



INSIGHTS FROM
CFA SOCIETY SINGAPORE

By Sarah Maynard

Addressing a gap

The DEI Code aims to make the investment industry attractive to talent from all demographics

ASK any investment professional and they will acknowledge the value of diversity when it comes to investment strategy and decisions. In fact, the mantra during uncertainty is to diversify: spread your risks and gain from market movements in other sectors and asset classes.

Yet, the opposite practice is often true at the workplace. For example, a McKinsey report in March 2021 highlighted that at the start of 2020, only about 20 per cent of senior leaders at private equity firms in the US were women, compared to about 30 per cent for the rest of corporate America. And Morningstar found that the gender diversity of fund managers globally has remained largely unchanged over 20 years. It also noted that women fund managers are twice as prevalent in Asian markets.

Private equity, much like public markets money management, also trails on ethnic diversity. In 2020, 1 to 2 per cent of executives in investment deal teams in the US were Black, far below the US population of Black graduate degree holders. Another 11 to 12 per cent were from other racial and ethnic minorities.

The investment industry is not alone. The diversity, equity and inclusion (DEI) gap remains a central talking point across all industries. But the investment sector is also starting from one of the lowest bases. It has the most to gain from integrating DEI with different experiences, viewpoints and analyses to help investment teams to interpret the current volatility, challenge conventional business ideas, innovate, and deepen research capability.

Willis Towers Watson, the global investment consultancy, found in 2020 that diverse investment teams outperformed those with no women or ethnic minority employees by an average of 20 basis points a year.

Why we need a framework

In an industry that moves quickly and can be both opportunistic and strategic, advancing DEI within the investment sector needs a framework. It can be a guide, act as a guard rail, and provide a sustainable reference resource for the industry.

These were the motivations for the creation by the CFA Institute Inclusion and Diversity Steering Committee of a voluntary DEI Code in March 2020, beginning in the US and Canada. The committee tasked the DEI Code Working Group to develop a set of principles for the investment industry to form the code. The group brought together the expertise and experience of the CFA Institute committee members, DEI practitioners and investment professionals.

The working group aims to make the code practical for all stakeholders in the industry, not just CFA Institute employees or members. Although voluntary, the code still requires strong commitment from senior leaders at investment companies. After all, their employees look to them to lead by example, and can hold their organisations accountable at the same time. DEI needs to be embedded within strategic business imperatives to create an impact.

This was highlighted in a CFA Institute report in August



Morningstar found that the gender diversity of fund managers globally has remained largely unchanged over 20 years. It also noted that women fund managers are twice as prevalent in Asian markets. PHOTO: PIXABAY

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2021, *Accelerating Change: Diversity, Equity, and Inclusion in Investment Management*, which outlined practical and actionable takeaways from DEI efforts. The report also forms the research underpinning the DEI Code's implementation guidance.

It noted that successful DEI strategies need leadership that is committed, trained, accountable, and with aligned governance structures; conduct frequent, informative two-way employee communication; and a DEI plan that is fundamental to the overall business success.

Understanding the code

The DEI Code comprises 6 core principles. The signatories commit to:

- **Pipeline:** Expanding the pipeline of diverse talent.
- **Talent acquisition:** Designing and implementing inclusive and equitable hiring and onboarding practices.
- **Promotion and retention:** Designing and implementing inclusive and equitable promotion and retention practices to reduce barriers to progress.
- **Leadership:** Using their position and voice to promote and improve DEI in the investment industry and to being held accountable for their firm's progress.
- **Influence:** Using their role, position and voice to promote and increase measurable DEI results in the investment industry.
- **Measurement:** Measuring and reporting on their progress in improving DEI within their firm and providing regular reports on the metrics to their senior management, board and CFA Institute.

These principles are supported by tested implementa-

tion guidance from the CFA Institute's experimental partner programme and advice from leading inclusion experts.

When adopting the code, signatories will need to report on the relevant metrics for their organisations. This is important as the code looks to meet the organisation where it is, define its current state, and drive improvement from a realistic foundation.

After determining the metrics, each signatory will commit to working on the principles and collaborating with others. They will report the metrics annually using a confidential reporting framework as part of the sixth principle.

CFA Institute will then report its overall findings on industry progress every year. It will also hold various roundtables with the signatories to understand their implementation strategy, share tested practices, and showcase successes.

Sustaining improvements

The DEI Code is not the investment industry's first attempt to further diversity. There have been multiple initiatives, but few were explicitly directed at business leaders in the investment industry or designed to cover all aspects of DEI. In an industry where time is money, which operates in a very competitive environment, and is both opportunistic and strategic at the same time, this presents a significant limitation.

Acknowledging the lessons from the past, we decided to take a different approach. CFA Institute and the DEI Working Group included broader viewpoints from the best experts and sought commitment from senior leaders right from the onset. We also wanted to make it more adaptable as practices evolve, keeping aspirations high and grounded in business needs.

The DEI Code is designed on a common belief: that improvements can offer better investment outcomes and help create better working environments. The latter is especially important as attracting and retaining talent continues to be a significant challenge in the investment industry.

The code is also not looking to create an industry-wide benchmark for everyone to aspire to. Instead, it implicitly acknowledges that every organisation is at a different stage of its DEI journey. Essentially, it helps organisations understand where they are and the path towards improvements. Sharing and learning from their peers will help offer important guideposts and lessons.

Scaling worldwide

The DEI Code's overall aim is to drive measurable improvement, and we have put together a detailed implementation guide with strategies specific to operationalising each principle.

When it comes to DEI, we need to acknowledge that regionally specific nuances are critical to capture within any code or standards to make them successful. In this regard, we see the current DEI Code for the US and Canada as a starting point. We will be adapting the code for each region, working with local stakeholders to reflect key priorities.

At CFA Institute, we continue to advocate for professional excellence and adherence to ethical standards. Our existing codes and standards are how we hold ourselves accountable for doing so.

The DEI Code, which will be finalised in February 2022, will form our major effort to make the investment industry attractive to talent from all demographics, reflecting the diverse societies that the industry serves. After all, the beneficiaries will be the industry itself, as there is mounting evidence of DEI encouraging better investment decision-making and attracting and retaining hard-to-find talent.

The writer is global head, external diversity, equity and inclusion, at CFA Institute.