actual results. External communications should also reflect the diversity strategies of the firm.

Make a Public Commitment
Public statements on diversity increase both the transparency and the accountability of diversity principles and objectives. It is vital to ensure your employees, investors, and peers are aware of your commitment.

Engage with Employees
Understanding the needs and perceptions of employees can help ensure that any initiatives will help to drive real change rather than be viewed as 'window dressing'.

Communicate Progress
Be honest about progress towards diversity objectives, including where change has not happened as quickly as initially planned. Identify where initiatives have fallen behind, how this can be fixed, and communicate this to employees and investors.

Review the Public Profile of the Firm
Take stock of the public profile of the firm, for example: who speaks to the media, who is represented in panels, and the like. Does this match both the diversity of your organisation and your diversity objectives?

QUESTIONS FOR INVESTORS TO ASK

- Does the firm have a publicly available diversity policy or principles statement?

- How is the firm engaging with employees on culture and diversity?

- What communication is in place with employees and other interested parties on progress towards diversity objectives?

- How does the firm monitor its public profile?

Case Study:
Man Group – Enhanced Parental Leave

Man Group reformed their Enhanced Parental Leave Policy in 2018 to entitle every new parent, regardless of gender, to 18 weeks of leave at full pay. This applies to all employees globally and is available to both biological and non-biological new parents.

Man Group believes that this allows their people to take leave at one of the most significant times in their lives. The leave can be taken flexibly: for example, two weeks leave following the birth of a child and then the remaining 16 weeks leave at a later time that may be more useful, for example to support the primary care giver returning to work.

The policy has been popular with staff, and Man Group includes testimonials in their Diversity and Inclusion Reports, Annual Report, and on their company website (man.com) to promote this offering and show how it is used in practice.

"We believe that this allows our people to take leave at one of the most significant times in their lives,"

Alongside the Enhanced Parental Leave Policy, Man Group has made specific provisions for those who have premature babies and those who are foster parents, further recognising the importance of family responsibilities and employer support for all employees.

PRINCIPLE 4: POLICIES

Review Existing Policies for Alignment with Diversity Objectives

Company policies evolve, particularly when a company is fast growing – over time informal practices give way to procedures, and these policies should be aligned with the diversity objectives of the firm.

Recruitment
Look at practices such as how expected criteria for a candidate is decided: is this too narrow or out of date? Are there ways that unintentional biases can be removed from the process, such as nameless CVs or diverse interview panels?

Performance Reviews and Career Development
Put in place objective criteria for promotions, equity ownership, or increased capital allocation for portfolio managers and ensure that decisions are reviewed against these criteria. Conduct formal and relatively standardised performance reviews that include discussions with employees on their own career development goals. Consider spot check reviews on performance appraisals to ensure decisions on promotion and pay do not sit entirely with one individual.

Retention
Review other policies that contribute to an employee's experience of your organisation, such as parental leave and flexible working.

Grievance
What happens when something does go wrong? Do policies indicate that employees will be supported in the event they need to report something? Review past grievances and how they have been handled.

QUESTIONS FOR INVESTORS TO ASK

- How does the firm's recruitment policies support their diversity initiatives?

- Does the firm set objective criteria for promotions and review candidates against these criteria?

- What additional policies does the firm have in place to support diversity and an inclusive culture?

- How are complaints or grievances handled by the firm?

Case Study:

Magnetar Capital – Racial Equity Events Series

For many businesses, questions of how to empower employees to better discuss and process their emotions, learn about their unconscious biases, and support movements towards equity are vital to consider.

Magnetar Capital identified a need to create a safe space for employees to process difficult emotions, ask uncomfortable questions, and ally with those working towards diversity and inclusion initiatives in local communities. The firm created an equity event series, with monthly events focused on fostering an environment for two-way discourse and learning.

Events brought in guest speakers for honest conversations about prejudice, to share personal experiences, and to work toward justice. The series was structured as a year-round dialogue on equity, rather than requiring employees to attend a "one and done" anti-bias training session.

Topics have included recognising prejudice in the judicial system, learning how to talk to kids about prejudice, and understanding the effects of prejudice on all aspects of life including public health, among others. Since beginning the event series last year, Magnetar has seen significant employee participation and received powerful feedback that the series deeply touched employees or helped them think of issues differently.

Magnetar plans to continue the series for an extended duration with new discussion topics and experiences.

PRINCIPLE 5: INCLUSION

Evaluate People on Skills and Structures Required for Inclusion

An inclusive culture is important for any firm to achieve its diversity objectives, but it can be hard to measure and assess. Interviews and performance appraisals can be adapted to cover inclusive skills and firms can regularly engage with their employees on their perception of the culture of the firm.

What are Inclusive Skills?

There are many skills that can contribute to an inclusive culture at a firm including:
- Moderation of discussions: soliciting views from quieter team members, giving the floor back to someone who has been interrupted, or encouraging dissenting views.
- Soliciting opinions from people impacted by the decisions, or someone who may not agree but could give helpful feedback.
- How are disagreements managed: Are decisions made by majority rules or are creative solutions involving compromise sought?

Assessing Inclusive Skills: Interviewing

Many interviews focus in on the skills a person needs to fulfil their role, but interviews could be expanded to test for inclusivity skills. Candidates could be asked for examples of where they have practiced these skills or how they would respond to hypothetical scenarios.

Assessing Inclusive Skills: Performance Reviews

360 feedback reviews, direct observations, or similar feedback mechanisms could be used to assess managers for inclusivity skills. In addition, managers could be asked to provide examples of where they have put these skills into practice. Enhanced reviews could be completed on teams that have higher rates of turnover relative to the rest of the firm to test for potential inclusivity issues.

QUESTIONS FOR INVESTORS TO ASK

- How does the firm assess its culture?

- How does the firm engage with employees on their perception of the firm's culture?

- Do interviews and performance reviews attempt to assess inclusive leadership skills?

RESOURCES

Diversity Research

CityWire: Alpha Female Report 2020:
https://tinyurl.com/alpha-female-20
CFA Institute: Driving Change: Diversity and Inclusion in Investment Management:
https://tinyurl.com/cfa-driving-change
Knight Foundation: Diversity of Asset Management in Philanthropy:
https://tinyurl.com/diversity-asset-mgrs
McKinsey: Delivering Through Diversity:
https://tinyurl.com/delivering-through-diversity
McKinsey: Why Diversity Matters:
https://tinyurl.com/why-diversity-matters
Morningstar: Fund Managers by Gender: Through the Performance Lens:
https://tinyurl.com/gender-performance
National Academy of Science: Race Influences professional investor's financial judgements:
https://www.pnas.org/content/116/35/17225
Robert Toigo Foundation: Diversity Equity and Inclusion – Debunking the Myths:
https://www.pionline.com/deireport2021
PWC: Understanding Diversity and Inclusion in the Investment Management Industry:
https://tinyurl.com/pwc-understanding-diversity
Willis Towers Watson: Diversity in the Asset Management Industry: https://tinyurl.com/WTW-Diversity-AM

Policies

Bias Interrupters: Identifying and Interrupting Bias in Hiring: https://tinyurl.com/BI-bias-in-hiring
Bias Interrupters: Identifying and Interrupting Bias in Performance Evaluations:
https://tinyurl.com/BI-bias-in-evaluations

Leadership

Diversity Project: Addressing Ethnic Diversity in Asset Management: Five Point CEO Plan:
https://tinyurl.com/5-Point-CEO-Action-Plan
Diversity Project: Gender Equality Guidance for Leaders: https://tinyurl.com/Gender-Leader-Guidance

Inclusion

AIMA: How to be an Ally:
https://tinyurl.com/aima-ally
Investor Leadership Network: Creating a more inclusive economy: https://tinyurl.com/inclusive-economy
McKinsey - Diversity Wins: How Inclusion Matters: https://tinyurl.com/mck-diversity-wins
New Financial: Accelerating Black Inclusion:
https://tinyurl.com/accelerating-black-inclusion
The Investment Association: Building Black Representation in Investment Management:
https://tinyurl.com/black-rep-inv-mgmt

Strategy

AIMA – The Alternatives – A Practical Guide to how Hedge Funds Large and Small can Improve Diversity and Inclusion: https://tinyurl.com/aima-the-alternatives
Diversity Project: What Actions can your company take to drive real change
https://tinyurl.com/DP-real-change
Diversity Project: Gender Equality Guidance for Organisations: https://tinyurl.com/DP-gender-equality
Royal Academy of Engineering - Implementing Diversity Policies: Guiding Principles:
https://tinyurl.com/diversity-principles

OVER 140 ASSET MANAGER SIGNATORIES

- Over USD 1 trillion in AUM.
- Global representation including Asia, Europe, and North America.
- Strategies include Multi-Strategy, Hedge Funds, Liquid Alternatives, Credit, ILS, and Managed Account Platforms.
- Full list of signatories: https://www.sbai.org/signatories/

OVER 90 INVESTOR CHAPTER MEMBERS

- Responsible for over USD 4 trillion in AUM.
- Global representation including Asia, Europe, and North America.
- Institutional Investors including Pension Funds, Sovereign Wealth Funds, Endowments, Foundations, Family Offices, Investment Consultants, Fund of Funds, and Private Banks.
- Full list of investors: https://www.sbai.org/list-of-investors/

THE SBAI IS AN AFFILIATE MEMBER OF IOSCO

ABOUT THE SBAI

We are an active alliance of asset managers and institutional investors dedicated to responsible practice, partnership, and knowledge – In short, we solve for better

THE ALTERNATIVE INVESTMENT STANDARDS

Asset managers sign up to the Standards on a comply or explain basis. The Standards were developed collaboratively with managers and allocators and cover disclosure, valuation, risk management, fund governance, and shareholder conduct.
The Standards: https://www.sbai.org/standards/

SBAI TOOLBOX

Practical resources for the alternatives industry including transparency tools and guidance memos. These resources are produced in collaboration with our community of asset managers and institutional investors.
SBAI Toolbox: https://www.sbai.org/toolbox/

SBAI COMMUNITY AND WORKING GROUPS

We facilitate the collaboration of asset managers and allocators in many ways. Our Working Groups provide forums to discuss topical issues such as Responsible Investment, Culture and Diversity, and Governance and small-scale roundtables provide interaction between our stakeholders on a broad range of topics.

REGULATORY ENGAGEMENT

We engage regularly with global financial regulators. We do not lobby on behalf of allocators or asset managers but rather engage to help drive effective regulation and to help educate regulators on the issues faced by the alternative investment industry.
https://www.sbai.org/regulatory-engagement/

GLOBAL EVENTS

Our global events series provides insights from institutional investors on their investment priorities and technical seminars on specific topics. We hold five flagship events per year in London, Canada, United States, Asia, and Helsinki. Other smaller scale events are also regularly held both in person and virtually.

FIND OUT MORE

Website: https://www.sbai.org/
Contact us: info@sbai.org