



# Diversity, Equity, Inclusion in Investing

2021

We have focused significant effort over the last year focusing attention on how best to incorporate DEI factors into our manager research process, integrating the criteria we believe are most important, will have the greatest impact on a manager's potential for long-term success, and that our clients most deeply value. In this paper, we share the processes and evaluative measures we've developed. We are early to the table in the industry and hope that our efforts are part of setting the stage for change.

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## Diversity, Equity, & Inclusion in Investing

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**“As intentional investors, we want to be very thoughtful and deliberate about incorporating diversity, equity, & inclusion (DEI) into our manager research and due diligence,” remarks Bryan Shipley, CFA, CAIA, Co-CEO and Chief Investment Officer of Arnerich Massena. “These are important factors to take into consideration when evaluating how our managers operate and understanding their alignment with our clients’ values and objectives. We’re really pleased to be at the forefront of the industry in terms of recognizing the importance of DEI as a key component of investment selection, and crafting practices to incorporate it into our research.”**



## Diversity, Equity, & Inclusion in Money Management

There is an unfortunate reality that needs to be faced; the financial services industry lags woefully behind other industries in terms of bringing diversity into its workforce and consciously applying equity and inclusion principles into governance. The money management sector lags behind even the overall financial services industry. We see this as all the more reason to build awareness and work toward driving change.

Like other firms, Arnerich Massena has traveled through various stages of awareness and understanding of the social challenges facing the world, and discovering organizations and measures that can help make change happen. The company launched a Diversity & Inclusion Committee in 2017 and made a dedicated effort to learn more about how we could be part of the solution. As a partly women-owned firm with a long history of supporting and encouraging women in finance, and with our focus on impact/ ESG investing, we had a bit of a headstart.

The research shows uncategorically that diverse management contributes to success and profitability in business. That has been

demonstrated repeatedly and is one of the keys in making the case for why ESG factors are so important in identifying strong investment opportunities. Newer research suggests that a focus on inclusion is just as critical and arguably even more important. We have found investment managers who understand this and are working hard to develop methods for analysing and evaluating the governance of their underlying investments as it relates to DEI. But this awareness has been slow to extend into the investment management world, which needs to look inward at its own practices.

In our research focus on intentional investing, we have sought out managers who have incorporated diversity and gender balance as part of their investment theses when seeking out companies in which to invest. Now, we are taking a deeper look at our criteria for selecting managers, and how we can incorporate diversity, equity, and inclusion as part of that process.

**“INCREASINGLY, DATA IS SHOWING THAT MORE COMPANIES WITH GREATER WORKFORCE DIVERSITY HAVE BETTER PROFITABILITY... COMPANIES IN THE TOP QUARTILE FOR GENDER DIVERSITY ON THEIR EXECUTIVE TEAMS WERE 21 PERCENT MORE LIKELY TO OUTPERFORM COMPANIES IN THE FOURTH QUARTILE IN TERMS OF PROFITABILITY.”**

*(“Diversity: the investment edge,” Money Management)*

## What is Diversity, Equity, & Inclusion, and Why Are People Talking About It?

Diversity, Equity, & Inclusion is much more than checking boxes to account for genders, ethnicities, backgrounds, religions, age groups, religious affiliations, etc., though building a diverse employee population is important and often the first step. Regnan, in "Beyond Diversity," states: "Diversity can bring broader talent into an organization. But Regnan's research shows that equity and inclusion are critical factors in realizing the performance potential of a diverse workforce." When companies focus on DEI, they are looking at creating circumstances in which all of their talent is able to thrive and by which they can maximize everyone's contribution and well-being.

Many organizations have begun to implement Diversity, Equity, & Inclusion initiatives, training, and committees, or hiring DEI consultants, managers, or officers to help construct programs that ultimately, will help the business flourish. As more leaders in the business community recognize the impacts of their company culture and DEI profile on their performance, they are crafting new ways to focus on talent strategy and management.

DEI practices and policies help companies attract and hire a more diverse workforce, but then continue to build on that success by elevating the internal brand and culture to become more inclusive and supportive. A supportive and equitable culture can yield improved team dynamics and better decision-making.

**"THERE IS WELL-ESTABLISHED EVIDENCE SHOWING THE IMPACT OF ORGANIZATIONAL CONDITIONS ON BOTH DIVERSITY AND PERFORMANCE. OUR ANALYSIS SUGGESTS THAT GREATER OBSERVABLE DIVERSITY AND STRONGER PERFORMANCE BOTH RESULT FROM MORE EQUITABLE AND INCLUSIVE ORGANIZATIONS."**

"Beyond diversity: Equity and inclusion as an overlooked opportunity for investors," *Regnan*

**"COMPANIES THAT LOOK AT LEADERSHIP AND INCLUSION AS A HALLMARK OF THEIR TALENT STRATEGY:**

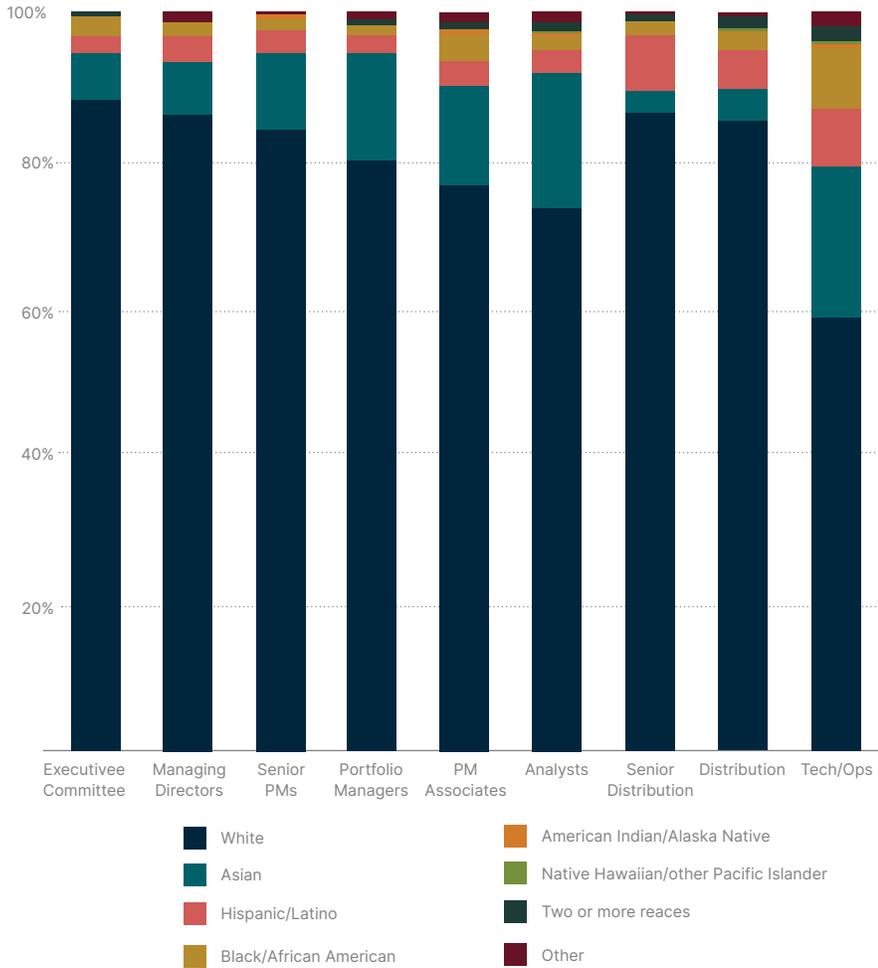
- Have **2.3 times higher cash flow** per employee over a 3-year period
- The smaller companies had **13 times higher mean cash flow** from operations.
- Are **1.7 times more likely to be innovation leaders** in their market."

"Why Diversity and Inclusion has Become a Business Priority," *by Josh Bersin*

**"A STUDY BY DELOITTE FOUND THAT 'INCLUSIVE' COMPANIES WERE 3.6 TIMES BETTER AT DEALING WITH PERFORMANCE ISSUES."**

"Beyond diversity: Equity and inclusion as an overlooked opportunity for investors," *Regnan*

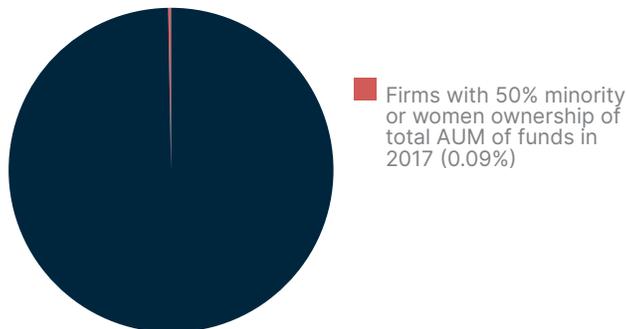
# Diversity in U.S. Money Managers



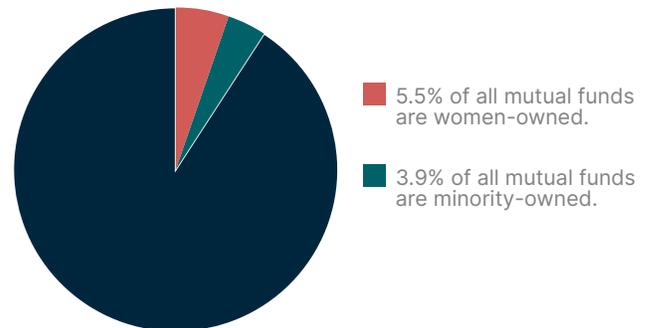
**"WITHIN CONVENTIONAL STATISTICAL CONFIDENCE LEVELS, FUNDS MANAGED BY DIVERSE-OWNED FIRMS TYPICALLY PERFORM AS WELL AS NON-DIVERSE FUNDS, AFTER CONTROLLING FOR RELEVANT FIRM- AND FUND-LEVEL CHARACTERISTICS (FIRM SIZE, FUND SIZE, GEOGRAPHY, INVESTMENT FOCUS, ETC.)"**

("Diversifying Investments," *Knight Foundation Executive Report*)

Source: "Ethnic and Racial Diversity at Asset Management Firms," *Fundfire and Money Management Institute*



Source: "Q&A: Investing in Funds that Demonstrate Diversity," *U.S. News & World Report*



Source: "Diversifying investments," *Knight Foundation Executive Report*

We recognize that the industry is not going to change overnight, and that it may require some long-term efforts to bring a more diverse population into the industry, which will be an ongoing process over time. But creating the demand is the first step in generating the supply. If the industry starts becoming more aware that investors are paying attention to and deeply value DEI characteristics in their investment managers, they will take measures to accommodate that demand.

Our task as representatives of the investors who are our clients is to make that demand known, and to develop methods by which to gauge managers in their process so that we are able to report back to investors as we see progress.

We have focused significant effort over the last year focusing attention on how best to

incorporate DEI factors into our manager research process, integrating the criteria we believe are most important, will have the greatest impact on a manager's potential for long-term success, and that our clients most deeply value. Our objective is both to assess managers in their current state as well as make plain some of the criteria we hope become aspirational in their evolution. In this paper, we share the processes and evaluative measures we've developed; this will not be a one-time assessment, but an ongoing exercise. We recognize that we are early to the table in the industry and hope that our efforts are part of setting the stage for change; we also expect that our process will likely evolve as the investment industry moves forward in its understanding and integration of diversity, equity, and inclusion.

## Why is DEI Important in Manager Research?

It's been established through numerous studies that diversity is additive to the productivity of teams, to company profitability, and to long-term performance. Diverse teams offer advantages in terms of breadth of experience, different perspectives, and improved decision-making. Measures of diversity, equity, and inclusion can be indicators of the strength of a firm's teams, governance, policies, and leadership.

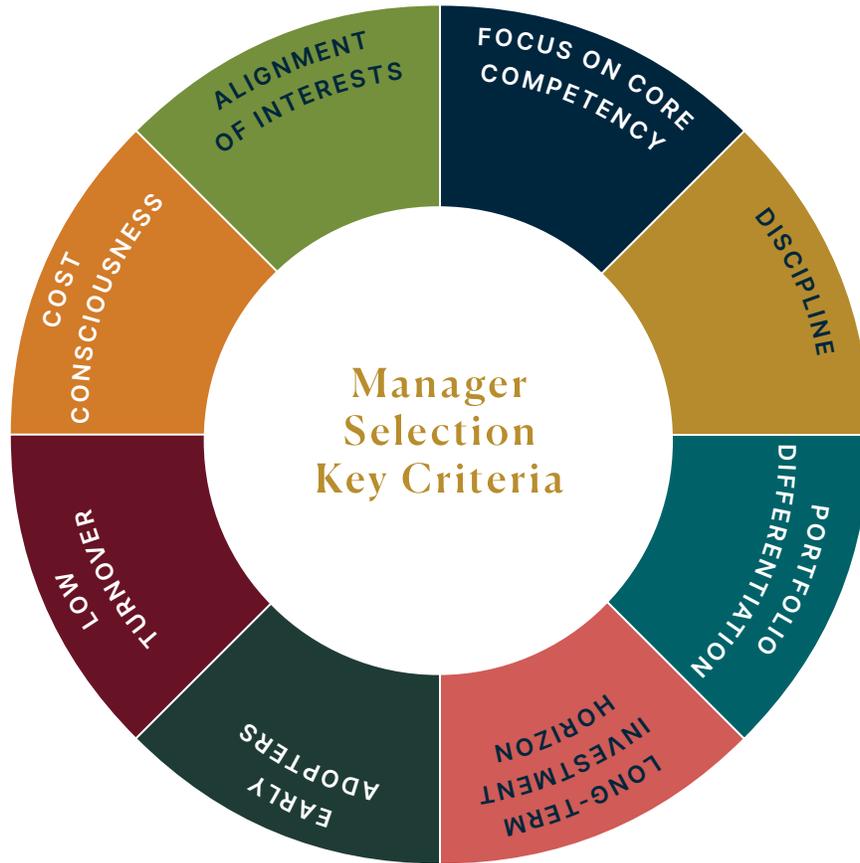
We ask our managers to seek out companies and investment opportunities that align with our clients' values and reflect the highest standards in their structures and leadership. It is natural to expect that those who best understand the benefits of diversity are also "walking the walk" themselves. When managers demonstrate an internal commitment to DEI, they lay a foundation for being able to recognize those same successful policies and strategies in their underlying investment companies.

**"THE DIVERSITY OF A MANAGEMENT TEAM CAN BE AN ADDED BENEFIT FOR INVESTORS. DIVERSITY ADDS ANOTHER ELEMENT OF EXPERIENCE AND JUDGMENT THAT WOULD NOT BE PRESENT IF EVERYONE ON A TEAM CAME FROM THE SAME PLACE. IN SHORT, HAVING PEOPLE WITH DIFFERENT BACKGROUNDS, CULTURES, AND ETHNICITIES MIGHT BROADEN A TEAM'S POINT OF VIEW, WHICH MAY HELP IN IDENTIFYING POTENTIAL RISKS AND OPPORTUNITIES."**

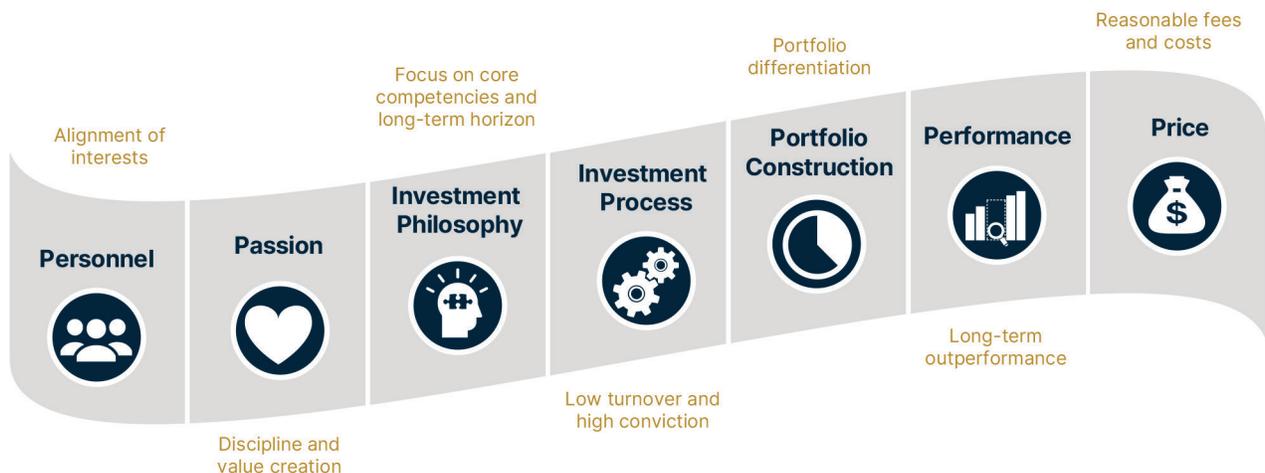
*("Q&A: Investing in Diversity," US News & World Report)*

Investment management also relies on recruiting top talent and bringing the brightest minds to bear. More and more of the workforce is made up of millennials, many of whom are very attentive to and concerned with DEI issues. Attracting and retaining employees relies more and more on demonstrating a reputation for policies that

# Manager Research & Selection Criteria



Arnerich Massena’s manager selection process is guided by our proprietary “Seven Ps” research and analytics process:



strengthen diversity and encourage inclusion. Managers who are going to be competitive in the future are likely to be those who are sensitive to this and successfully adapt their structures and strategies to this landscape.

Insisting on diversity, equity, and inclusion is not just about good governance and improved profitability, but also about doing our part to build a more equitable industry and future for us all. Everything that brings awareness to the disparities in the industry can be part of helping to correct them. By building DEI principles and criteria into our process, we believe we can participate in elevating the investment and financial services industry as a whole.

**“THE [INVESTMENT MANAGEMENT] INDUSTRY’S RECORD ON DIVERSITY AND INCLUSION IS UNDER SCRUTINY, NOT ONLY FROM THE TALENT IT NEEDS TO ATTRACT AND RETAIN, BUT ALSO FROM CONSUMERS, INVESTORS, AND, INCREASINGLY, GOVERNMENTS AND REGULATORS. AS DIVERSITY AND INCLUSION BECOMES CRITICAL IN INFLUENCING HOW BOTH ORGANISATIONS AND SECTORS ARE PERCEIVED BY THESE KEY STAKEHOLDERS, OUR VIEW IS THAT IT IS IMPORTANT FOR IT TO BE RECOGNISED AS A BUSINESS ISSUE AND A REPUTATIONAL RISK. ”**

*(“Understanding diversity and inclusion in the investment management industry,” (pwc, The Diversity Project)*

## Incorporating DEI into Research

Arnerich Massena has evolved a rigorous, award-winning proprietary research process by which we select and evaluate investment managers. We have identified a foundational set of eight characteristics that we believe are indicative

of long-term performance potential, and a set of seven factors by which to evaluate those characteristics, both of which are illustrated on the previous page. Rather than adding a separate category or criteria to represent diversity, equity, and inclusion, our philosophy is that a principled approach to DEI is integrated throughout the organization, embedded in its policies, leadership structures, and team makeup.

We approach our overall selection and due diligence process using several key tools. One of those is our Due Diligence Questionnaire, or DDQ. Prospective managers complete the DDQ prior to being interviewed by the team, and we ask Approved Managers to periodically revisit the questionnaire. We have developed a portion of the DDQ tailored specifically to address questions about diversity, equity, and inclusion.

In crafting this section of the questionnaire, it was important to us to ensure that our questions were inclusive of teams of varying sizes, so that we can evaluate managers of



## ARNERICH MASSENA DDQ SAMPLE DEI QUESTIONS

Sample DEI-focused questions include:

- Does the firm define goals for creating more diverse and inclusive teams at the senior level? Please provide details.
- What policies or practices are in place to ensure that women and minority candidates are equally considered at all levels during the recruitment process for the investment team and non-investment team?
- What policies or practices are in place to ensure that the Firm provides an inclusive working environment for all employees?
- What percent of the Firm's equity is owned by women, by racial/ethnic minorities, and by other minority groups?
- If the Firm is publicly listed, what percent of the Board of Directors is comprised of women, of racial/ethnic minorities, and of other minority groups?
- Are you doing anything specific to address diversity & inclusion in the companies in which you invest? Explain.

In addition to a lengthy series of questions that include the above, the DDQ asks firms to provide complete diversity statistics for their teams, and to include any narrative information they wish in support of their DEI story.

both large and small size, whether they have a huge infrastructure supporting them or are just a small, focused team. We worked to incorporate questions about objective, statistical data as well as more subjective policy and governance questions.

The DEI subsection of our DDQ is intended to both provide a benchmark for manager DEI factors, while also offering managers the opportunity to showcase unique and creative ways that they are approaching and incorporating DEI into their business strategies and policies. This is not a one-size-fits-all, box-checking exercise; it is an evolution of how we do business and structure our organizations.

In order to launch DEI as an ongoing portion of our manager research, we wanted to start by establishing a baseline benchmark so that we

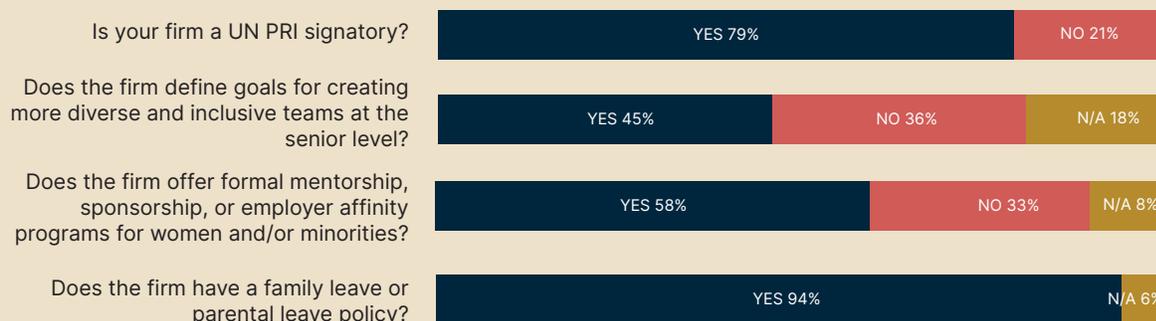
can track year-over-year change. We sent the DEI DDQ out to all of our Approved Managers in the spring of 2021 as a foundation for DEI research into the future.

DEI will also become an integral part of our manager interview and meeting process, so that we can learn about their programs and future aspirations in addition to written policies and statistical data. While we are focused on seeing a growth in DEI awareness and attention in Approved Managers, part of our objective is also to learn about organizations' experiences and success stories around DEI, so that we can share strategies and approaches and grow as an industry.

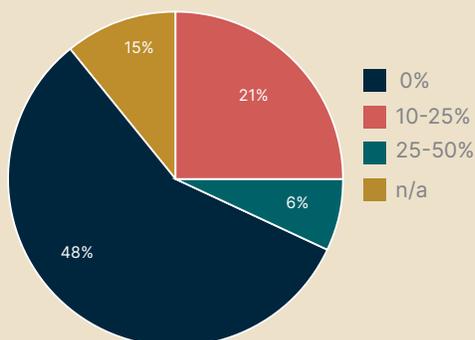
On the following page, we have shared a few highlights from our initial DEI survey of Arnerich Massena's Approved Equity Managers.

## Approved Manager DEI DDQ: Selected Highlights

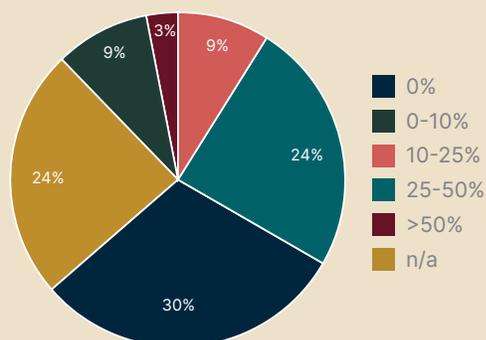
Arnerich Massena sent out its Due Diligence Questionnaire, including the DEI section, to our equity managers. As this is the first time we've asked them to respond to these questions, their answers can serve as a baseline from which to measure change and progress going forward. The below charts represent selected data highlights from the inaugural questionnaire responses.



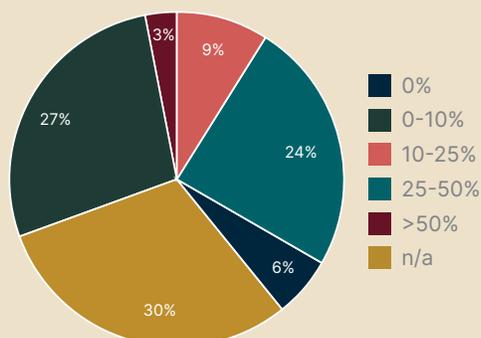
How many portfolio managers are women?



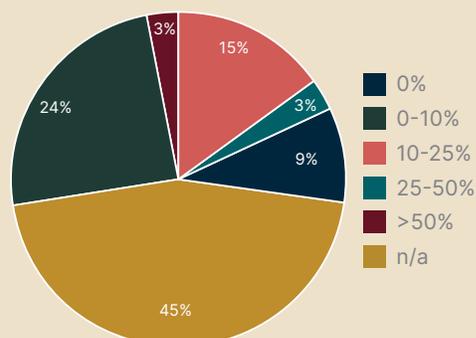
How many portfolio managers are racial/ethnic minorities?



What percent of equity is owned by women?



What percent of equity is owned by racial/ethnic minorities?



## Ahead of the Pack

We are excited to be part of the vanguard of diversity, equity, and inclusion in the investment management industry. We want to bring honor and humility to bear in order to take responsibility for moving the ball forward and bringing change. Just being at the forefront of this evolution doesn't mean that we have all the answers, of course. It just means that we are paying attention and came early to the table. We have a history since our founding of very conscious commitment to gender balance in our leadership and on our teams in an industry where that has not been the norm; holding that as a core value combined with the understanding of how it has contributed to our success and our clients' success has been instrumental in our own recognition of the importance of DEI issues.

Part of the reason we undertook to begin incorporating DEI thoughtfully into our manager research process was to help us overcome our own unconscious biases. Having standardized, objective goals and evaluative measures are important to us to help ensure that we do not become overconfident in our own internal assessments.

We hope that other organizations will adopt their own measures for addressing inequities, and we look forward to learning about new ideas and methods and continuing to refine and evolve our own. We like to look at this process as something hopeful; we believe that with courage and creativity, we can build a more diverse and inclusive economy with prospects and opportunities for all.



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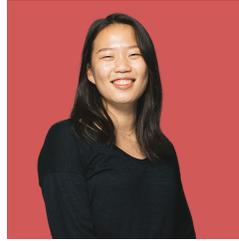
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