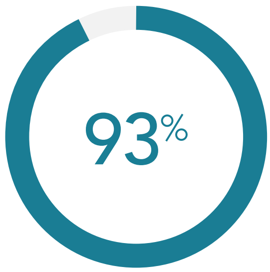
ARTICLE

Financial services focus: Learning from portfolio management principles in approaching DE&I

Conversations with European portfolio managers of leading asset management companies offer insights into how six principles of portfolio management can be applied to fast-track DE&I progress.



...of executives in eight countries around the world said that diversity, equity, and inclusion was more important to their company in 2022 than it was at the beginning of 2020.

A 2022 Heidrick & Struggles survey shows that 93% of executives in eight countries around the world said that diversity, equity, and inclusion (DE&I) was more important to their company then than it was at the beginning of 2020, and 52% said that DE&I efforts contribute to their business success to a large extent, up from just 22% three years earlier.[1]

Many leading asset management firms recognize the importance of developing and maintaining diverse and inclusive cultures in which every person—regardless of gender, race, ethnicity, LGBTQ+ identity, disability, and socioeconomic background—feel that they belong and are supported. However, these leading firms are also aware that the pace of progress on DE&I has been slower than anticipated. A 2021 Heidrick & Struggles study found that only 20% of the world's top 50 asset managers' senior leaders were women (a figure that hasn't changed in over 14 years), and they more often held board positions rather than executive leadership roles.[2]

Many asset managers now include DE&I metrics in the criteria that determine whether or not they will invest in an organization. But valuing diversification runs deeper for asset managers than many other leaders because, as the Chartered Financial Analyst (CFA) Institute and many other sector leaders point out, diversification has long been a treasured principle of investment.[3]

One portfolio manager we spoke with explained, "When it comes to DE&I, we want to apply, internally, the types of criteria we use externally to assess investment opportunities and hold ourselves to the same standards. This is because our stakeholders are increasingly asking how our own metrics and policies are evolving around DE&I."

In this time of overwhelming change in the market, we wanted to explore parallels that could be drawn between how the asset management industry runs portfolios and how a successful DE&I strategy can be managed.

Through conversations with six European portfolio managers of leading asset management companies (conversations built on discussions at roundtables conducted by the CFA Society UK), we discuss six principles of portfolio management that can be applied to fast-track DE&I progress and help companies with an organizational mindset shift.

1 Jonathan McBride, *Employees at the Center: What It Takes to Lead on DE&I Now*, Heidrick & Struggles, heidrick.com.
2 Renee Neri, Emma Penny, Philip Williams, "Harnessing the impact of female talent in asset management," Heidrick & Struggles, heidrick.com.
3 Helen Thomas, "Where are all the women in asset management?" *Financial Times*, September 2022, ft.com.

Principle 1: Start with a focus on business outcomes

In our interviews, one executive said, "We start by thinking [about] what key outcome and goals we are looking at for a client, why we think it matters, how we will hold people accountable, and how we will measure it. And that is right through the leadership team down to individual contributors and teams as a whole." One portfolio manager added, "It really is about outcome-oriented thinking—having a clear idea about where we want to be in the future, how much risk we want to take along the way, and what the trade-offs are in that process."

DE&I implications

Companies that are considered leaders in the field don't view DE&I targets as an end in themselves but instead as a key to delivering their business results.

Companies that are considered leaders in the field don't view DE&I targets as an end in themselves but instead as a key to delivering their business results. Our own research shows that DE&I has become more entrenched in the way companies think about and measure business success: a recent Heidrick & Struggles survey shows that companies that are best-in-class in DE&I more often assess DE&I goals as part of overall corporate performance and financial performance.[4]

For most asset management companies, goals revolve around serving their clients, which means thoroughly understanding clients' needs and priorities in terms of their firms' DE&I efforts. And firms benefit from a broader understanding of the goals and desired outcomes for all their stakeholders, from employees to customers, investors, and other interest groups.

The same Heidrick & Struggles research found that 40% of the survey respondents think DE&I efforts contribute to business success by increasing employee engagement. The portfolio managers we talked with also see active employee engagement as bringing clear business benefits: "One of the companies we worked with, a leading retailer that has long championed diversity and benefited from listening to their diverse workforce, introduced cosmetics and food offerings catering to a wider array of ethnic and racial groups, and built broader and deeper connections with customers. Based on our use of proprietary web traffic data, we were able to confirm that this DE&I-enabled 'creativity engine' helped attract more consumer interest than key competitors." This connectivity to business goals is part of a wider trend wherein employee resource groups (ERGs) are becoming business resource groups (BRGs) as they guide their organizations on how to engage with their communities.

4 Jonathan McBride, *Employees at the Center: What It Takes to Lead on DE&I Now*, Heidrick & Struggles, heidrick.com.

Principle 2: Blend strategic and tactical

Most investment teams have completely different processes for their long-, medium-, and short-term asset allocation and blend those processes to anticipate different scenarios. Taking this approach helps with planning, resource management, and even expectation management, establishing upfront the acknowledgment that some results need more time and effort to achieve. For some, the long-term perspective is the key to success, but they stress that it requires a different mindset when it comes to measuring success and progress.

Said one asset manager: "The long-term nature of performance is built into our thinking and into our typical investment horizon, and you see that reflected in the way we look at returns. Our average holding period in a public equity fund would be around six years. In a public [fixed-income fund], it would probably be about five years. So, I'm much less worried about monthly, quarterly, even annual numbers. They don't really feature much in discussions. Without that outlook, that timeframe would halve, to two to three years."

DE&I implications

Another portfolio manager we spoke with saw clear parallels to talent strategies: "Similar to running a portfolio, when it comes to talent, you need to think simultaneously about the medium and long term, have a view of external forces that will affect your growth, and make sure you have a solid pipeline. In portfolio management, that means factoring in long-term economic growth and long-term inflation, while also worrying about the war in Ukraine. I think you've got to do the same in talent because, for example, it's all very well trying to grow the crop of 2030 managing directors, but you've also got to make lateral hires if you're going to address some of your talent and pay gaps in the short term."

"Not all role models need to be women—they can be people of any ethnicity, gender, or other protected characteristic—but [people have] got to have someone they can identify with when they look up."

A third manager put it in more practical terms: "If we're going to retain women in our graduate schemes today, they need to have role models all the way up into the leadership team in order to be interested in working for our organization. Not all role models need to be women—they can be people of any ethnicity, gender, or other protected characteristic—but [people have] got to have someone they can identify with when they look up."

Another important aspect of time-horizon thinking is that asset managers don't just price an asset—they assess how adding it to their portfolio will impact the performance of the whole over time. In hiring, too often, companies simply hire people who are replacements of those who previously held the roles (roles which were often shaped by individuals' specific skills and interests) rather than considering how any new hire could affect and complement the team with their own skills and experiences, how the team could change as a result, and the opportunity this can present.

When designing DE&I strategies and embedding them into the overall business goals, leaders should have both short- and long-term plans, tactical and strategic, with multiple areas of focus and across different time horizons. This approach doesn't mean that short-term gains don't matter, just that temporary setbacks or gains are seen as milestones toward the ultimate goal of a diverse and inclusive organization. The key is being transparent about the different goals and their progress and communicating extensively both within the organization and with external stakeholders.

Principle 3: Build a continuously evolving portfolio of good opportunities rather than just the best ideas

A crucial element of success with this approach is ensuring that the culture remains inclusive not only of a broader range of employees but also of the tremendous amount of social change that is happening both outside and inside organizations.

Most of the executives we spoke with highlighted the importance of agility. "The aim is to work toward a collection of good opportunities in the portfolio; keep looking at potential and growth, focusing on potential versus track record. The portfolio should always be evolving [and] the process should be live," one executive said. "You will make mistakes. The intention is to continuously learn and improve."

DE&I implications

Similarly, in our experience, an increasing number of organizations are choosing to focus on the potential of candidates for leadership, on their skill sets rather than purely on track record. Being bold and taking on step-up talent will also open up a much more diverse pool of talent coming down the pipeline. However, for that process to be sustainable in the long term, it's critical that companies continually connect with new sources of diverse talent and build strong networks. And it is important that companies put in place tailored onboarding and development plans, for both external and internal hires, that enable step-up talent to build the skills and experiences necessary not only to deliver on their new jobs but build their profiles as future leaders in their organizations.

A crucial element of success with this approach is ensuring that the culture remains inclusive not only of a broader range of employees but also of the tremendous amount of social change that is happening both outside and inside organizations.

Principle 4: Value multiple sources of information and advice, one shared set of values

The role of the organization is to build inclusive cultures that value individuality, rather than mold diverse minds with fresh perspectives into one well-crafted house view.

"Investors cannot run a successful portfolio on their own. They have to look in every direction for information," said one executive. "But, at the same time, the investment team needs to have shared values to make the best decisions."

Indeed, there was agreement among the people with whom we talked that they expect their team to bring in a variety of perspectives and approaches in order to be able to include as many factors and variables as possible. One executive explained that a key principle was to "embrace and encourage independence of thought and bring people with different perspectives who are able to challenge norms and perceptions; it's also important to nurture an environment where you can have a disagreement and robust discussion so that no opportunity goes unscrutinized."

DE&I implications

This principle goes to the heart of DE&I's contribution to business. There is a significant body of research that backs up the value of diversity of thought and background and their positive impact on productivity and innovation. One portfolio manager said, "My ultimate goal is to produce the best results for clients. I believe, and research supports this, that the best results come from teams that typically have the greatest cognitive diversity. The days of the star fund manager are well behind us. It's very difficult to get to a proper measure of cognitive diversity unless you're willing to use diverse characteristics and lived experiences. So, we're putting diverse teams together with the intention of building out what we would think of as super teams."

The role of the organization is to build inclusive cultures that value individuality,[5] rather than mold diverse minds with fresh perspectives into one well-crafted house view.

5 Dustin Seale, "Creating an inclusive culture: Five principles to create significant and sustainable progress," Heidrick & Struggles, heidrick.com.

Principle 5: Follow global best practice while placing emphasis on local accountability

Portfolio management assumes a robust balance between local accountability, portfolio accountability, and best practices. The right balance is often driven by a combination of global policies, local regulation, and differing stakeholders' expectations.

DE&I implications

Companies should determine the levels of local accountability, portfolio accountability, and best practices to determine how their DE&I approach should manifest in various markets. Global best practice should provide the strategic direction, while local accountability allows space for creativity and relevance. One portfolio manager said, "We have these long-term targets for the global firm, such as equality of pay or better representation of ethnic minorities, but individual local leaders take some initiative as well. Some of our best engagement and inclusion events have had nothing to do with senior leadership. They have been very organic and local and been appropriate for that office or that team. There is a global strategy with a set of non-negotiables but also flexibility and freedom to build ownership on the ground."

Principle 6: Remove bias from measuring progress through quantitative analysis

Investment teams use analysis and quantitative tools to remove the bias from investment debates and enable the team to be more informed and balanced, cast the net wider for opportunities, make sure there is no stone unturned, and arrive at a better solution for clients.

DE&I implications

Many companies still focus on traditional quantitative metrics that tend to be limited to numbers of women, people of diverse ethnicities, and other characteristic that they track. But aside from visible characteristics, diversity data is notoriously difficult to benchmark because the majority of data relies on self-reporting, which is not mandatory. It is therefore important to access and analyze data in other ways to measure success by, for instance, looking at the number of diverse teams and functions in the organization, or the share of underrepresented groups in succession-planning candidate pools for leadership roles.

Said one portfolio manager, "Qualitative data also plays an important part in our thinking [about] how strong your leadership team is, the level of engagement from the team and the organization, and how your people feel from an inclusion perspective. How much candor do you have from the team? Because you need to use that data to make quality decisions." And there is a significant downside to not factoring these qualitative data into decision making: "If you don't have a healthy team that's engaged and feels like they have psychological safety and inclusion there, you may not get the best ideas from them."

"If you don't have a healthy team that's engaged and feels like they have psychological safety and inclusion there, you may not get the best ideas from them."

Looking forward: Six question to consider as you frame you DE&I strategy

1. Are you clear what the key outcome of your DE&I approach is and what the DE&I goals for your key clients—employees, customers, investors—are?

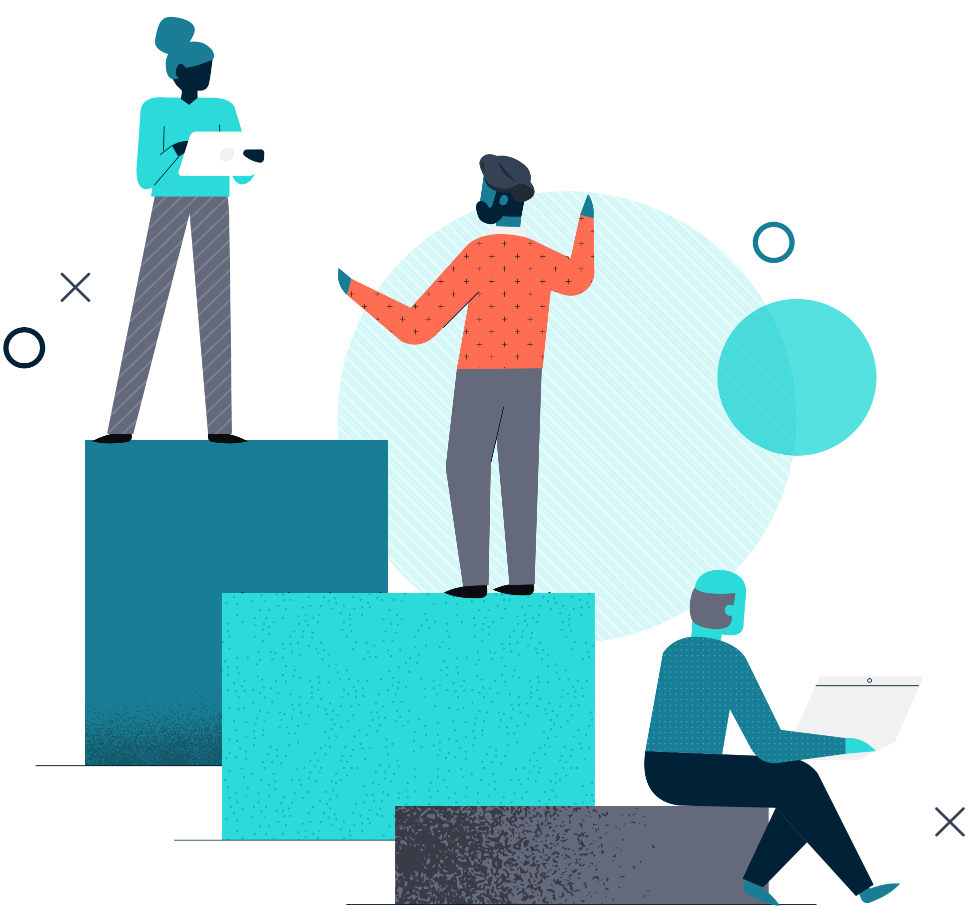
2. Does your DE&I strategy include goals and metrics for both short-and long-term horizons?

3. Is your DE&I strategy considering both a pool of high-potential, sometimes-untested opportunities alongside proven best ideas?

4. Does your organization offer an open, inclusive environment that values individuality and independence of thought while promoting a set of shared values?

5. Does your strategy have a set of non-negotiable, overarching global policies that continue to allow local innovation, and thus accountability?

6. Are you basing your DE&I decisions on a comprehensive package of disaggregated quantitative data and qualitative input?



About the authors

Priya Dixit Vyas
is a partner in Heidrick & Struggles' London office and a member of Heidrick Consulting's Culture Shaping and Diversity & Inclusion practices.

pdixitvyas@heidrick.com

Emma Penny
is a vice chair of CFA UK's Diversity, Equity & Inclusion Network.

emma.penny@acre.com

About CFA Society UK

Part of the worldwide network of member societies of CFA Institute, CFA Society UK represents the interests of 12,000 investment professionals in the United Kingdom through advocacy, education, events and professional development. Promoting the highest standards of ethics, education, and professional excellence in the UK investment profession, for the ultimate benefit of society. The CFA UK DEI Network consists of 2,000+ investment professionals who are passionate about raising awareness of diversity, equity and inclusion in the industry. Through a mix of events, webinars, interviews, podcasts, articles, research, thought leadership and campaigns the CFA UK DEI Network shines

Acknowledgments

The authors wish to thank the following asset management leaders for their contribution to this article. Their views are personal and do not necessarily represent those of the companies they are affiliated with.

Stephen Crocombe
Head of Multi Asset Strategies and Solutions, EMEA
BlackRock

Rob Drijkoningen
Managing Director & Co-Head, Emerging Market Debt
Neuberger Berman

Tatjana Greil-Castro
Co-Head of Public Markets
Muzinich & Co

Didier Lambert
Managing Director and Portfolio Manager, Emerging Market Debt
J.P. Morgan Asset Management

Ryan Ludt
European Head of Investment Management & Equity Indexing
Vanguard

Eoin Murray
Head of Investment
Federated Hermes International

Financial Services Practice

Heidrick & Struggles' global Financial Services Practice uses our broad and deep experience to find the leaders today who are equipped to address the critical issues of tomorrow.

Emerging from global crises while adapting to new markets, the global financial services industry needs leaders with the technical skills, creativity, and insight to craft winning strategies in an increasingly data-heavy digital world. With more than 80 consultants in locations around the world, our Financial Services Practice team combines unparalleled search resources with a deeply consultative approach. We have strong expertise across all financial services sectors, including: asset management; consumer and commercial finance; financial services infrastructure; financial technology; global markets; hedge funds; insurance; investment banking; private equity; real estate; venture capital; and wealth management.

Leaders of Heidrick & Struggles' Financial Services Practice

Global

Todd Taylor
Global Managing Partner
ttaylor@heidrick.com

Americas

Dominique Fortier
Regional Managing Partner
dfortier@heidrick.com

Asia Pacific and Middle East

Shadi El Farr
Regional Managing Partner
selfarr@heidrick.com

Europe and Africa

Wolfgang Schmidt-Soelch
Regional Managing Partner
wschmidtsoelch@heidrick.com

Diversity, Equity & Inclusion Practice

Heidrick & Struggles' Diversity, Equity & Inclusion Practice helps our clients recruit, build, and develop inclusive leaders and diverse organizations that encourage the exchange of ideas and drive innovation.

Across industries and geographies, diversity, equity, and inclusion are now strategic imperatives—and for good reason. Companies that are committed to building a more diverse, equitable, and inclusive workplace not only better reflect the customers and constituencies they serve, they encourage different ways of thinking and promote policies that open doors of potential greatness for individuals, as well as organizations.

Our top-down approach helps senior leaders understand the real state of DE&I within their organizations so they can better identify opportunities for positive change. Working alongside our clients, we create comprehensive, data-driven strategies that foster inclusive cultures and deliver sustainable results.

Leader of Heidrick & Struggles' Diversity, Equity & Inclusion Practice

Global

Jonathan McBride
Global Managing Partner
jmcbride@heidrick.com

WE HELP OUR CLIENTS CHANGE THE WORLD,
ONE LEADERSHIP TEAM AT A TIME®