

Diversity in the asset management industry

On the right track, but at the wrong pace



It's been two years since we made the public call to action for greater diversity in the asset management industry. We challenged our peers to transform Diversity, Equity, and Inclusion (DEI) from an abstract concept to a robust, holistic approach within our industry.

Since then, we have seen more and more asset owners and asset managers recognize the benefits of fostering diversity within their teams as we continue to engage with the industry.

There has undoubtedly been movement on this topic in recent years. However, is enough being done to achieve meaningful progress and improve investment outcomes?

In this paper, we take the temperature across several dimensions of DEI and probe the pace of change. We check in on our previous call to action, outlining where the industry stands today versus where it needs to go to align with DEI best practices. Greater transparency has enabled us to identify key industry trends and further highlight the benefits of diversity. We hope to provide as much insight as possible across the industry to both asset owners and asset managers who are focused on diversity and want to drive change.

For asset owners looking to begin or accelerate their DEI journey, we also dig into today's challenges, outline our proposed solutions, and demonstrate how our comprehensive toolkit can help you to map your DEI journey.

Fundamentally, we believe greater diversity leads to better investment outcomes. Our analysis continues to support this, with investment teams in the top quartile of gender diversity outperforming the bottom quartile by 45bps per annum in terms of net excess return¹. Crucially, greater diversity also makes teams more representative of the people on whose behalf they are taking decisions.

WTW has integrated DEI across its research and portfolio management processes, engaging with asset managers to further progress and share best practice. Transparency and accountability will be key markers of progress, so we have also built out a comprehensive DEI reporting toolkit for asset owners to set out, and set off, on their own DEI journey.

Better data is bringing the diversity premium to light

Over 2022, we have collected detailed diversity data for over 1500 investment strategies. We have reviewed the gender data, which is the most widely available across regions to date and compared this against the excess net returns of strategies with a 5-year track record. Gender diversity is one indicator of many that can signal broader cognitive diversity, more diverse perspectives, and more inclusive decision-making.

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Our analysis continues to make the case for greater diversity, with investment teams in the top quartile of gender diversity outperforming those in the bottom quartile by 45bps per annum¹.

Chris Redmond,
Global Head of Manager Research

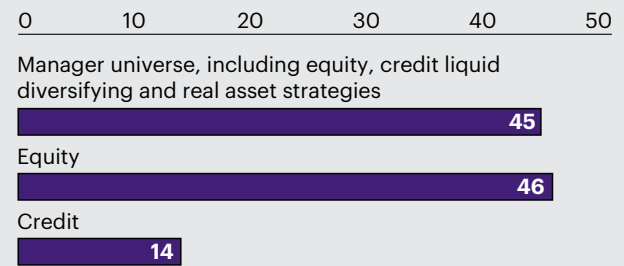
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This relationship also holds when you drill down into the largest asset classes, with equity and credit displaying a gender diversity premium of 46bps and 14bps a year respectively. We note that credit has a lower absolute diversity premium, but in the context of lower volatility and smaller absolute return-potential in general in this asset class, believe it still makes a strong case for greater diversity. For future years, we will continue to push asset managers in the alternatives space, e.g., liquid diversifying and real asset strategies, to provide both diversity data and performance data across platforms. This will enable us to expand our analysis and monitor the diversity premium at an even more granular level over time.

¹Source: WTW, asset managers, eVestment. Diversity data as of 31 December 2021, net performance data as of 31 December 2022. Universe of managers is based on 543 products that have 1) responded to WTW's DEI questionnaire, providing gender diversity data for the investment team managing the strategy and 2) have a 5-year track record of relative performance available on eVestment, against their self-selected preferred benchmark or 3-month SONIA if this is not available. To calculate net performance, we have subtracted the largest stated fee available on eVestment from gross performance. When both fees and gross performance were not shared for a strategy, we have used net performance obtained directly from eVestment.

WTW has been engaging with managers on DEI since 2004 and has integrated DEI more formally across the research process since 2017 via culture reviews, regular engagement, and comprehensive data collection. Data transparency has been one of the largest hurdles to DEI to date. It is hard to overemphasise the importance of measuring and monitoring diversity. Consistent and meaningful data collection allows managers to understand where they stand today and reflect on why this may be the case – what is measured, is managed. Data transparency is also increasingly demanded by stakeholders and investors as a tangible and comparable measure of progress. We have undertaken a huge push for greater data transparency from the managers we engage with and have seen significant improvements in recent years. In 2022, we had a 95%+ response rate to our DEI questionnaire, showing that asset managers across asset classes and regions are truly beginning to prioritise the topic. However, our conversations and data show a variety of approaches as managers work to get more buy-in and understand what works for their organisations. This is putting some managers on the fast track and others on a less certain path to better DEI. We know the industry is not starting from a good place given largely homogeneous teams across gender, ethnicity, socioeconomic and even educational backgrounds, so many managers cannot afford to believe that DEI does not apply to them or to go too slowly. In this paper, we highlight where the industry stands today versus DEI best practice – we outline the policies and practices of 407 asset management firms globally, varying by size, asset class focus and region. In future years, we will track progress in the industry annually via our Diversity Index and a Global DEI report in partnership with the Thinking Ahead Institute.

Figure 1: **Gender diversity premium by asset class** (bps per annum)



Source: WTW, asset managers, eVestment. Diversity data as of 31 December 2021, net performance data as of 31 December 2022. Universe of managers is based on 543 products that have 1) responded to WTW's DEI questionnaire, providing gender diversity data for the investment team managing the strategy and 2) have a 5-year track record of relative performance available on eVestment, against their self-selected preferred benchmark or 3month SONIA if this is not available. To calculate net performance, we have subtracted the largest stated fee available on eVestment from gross performance. When both fees and gross performance were not shared for a strategy, we have used net performance obtained directly from eVestment.

Alongside the data, we believe asset owners and advisors should look beyond the numbers and form a robust qualitative view on their manager's DEI and culture to really understand where their manager is, where they are going, and how quickly they will get there. Focussing on any single number, such as diverse ownership, can often miss the bigger picture and forego an opportunity to identify current and future DEI leaders. We have conducted over 300 culture reviews to date and collected diversity data on all the strategies in our research universe, monitoring several areas of DEI, such as training, policies, recruitment, and retention. This has allowed us to create a broad global set of 'minimum standards' and areas of best practice that both clients and managers can measure progress against.





Many managers are beginning to meet minimum standards in DEI

Below we outline the minimum standards that we are asking all our rated managers to comply with to ensure they are on the right track; the majority of managers we interact with are meeting these standards although some laggards remain.



80% of managers have a formal DEI policy



Senior leadership is accountable for DEI at **83%** of managers



93% of managers have provided at least partial diversity data



77% of managers have policies to support carers, parents and caretakers

There is a common assertion that the largest firms are able to implement more DEI policies and initiatives, given increased resourcing and often larger talent pools.

While this may be true in some aspects, we have tested whether this translates into greater diversity overall – our data suggests not yet. We find no meaningful relationship between firm size and greater diversity across ownership or senior leadership.

Similarly, we tested whether certain asset classes are lagging the broader industry as managers often point to a smaller or more focussed talent pool as a hurdle to diversity. We do not see huge deviations between asset classes, with average gender diversity between asset classes sitting at approximately +/-5% of the universe mean. Ethnic diversity did not have much divergence either, moving around +/-7.5% versus the universe mean.

Source: WTW as of 31 December 2021. Data based on 407 asset managers that responded to our DEI questionnaire

It is difficult to be prescriptive on what good looks like in exact numbers when it comes to DEI, but WTW has built a clear picture of some of the most successful practices and policies of DEI leaders over the years. While not every single DEI action is applicable to every firm, many of these areas of best practice put managers across the spectrum on to the fast track to better DEI. Detailed below are key statistics for the industry at large, highlighting that best practice measures are being adopted by more managers, while acknowledging further engagement and improvement is still required for a lot of the industry. Until more best practices are adopted, we would not expect to see a large enough, or quick enough change in the overall diversity in the industry, suggesting we may be going too slow today.

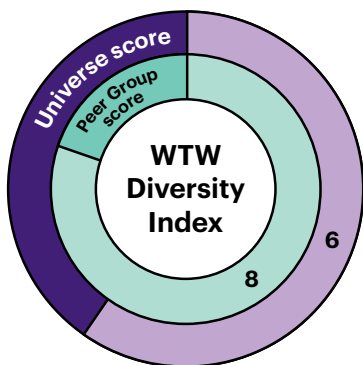


Tracking the journey: WTW Diversity Index

DEI is a multi-dimensional topic, with several paths to success. We have designed our data capture and engagement model to be broad enough to capture a holistic, birds eye view of the industry, incorporating the varying initiatives and approaches that managers will take. Whilst we can and should build a rich picture for our research, we believe translating this in to a straightforward and digestible metric will encourage more accountability and progress in the industry. This is why we have created the WTW Diversity Index, a measure of any fund or strategy's diversity today versus where they could be, i.e., broadly represented by all genders and ethnicities. From this year, we will track the index for the industry over time, and as an additional service, can make the measure available to clients or asset managers looking to understand where their strategies stand.

[Find out more about our Diversity Index.](#)

Figure 2: Example of WTW Diversity Index



For illustrative purposes only

DEI initiatives by the numbers



Only 42% of managers have measurable objectives in the DEI policy, and only **25%** of firms link leadership remuneration to DEI KPIs



5% of managers currently have no plans to collect granular diversity data at the firm level



56% of managers are members of industry diversity initiatives



51% of managers have targeted initiatives to attract more **senior** diverse talent. Only **40%** are measuring the gender or ethnicity pay gap, and **38%** are measuring the bonus gap



54% of managers are measuring and monitoring multiple diversity lenses outside of just gender and ethnicity



57% of firms provide mentorship, training and sponsorship to underrepresented groups



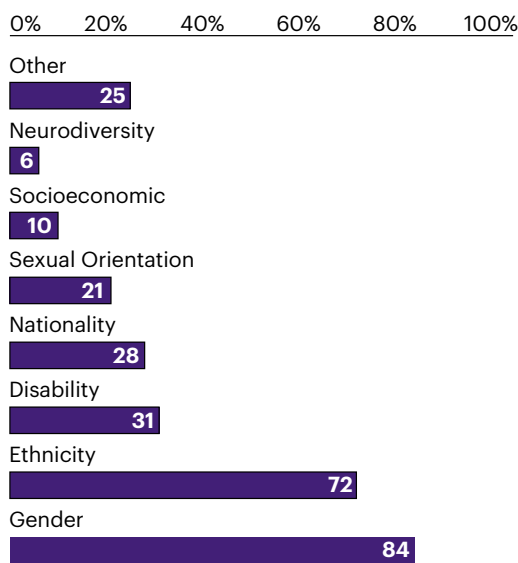
43% of managers do not undertake staff engagement surveys and **1/3** have not provided I&D training to staff

Source: WTW as of 31 December 2021. Data based on 407 asset managers that responded to our DEI questionnaire

Looking at diversity through multiple lenses

We believe DEI should be measured across several dimensions. The industry has largely focussed on gender and ethnicity to date, two of the largest underrepresented groups in absolute terms, but we encourage all firms to expand data collection across other inherent and acquired traits of diversity to build a richer picture of cognitive diversity across the organisation.

Figure 3: **Measuring multiple dimensions of diversity** (% of firms tracking)



Source: WTW, asset managers, as of 31 December 2021. Data is based on 350 asset managers that responded to our DEI questionnaire.

Setting off on your DEI journey:

How WTW is helping asset owners to measure, monitor and improve DEI in portfolios

Investors are increasingly demanding change in portfolios when it comes to DEI but may not know where to start. Asset owners, Sponsors and end-savers are faced with several challenges before they can set off on a meaningful DEI journey:

- **DEI is a multi-dimensional issue and there is no cookie-cutter solution**, so every investor should start with setting out their own beliefs and current position.
- **You need to look ahead.** A historical lack of data, and no industry consensus on measurement has led to narrow approaches with too great a focus on backward looking metrics. We prefer to build a richer picture of diversity data across multiple lenses, and across all levels of the firm.
- **It's hard to define what good looks like in DEI, but industry leaders are showing clear trends.** WTW is leveraging years of DEI thought leadership from the Thinking Ahead Institute and our own Research teams to set clear, implementable universal standards.
- **You have to engage with everyone, including the less diverse teams.** Focusing on existing diverse-owned firms or investment teams that are currently diverse, limits the opportunity set when trying to implement a meaningful DEI strategy. Alongside seeking diverse teams, we need to engage with the whole industry, pushing some of the largest and longest standing asset managers to improve their DEI.

We are helping clients navigate these challenges with clear, transparent, and thoughtful solutions.

Little by little becomes a lot: keeping the industry moving forward

The asset management industry is on the right track but may be going too slow. Progress requires ongoing evolution and meaningful action from asset owners, advisors, and asset managers to ensure we are all on the same journey and going at the right pace. WTW continues to integrate DEI across its research and portfolio management processes; we are creating universal standards to make it easier for managers to act, setting measurable objectives to keep ourselves accountable and collaborating with the industry to drive meaningful change. Comprehensive reporting and meaningful engagement allow us and our clients to build a richer picture of the DEI in the industry today, with a clear vision for progress in future years.

Your DEI toolkit

1. DEI Framework and Journey Plan

WTW can work with asset owners to build out and implement a Beliefs set and Framework that aligns with the DEI goals of stakeholders, end-savers, and Sponsors.

2. Transparent, comprehensive reporting

WTW is able to produce DEI reporting for clients at the aggregate portfolio level (WTW Diversity Dashboard) and for each strategy within your portfolio (WTW DEI Assessment). We have collected detailed qualitative and quantitative diversity data on 1500+ investment strategies and continue to expand this year on year.

WTW Portfolio Diversity Dashboard

- Get a clear, succinct view of the diversity of your portfolio and monitor progress annually
- Identify data transparency gaps and engagement targets in your portfolio
- Form the basis for a DEI journey plan, with measurable long-term objectives and targets

WTW Manager DEI Scorecard

Our DEI assessment scores funds and strategies based on their current diversity, policies, culture and recruitment and retention initiatives. This provides clients with a clearer forward-looking view of the strengths and weaknesses of their managers.

Finally, our Sustainability report also provides transparency on the diversity of your underlying investments, focussing on issues such as Board diversity.

3. Investment Committee Diversity Assessment

Clients are also able to understand the cognitive diversity in their own decision-making groups using our assessments. Using the tools, we can suggest changes to day-to-day processes to encourage inclusivity within the group, based on its unique make up.

Contact your WTW consultant to continue the conversation.

Figure 4: WTW diversity reporting tools



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