



**BEYOND THE METRICS:
DEMONSTRATING AND ASSESSING
DIVERSITY IN SMALLER ASSET MANAGERS**



INTRODUCTION

Culture and diversity play an increasingly important role in many investors' due diligence processes. Key to this assessment is the ability to compare managers across an investor's portfolio, both to form a baseline and to monitor for improvements.

Smaller asset managers face unique challenges in these assessments. Most predominantly, the relatively small size of investment teams means that one hire or departure can cause significant swings and distortion in metrics. Improving the diversity of teams needs to be balanced against investor 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 should not feel obliged to try to put these in place.

Smaller firms also have several important advantages for promoting diversity and inclusion in the industry. Leaders with a commitment to inclusion 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 the siloed roles more common in larger firms.

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

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

PRINCIPLES

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

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

Industry Initiatives and External Resources

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

Allocator Assessments

In interviews and performance reviews assess managers on skills required for an inclusive culture such as ensuring everyone is heard and managing disagreements.

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 and empower employees with opportunities to expand their networks outside of the firm. This can 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 organisations of all sizes should set the tone both through words and actions, but this is especially important in smaller firms. Higher level of personal interaction in these firms means leaders can be powerful agents for change.

The Power of Leadership

Employees will follow the standards and ‘tone’ set by leaders at their organisation. This gives the ‘tone from the top’ great importance, especially in smaller organisations where leaders are likely to be more present in the day-to-day interactions of employees of the firm. Leaders at all levels should demonstrate a commitment to creating a culture of active inclusivity and should support internal and external initiatives.

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 actions are 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 those in senior management leading by example in the firm?
- Has the firm developed responses or policies 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 fellow employees, such as '5 questions', acknowledgement of birthdays or other significant life events, or acknowledgement of culturally significant days for employees

Shadow Days

Offering high school or university students the opportunity to 'shadow' employees for a short period of time to get an insight into the industry can work to improve the reputation of the industry as well as play an important role in development of the future 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 on the right). Firms may consider sourcing interns through industry organisations dedicated to increasing the number of diverse candidates in the industry or approaching other alternative routes such as contacting universities directly to post to job boards.

ENHANCED OPPORTUNITIES

Individuals in smaller typically have broader roles and job descriptions – this can offer 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 by virtue of fewer resources for large-scale formal training programmes. Hiring graduates or interns that require significant training can be costly for these firms.

Administrative or project-based roles may be required. In a smaller firm, these provide ideal opportunities for younger and less experienced candidates to 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 in roles. Consider existing employees, particularly younger employees, who may also benefit from cross training and collaboration opportunities.

Reputation

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

QUESTIONS FOR INVESTORS 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

When negotiating different service-level agreements (SLAs), consider negotiating additional clauses that allow you to view culture and diversity related policies on an annual basis. This could form part of ongoing oversight and monitoring of these outsourced relationships to ensure that these relationships, which are effectively extensions of internal teams, are reflective of the culture within the firm and align with desired inclusivity outcomes.

Alternative Service Providers

Large incumbent service providers may be costly for smaller firms. Considering new entrants or independent providers may have advantages in obtaining more bespoke working arrangements, as well as offering the opportunity to work with providers that may have more diverse ownership, or where the relationship may be able to be managed by less traditional hires that bring unique insights.

Observer Status Directors

Allowing non-traditional, potentially junior, candidates to observe fund directors. They would have access to the same information as regular board members, attend all meetings, and may offer opinions – but would not be able to vote on any resolutions.

EXTENDING THE CONCEPT OF THE FIRM

Driving real change in the industry means reaching out beyond the confines of your firm and extending culture and diversity objectives to service providers that can help promote inclusivity 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.

For services such as outsourced IT or accounts, smaller firms could explore options outside of the typical incumbent providers. This may provide opportunities for firms with more diverse ownership and may even benefit the firm if costs are lower and service levels are potentially better or more fit for purpose than what is possible with a larger organisation. Due diligence and ongoing monitoring processes should remain stringent to ensure appropriate service is being received.

QUESTIONS FOR INVESTORS 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 provide a sense check for culture and diversity policies and processes. Given limited dedicated resources at smaller firms, this could help avoid wasting scarce resource on ineffective strategies.

Low-Cost External Resources

There are many resources available for little to no cost on the topic of culture and diversity, including:

- Ted Talks
- Online diversity training courses
- Online university/college courses on relevant topics
- The SBAI's [Principles of Culture and Diversity Strategies Report](#)

Employees can be another useful source of ideas for low-cost resources.

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 – external resources and industry initiatives can be a useful tool as well as offer opportunities to broaden reach

Understand the Resource and Expertise Available

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 FOR INVESTORS TO ASK

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

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 and 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 managers often rely on quantitative metrics to compare between managers – lack of additional nuance in these assessments can disadvantage smaller firms

Quantitative Metrics

There are general problems with collecting demographic based metrics due to regional differences. In some countries, for example, it is illegal to ask for demographic data.

For small firms there can be additional challenges in quantitative assessments. 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

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 inclusion efforts in a non-metrics-based way will allow allocators to better understand the manager’s commitment to diverse and inclusive cultures.

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?

QUALITATIVE QUESTIONS FOR INVESTORS

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

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

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

Do you use an external compensation benchmarking process?

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

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

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

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

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

Does the firm complete employee engagement surveys?

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 a formal mentorship, sponsorship, or employer affinity program for women and/or minorities?

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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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.

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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.

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.

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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.

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Website: <https://www.sbai.org/>

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