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NEWS AND VIEWS FOR INSTITUTIONAL INVESTORS



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Diversity in asset management

Staying ahead of investors' expectations

Key Takeaways:

- A diverse and inclusive workforce challenges conventional thinking and creates a more dynamic and rewarding working environment. The ultimate aim of good Diversity & Inclusion (D&I) mirrors other governance initiatives: to lead to better experiences for clients.
- D&I is where ESG was a few years ago; that is, entering the consciousness of many investment firms. ESG is arguably the Number 1 investment issue of the day and D&I is heading in the same direction
- Changing the culture of the investment firm starts with leaders and team heads, who must be vocal about D&I issues. Once a dynamic D&I business plan has been determined centrally, it is critical it can be implemented locally, and supported by HR policies and new metrics.

The way the investment industry operates is changing. Take a typical investment manager filling out a request for proposal (RFP) from an asset owner: a decade ago, the questions centred squarely on track record and process. Today, questions relating to corporate culture, diversity and inclusion figure high on most lists. Everything from the number of women on the board, to LGBT+ representation in the workforce, to diversity programs are likely to be under scrutiny. Due diligence may also seek to elicit how deeply corporate culture is embedded in the fabric of the firm, the diversity of ideas generation and how well a firm embraces a new generation of workers with different mindsets and expectations.

Meanwhile, some investment managers are posing similar questions before they make significant allocations, scrutinising public filings and asking for additional information and explanation.

It is easy to regard these questions as tick-box exercises, and as a problem to be solved. But is diversity and inclusion (D&I) just matter of form filling? Is it a problem or is it the solution? "D&I is about creating a happier, more cohesive, better represented workforce," says Tracey Flaherty, Global Head of Diversity & Inclusion at Natixis Investment Managers. And the improvement in governance and employee wellbeing should, all else being equal, lead to better outcomes for investors.

So much for the theory. What happens when we take D&I off the written page and put in into practice in the real world?



Tracey Flaherty
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The D&I journey so far

The investment industry is on a D&I journey. It is probably fair to say D&I is roughly where ESG was a few years ago. That is, entering the consciousness of investment firms, but not yet embedded in the DNA of all of them.

And look at where ESG is now. It has become a critical cog in the asset management industry, with many investment strategies now incorporating ESG factors alongside financial factors. Investor demand for ESG-compliant investments has even spawned a sizeable subset of the industry, with whole investment firms devoted to creating sustainable portfolios. ESG is arguably the Number one investment issue of the day.

D&I is heading in the same direction and consultants, the gatekeepers to the institutional industry, are keenly aware of the direction of travel. "Change can be tough, but it will be worthwhile in the end – D&I is the smart thing to do," says Mercer. Meanwhile Willis Towers Watson (WTW), says D&I needs to be "woven into

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the fabric of culture, benefits, pay and workplace practices.”¹. Ultimately the general perception when it comes to D&I today is that there is often a gap between effort, understanding, and outcome.

CASE STUDY WTW²

“Effective cultures in investment organisations”

D&I has two motivations – to build a fairer and better culture, and to build a stronger and better business model. These have overlaps and can be complementary. Cognitive diversity is critical to the business case and particularly important to be achieved where problems to be solved are complex.

The D&I momentum is rational. A diverse and inclusive workforce enables employees to learn from one another and challenge their own beliefs and conventional thinking. This creates a more dynamic and rewarding working environment that helps attract and retain the best people.

D&I can drive growth at investment firms through:

- **Leadership** – more diverse thinking and better decision making
- **Talent** – retention of best people drives innovation and future growth
- **Clients** – better fit with expanding customer base who have more diverse values

What is D&I all about?

Before we look at how the investment industry is incorporating D&I into its practices, let’s take a moment to consider what the important elements of D&I are.

First, diversity. This is commonly viewed as a gender and race issue. In fact, it is much broader and extends to respecting the variation in backgrounds, attitudes, values, beliefs, and lifestyle preferences of all employees.

These variations may exist because of gender, race, ethnicity, nationality and first language. They may also stem from age, mental and physical abilities, sexual orientation, education, religion and socio-economic situation.

CASE STUDY House of Commons Treasury Committee³

“Women in finance”

The gender distribution in financial firms follows a “pyramid” model where the number of women diminishes in line with seniority. Women are better represented in support functions rather than profit-generating functions. Ensuring young women are aware of the career paths within the financial services sector could encourage them to move away from support functions. In the longer term, this could improve the gender diversity of the sector and reduce the gender pay gap.

Next, what is inclusion? “We see it as practices that provide an equitable and fair distribution of resources, such as jobs, income and opportunities,” says Flaherty. These practices allow all employees to be appreciated and fully integrated into the formal and informal networks of an organisation.

“In essence, inclusion is about creating a safe and inclusive organisation, which is capable of identifying and eliminating poor behaviours and embracing positive behaviours,” Flaherty adds.

Inclusion may also mean harnessing the strengths of a new generation of workers. The upcoming generation has only known the digital age, and has grown up in a world where values and economics have changed considerably from the preceding generation. The new generation is no less talented than its predecessors and firms must establish structures which facilitate its successful integration.

New mindsets, new skillsets, new tools

Implementing D&I requires actual change. The structures that worked in the past are probably not up to the task of culture change.

Changing the culture of the investment firm starts with leaders and team heads, who must be vocal and visible about D&I issues. Implementation must be done locally, not simply announced at regional or global level. Implementation must be supported by HR policies, transparent data and new metrics which are created from employee surveys, employee experience interviews and by engaging the workforce and stakeholders regularly. Firms should ask themselves: if the current executive team were to leave tomorrow, would the corporate culture remain intact? If not, the implementation process probably needs revisiting.

CASE STUDY PwC⁴

“Making diversity a reality”

1. Create a leadership team that sets a positive influence
2. The recruitment process should identify strong candidates irrespective of factors such as age, gender or ethnicity
3. Ensure employees have equal opportunities to participate in development programmes
4. Recognise where talent lies on an ongoing basis.
5. Opportunities to progress should be communicated to all employees regularly
6. Flexible working policies are crucial to employee wellbeing.

The output should be assessed using effective data analytics to identify targeted actions which are likely to have the greatest return and largest impact.

Last, and not least, all these efforts must be communicated to staff. If staff cannot locate D&I policies and join activities, then the effort may be wasted.



How to do D&I well in the real world

The ultimate aim of good D&I mirrors other governance initiatives: to improve experiences for clients. Resources to achieve D&I include:

- **Training.** To improve hiring and promotion processes and cognitive diversity.
- **Measurement and accountability.** Using KPIs and external certification.
- **Better employee benefits and wellbeing.** Deliver a sustainable human capital model through mentoring, leave of absence programmes, flexible working, and enhanced healthcare programmes which include mental health provision.
- **External commitment.** Join relevant associations and groups, and promote initiatives through social media, PR, white papers and events.

Every investment organisation will prioritise where it devotes its resources depending on its D&I aims and workforce profile. The main areas of action for Natixis Investment Managers are gender equality, inclusion and retention of staff with disabilities or illness, intergenerational co-operation and diversity of backgrounds.

CASE STUDY

The Investment Association⁵

“Bringing Our Whole Selves to Work”

This report from the Investment Association (IA) noted that because many LGBT+ employees disguise their identity at work, employers should demonstrate the company is welcoming of LGBT+ employees during induction. The IA also said that all staff should demonstrate support of LGBT+ employees by asking about their non-work life in the same way as for any other employee and that companies should foster an inclusive environment because it's the right thing to do, not because you fear causing offense or generating complaints. It's also important to support all employees around the globe, even in jurisdictions where awareness of LGBT+ issues is low.

Natixis Investment Managers also puts emphasis on developing a family-friendly corporate culture. Examples of this from locations across its global network include flexible work schedules and telecommuting opportunities, and ample maternity and paternity leave allowances. It also offers adoption assistance and subsidised back-up family care assistance. It further offers tuition reimbursement and a student loan repayment program. Training is also critical and the firm offer bias busting and cognitive diversity training programs.

Natixis D&I programs

In 2015, Natixis Investment Managers established a Diversity & Inclusion Advisory Council, and employees are encouraged to initiate new groups of interest. Examples established by affiliates include Multicultural and Diversity Engagement Group (MADE), Adults Building Leadership Experience (ABLE), Women's Leadership Initiative (WLI) Latino and Friends (LaF).

Other programs include the Women in Natixis Network (WINN), a global network that supports career success and the personal growth of women at Natixis. More than 800 members are engaged in WINN groups across Natixis Investment Managers' operations in the US, Paris and London.

Today, around 40% of the Natixis Investment Managers workforce (across the holding company, distribution operations and affiliates) is female. Among Natixis Investment Managers investment professionals, 30% are women. Of the trainee and work study positions available, 50% are taken up by women.

Natixis also extends its D&I values to the wider community, developing partnerships with organisations that share its ideas. Partnerships include the G7 Investor Leadership Network, Strong Women Strong Girls, The Partnership and Invest in Girls. We are also very active supporter and partner of a large number of charities and not for profit organisations, including those associated with homelessness, young students and schools.

CASE STUDY

Mercer⁶

“When Women Thrive, Businesses Thrive”

Financial services organisations are failing to build future pipelines of female talent. The stated ambition of financial services firms to hire and promote women to executive ranks is not supported by systemic practices. Firms must install passionate leaders, and put in place the right practices and programs.

Of course, no good deed is entirely selfless. Natixis Investment Managers benefits from these partnerships by finding recruits with diverse backgrounds through participation in these activities.

Natixis believes in D&I practices

Natixis Investment Managers encourages its affiliates to consider D&I workplace practices. Natixis affiliates are independently managed and have their own policies and programs in place; however, all entities share a common philosophy on the importance of an inclusive workplace.

As an “active” asset management firm, we espouse long-term investing, patient capital, and strong ethics in our investment operation.

Written on January 2020

1. Employees Widen View of Inclusion and Diversity to Include Workplace Culture and Benefit Programs. April 2019 by Willis Towers Watson (available at <https://www.willistowerswatson.com/en-US/News/2019/04/employees-widen-view-of-inclusion-and-diversity-to-include-workplace-culture-and-benefit-programs>) 2. Effective Cultures in Investment Organizations. July 2019 by Thinking Ahead Institute, Willis Towers Watson (available at https://www.thinkingaheadinstitute.org/en/Library/Public/Research-and-Ideas/2019/09/Culture_leadership_study) 3. Women in Finance, Fifteenth Report of Session 2017-9. June 2018 by House of Commons Treasury Committee (available at <https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/477/477.pdf>) 4. Making Diversity a Reality. 2015 by PwC (available at <https://www.pwc.com/gx/en/industries/financial-services/assets/pwc-diversity-and-inclusion-making-diversity-a-reality.pdf>) 5. Bringing Our Whole Selves to Work: The LGBT+ Experience in Asset Management. July 2018 by The Investment Association (available at <https://www.theia.org/sites/default/files/2019-05/20180701-bringingourwholeselvestowork.pdf>) 6. When Women Thrive, Businesses Thrive: Turning Disruption into Opportunity for Women and Business. January 2017 by Mercer (available at <https://www.mercer.com/content/dam/mercer/attachments/global/glb-2017-davos-wwt-wef-summary.pdf>)

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