



BEYOND THE METRICS

DEMONSTRATING AND ASSESSING DIVERSITY IN SMALLER ASSET MANAGERS



INTRODUCTION

Culture and diversity are now central to most allocator due diligence processes. Key to this assessment is the ability to compare managers across allocator portfolios, both to form a baseline and to monitor for improvements.

Smaller asset managers face unique challenges in these assessments. Most prominently, the relatively small size of investment teams means one hire or departure can significantly distort metrics. Improving the diversity of these teams needs to be balanced against allocator preferences for stable investment teams. Smaller firms are unlikely to be able to follow published guidance that involves extensive affinity groups or mentoring schemes – and shouldn't feel obliged to try to put these in place.

Smaller firms also have several important advantages for promoting diversity within the industry. Leaders with a commitment to diversity can have a bigger impact on their employees and even admin-based roles provide opportunities for employees to experience more of the industry, compared to more siloed roles at larger firms.

Diversity initiatives are also broader than the firm, extending to relationships with service providers and support of industry wide initiatives.

This publication follows our [Principles of Culture and Diversity Strategies Report](#) which can be used by organisations of any size. This report is intended to bridge the gap between smaller firms' commitment to diversity and allocator assessments.

DIVERSITY IN SMALLER ASSET MANAGERS

1

Leveraging Personal Impact

The impact of day-to-day actions reverberate easily through smaller organisations. People pay attention to what they see more than what policies and procedures say. Setting the right example is even more critical and impactful for leaders at smaller firms.

2

Enhanced Opportunities

Hierarchies and role descriptions within smaller firms are typically broader than in larger organisations. All opportunities in these firms, including admin or project-based roles, are likely to offer more exposure to the industry than similar roles in larger organisations. Offering these roles to individuals from different backgrounds can increase the opportunities for diverse candidates.

3

Extending the Concept of a Firm

Smaller firms typically use outsourced services to a greater extent than larger firms. Extending diversity policies to service providers such as fund directors, administrators, and law firms can help diversity in the industry more broadly. It may also provide critical development and career advancement opportunities to non-traditional hires at these service providers.

4

Industry Initiatives and External Resources

Keeping up with best practices can be difficult for firms that cannot dedicate specific resources or have limited HR functions. External resources may be required. In addition, smaller firms can increase their impact on diversity within the industry by supporting external industry initiatives.

5

Allocator Assessments

Quantitative metrics on the surface provide comparability between different asset managers, but these can disadvantage smaller firms. Metrics may increase the chance of individuals being identifiable and one hire or departure can significantly skew these metrics. Allocators should make use of comparable qualitative questions to get an accurate picture.

Throughout this document we have included suggestions for policies, processes, and activities suitable to smaller firms, that can help promote inclusive cultures and diversity within the firms.

For allocators looking to broaden their assessments beyond metrics, these can provide examples of questions or suggestions for improvement during the due diligence process.

PRACTICAL ACTIONS

External Speakers

Engaging professionals can be expensive for smaller firms. Other options include:

- Using online options such as Ted Talks followed by discussions.
- Ask service providers whether employees can attend any talks or presentations given as part of their initiatives.

Encourage Networking

Provide employees with opportunities to expand their networks outside of the firm. This could be achieved by:

- Rotating who attends industry events or allowing junior employees to accompany senior colleagues.
- Paying fees for professional associations that have networking events.

Discuss and Collaborate with Peers

Engage in regular conversations with peers and other industry participants, both for ideas and for collaboration opportunities. Joint events may help with cost burdens and provide diverse employees with more networking opportunities.

LEVERAGING PERSONAL IMPACT

Leaders in smaller firms have more opportunities to make lasting change through personal behaviour. Role models in daily contact with employees are powerful agents for change.

Leaders in all organisations should set the tone both through words and actions, but this is vitally important in smaller firms. The level of personal interaction in these firms means leaders can be positive agents for change.

The Power of Leadership:

Employees will follow the standards set by leaders. This gives “tone from the top” critical importance in smaller firms. Leaders should demonstrate a commitment to diversity, fully support internal and external initiatives, and take a visible role in creating an inclusive culture.

Responding to Culture and Diversity Issues:

Leaders should have well-developed responses to issues that might arise. Leading by example is important in smaller firms where leaders’ actions are more visible. Leaders should be vocal in correcting any minimisations or disrespect within the firm and actively seek out a diverse range of views during meetings or general discussions.

Be Authentic:

Engagement and actions must be genuine. When issues emerge, it is important that action is both taken and communicated within the firm. Smaller firms have an advantage as senior manager actions and priorities are more visible to the entire firm and can reinforce culture in a stronger way than larger organisations.

QUESTIONS TO ASK:

- Are senior management leading by example in the firm?
- Has the firm developed responses to issues that might arise?
- Is there a process for communicating actions taken to employees?

PRACTICAL ACTIONS

Firm Newsletter

Newsletters can be a useful way to provide additional information and make employees feel included. It could include things such as:

- Relevant research and resources of interest.
- Ways to get to know employees such as “5 Questions”, acknowledgements of birthdays, or acknowledgement of culturally significant days for employees.

Shadow Days

Offer high school or university students the chance to shadow employees for a short period to get an insight into the industry. This could help improve the reputation of the industry and increase the upcoming talent pipeline.

Internships

Consider opportunities to offer internships, even for short periods of time. Project-based and admin tasks offer great opportunities (see main text right). Firms may consider sourcing interns through industry organisations dedicated to increasing the number of diverse candidates in the industry.

ENHANCED OPPORTUNITIES

Individuals in smaller typically have broader roles. This can offer diverse candidates more opportunities to collaborate, cross train, and gain important industry experience.

Limited but Important Vacancies:

Smaller firms typically hire less frequently. They will also favour experienced hires. Hiring graduates or interns that require significant training can be costly for these firms.

Admin or project-based roles may be required. In a smaller firm these provide ideal opportunities for younger and more diverse candidates who can gain exposure to different elements of the industry.

Leveraging a Small Firm Environment:

In a smaller firm there are increased opportunities to gain a broader understanding of the industry. A junior individual is likely to be able to observe more of the investment process, collaborate with other individuals, and be cross trained for different tasks. Compared with the often more siloed nature of larger firms this creates a stronger feeling of being part of a team. Hiring with this in mind may also allow smaller firms to attract better candidates given the increased variation and experience in the role.

Consider existing employees, particularly younger employees, who may also benefit from cross training and collaboration.

Reputation:

Understand that smaller firms may not be able to offer as many opportunities to ambitious employees and some will leave to advance their career. The industry is small, so continuing to train and respect employees who may leave for better opportunities can enhance the reputation of a firm within the industry.

QUESTIONS TO ASK

- Is there scope to provide a role for interns for administrative tasks even on a part-time basis?
- Does the firm encourage cross-training and collaboration even for employees who may leave in the future?

PRACTICAL ACTIONS

Service Provider Contracts

Add clauses into service provider contracts that allow you to view culture and diversity policies on an annual basis. Firms could also consider requiring that a diverse relationship manager is appointed to their account where possible.

Alternative Service Providers

Large incumbent service providers can be costly for smaller firms. Considering newer entrants or independent providers has many advantages. Firms could specifically look for providers owned by diverse individuals, or where the relationship can be managed by less traditional hires.

Shadow Fund Directors

Allow non-traditional junior candidates to become shadow directors. They have access to the same information as regular board members, attend all meetings and can offer opinions - but would not be able to vote on any resolutions.

EXTENDING THE CONCEPT OF A FIRM

Driving real change in the industry means reaching out beyond the confines of your firm. Extending diversity policies and objectives to service providers can help promote diversity in the broader industry.

Diversity at Service Providers

Smaller firms are typically smaller clients of service providers and may feel that any pressure applied will not be effective. This may be the case at an individual level but if multiple smaller firms apply the same pressure, it will soon add up. Firms should ask about culture and diversity policies in place at service providers as part of initial and ongoing due diligence.

Providing Opportunities

Smaller firms can provide opportunities for less traditional hires in many different places.

For fund directors, smaller firms could choose to give opportunities to less experienced directors without sacrificing the quality of the board and protection of investors. This could be in the form of shadow directorships or adding a less traditional fund director to the board alongside more experienced directors.

At service providers, firms could request a less experienced or more diverse candidate to manage their relationship to provide career enhancement opportunities for these individuals. A more experienced person could be appointed for escalation if required to ensure the quality of service remains.

For services such as outsourced IT or accounts, smaller firms could explore options outside of the incumbents. This may provide opportunities for firms with more diverse ownership and may even benefit the firm if costs are lower than larger organisations. Due diligence and ongoing monitoring processes should remain stringent to ensure appropriate service is being received.

QUESTIONS TO ASK

- Could the firm engage outsourced providers who are not the incumbents in the industry?
- Could less traditional fund directors be added to the fund board?

PRACTICAL ACTIONS

External Consultants

External consultants can sense check culture and diversity policies and processes. Given limited dedicated resources at smaller firms, this could avoid spending time and money on strategies that will not be effective.

Low-Cost External Resources

There are many resources available for little to no cost on the topic of culture and diversity. These might include things such as:

- Ted Talks
- Online diversity training courses
- Online university/college courses on relevant topics
- Our Principles of Culture and Diversity Strategies Report contains many additional publicly available resources
- Ask your employees for ideas

Industry Initiatives

Culture and Diversity improvements need to extend further than individual firms for real change to occur in the industry. There are many different organisations and initiatives that firms can join, or fund that can help achieve this. Contributions to these organisations do not necessarily need to be financial. Firms could:

- Host events in their offices,
- Provide speakers or mentors,
- Provide equipment,
- Allow staff to volunteer time to assist the organisation, or
- Use these organisations to hire for any internships.

INDUSTRY INITIATIVES AND EXTERNAL RESOURCE

A commitment to best practices may require more resource than a smaller firm can dedicate so external help may be required. Smaller firms can also broaden their reach by supporting industry initiatives.

Understand the Resource and Expertise Available to the Firm:

Larger firms often have experienced individuals or teams dedicated to culture and diversity. This is often not possible within smaller firms where the appointed person is often responsible for multiple functions.

Smaller firms need to ensure they have a regular programme to update their understanding of changes to best practices.

Make use of External Resources:

There are many external resources available to smaller managers. Some will come at little to no cost but require dedicated time from employees such as publications, webinars, and free training courses. Others, such as external consultants, may come at a cost but provide valuable expertise.

To set an effective strategy for the business, firms will need to weigh up the cost of an employee's time versus a monetary cost for using consultants. If one or the other is not done, any strategy runs the risk of being incomplete or ineffective.

Industry Initiatives:

Smaller firms cannot run large graduate or intern schemes, but there are many other ways to support diversity in the industry. There are many charitable and non-profit organisations that support diversity in the industry. Smaller firms can support these initiatives either through monetary contributions or by volunteering time or other resources. Firms that do this should document this as part of their culture and diversity policy and strategy.

QUESTIONS TO ASK

- Does the firm have the right expertise, or will external help be required?
- What industry initiatives could the firm assist?

PRACTICAL ACTIONS

Review Assessment Processes

Allocators should check whether the methods used to assess diversity within their portfolios would allow for these processes to be displayed. If not, the process may be disadvantaging smaller managers. This disadvantage could also exacerbate the diversity problem in the industry as currently most diverse owned asset managers tend to be smaller in size.

Qualitative Questions

Many industry questionnaires make use of qualitative questions as well as metrics-based data. It is important that the qualitative questions are used to avoid distortions in metrics from hires and departures.

Examples of these questions are provided on page 9 of this report.

Focus on Prior 12 Months

Culture and Diversity strategies should not be static, putting a policy in place once should not be the end of the process.

Allocators should allow room in either DDQs or ongoing monitoring for firms to explain actions they are taking to improve culture and diversity.

The focus should be on actions that have been taken in the past 12 months to show this is a continuous commitment.

ALLOCATOR ASSESSMENTS

Allocators assessing diversity in their underlying asset managers often rely on quantitative metrics to understand the diversity across the portfolio and to compare between managers. This assessment can disadvantage smaller firms.

Quantitative Metrics

There are general problems with collecting demographic based metrics including regional differences and countries where it is illegal to ask for this data.

For small firms there can be additional disadvantages. Hires or departures can disproportionately impact metrics especially when they are collated as percentages. Lower turnover often means metrics will not change as frequently and allocators often express a preference for stable senior management and investment teams further limiting turnover.

Quantitative metrics can provide a useful baseline for allocators wishing to understand the diversity of their portfolio, but they should not be used in isolation.

Qualitative Questions:

Many existing DDQs also contain qualitative questions that can be used to assess diversity in an asset manager. These could be questions on policies, processes, and external initiatives.

Qualitative questions can be difficult when comparing managers. To make this easier, allocators could consider asking questions that can be answered with “yes”, “no”, or “will implement in the next 12 months”. These simple answers would still allow a benchmarking process between managers.

Giving smaller managers space, either in DDQs or ongoing due diligence meetings, to discuss diversity efforts in a non-metrics-based way will allow allocators to better understand the manager’s commitment to inclusive cultures and diversity.

QUESTIONS TO ASK

Page 9 of this report contains suggested qualitative questions allocators could ask based on existing DDQs and templates.

QUALITATIVE QUESTIONS FOR ALLOCATORS

Below is a selection of questions taken from existing industry DDQs and templates¹. All questions can be responded to with “Yes”, “No”, or “Will implement in next 12 months”.

Does the firm have a formal Diversity and Inclusion Policy or initiative?

Does the firm have policies or practices to ensure equal pay for equal performance?

Do you use an external compensation benchmarking process?

Has diversity and inclusion been included in performance metrics for senior management in the past 12 months?

Do you track and measure promotion levels and time to promotion across different groups?

Does the firm complete employee engagement surveys?

Does the firm have a formal mentorship, sponsorship, or employer affinity program for women and/or minorities?

Does the firm engage with non-profit organisations or programs that promote the recruitment and retention of women and/or minorities?

Does your senior leadership advocate for D&I initiatives within the investment industry?

When selecting service providers, does the firm assess each provider’s D&I policies or practices?

Does the firm have a family leave or parental leave policy?

Does the firm track the minority and gender composition of employees taking family leave or parental leave benefits?

Does the firm have a code of conduct that addresses harassment, discrimination and/or workplace violence in and/or outside of the workplace?

Does the firm have procedures in place for the anonymous reporting and investigation of harassment, discrimination and/or workplace violence?

Additional space should be provided for firms to expand on these answers with a particular focus on activities in the past 12 months.

¹ AIMA and Albourne D&I Questionnaire (<https://www.aima.org/resource/aima-albourne-diversity-and-inclusion-questionnaire.html>), UK Asset Owner Diversity Charter (<https://diversityproject.com/sites/default/files/resources/Asset%20Owner%20Diversity%20Charter%20Toolkit.pdf>), and ILPA Diversity Questionnaire (<https://ilpa.org/due-diligence-questionnaire/>)



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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.

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We engage 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.

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