

STATE OF THE MARKET

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Funds Group

STATE OF THE MARKET 2021

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Front cover photograph by Jeffrey Grospe

Commitment to data will hold us accountable and will revolutionise alternative asset managers' lacklustre diversity efforts

BY SASHA JENSEN, FOUNDER AND CEO OF JENSEN PARTNERS

Though widespread, we believe efforts to increase diversity, equity, and inclusion (DEI) among asset management professionals over the past 20 years have yielded mostly lacklustre results, particularly in the alternative investment space. But the killing of George Floyd in May and subsequent demonstrations demanding change have given the movement renewed sense of urgency.

Still, Jensen Partners' most recent industry numbers underscore just how long a road the asset management universe has ahead. Through the third quarter of 2020 we have tracked 446 female marketers or 33 percent of the total moves at alternative investment managers, as compared to 452 or 38 percent of the total moves in the full year of 2019. And among alternative investment management firms, our data show that the percentage of women placed in marketing and distribution roles has fallen over the past year, while that for people of colour (PoC) is static.¹

Today, the calls for change have only grown louder, as limited partners and institutional consultants have become more insistent on seeing measurable DEI advances across the workforces of the alternative funds in which they invest. Thus far, DEI gains for distribution and marketing positions are sluggish, while those for investment teams, anecdotally, paint a more concerning picture.

Consistent data and tracking, though, can play an important role in boosting these efforts. Aggregating metrics on diverse hiring, promotions, retention, and attrition gives alternative investment firms that are serious about driving change the powerful tools and insights they'll need to make meaningful progress. By combining the numbers with qualitative information, these firms can gain a lens through which to see how effectively company cultures and management styles either promote or discourage diversity.

THE NUMBERS SHOW SLOW PROGRESS

Diversity efforts in asset management, more broadly, have made small strides. The most recent US Government Accountability

Office report revealed that US-registered asset managers oversee more than \$70 trillion, of which minority- and women-owned firms manage less than one per cent.²

The alternative investment universe — which encompasses private equity firms, private credit firms, real estate investment firms, real asset investors, infrastructure equity and credit managers, hedge funds, and private fund placement groups — shows similar stagnation. Our recruitment data through the first nine months of the year for marketing, business development, investor relations, institutional sales, and product specialist professionals across the alternative investment space indicate that hiring for women and PoC remains largely unchanged.³

While women represented three of every ten distribution hires we placed through late September 2020, they comprised 38% one year earlier. Meanwhile, PoC saw their distribution numbers hold steady at 20% from 2019 through roughly the first nine months of this year.⁴

As in any study, it is important to use consistent and uniform diversity numbers to measure the level of commitment to DEI within a firm or industry.⁵ There are software platforms, including our own, being created across the globe that are developing a standardised metric to calculate DEI levels within a firm's ownership, leadership, and total workforce. These platforms use gender and ethnic diversity data.

LIMITED PARTNERS SOUND THE CALL FOR CHANGE

Limited partners (LPs) see these numbers and have joined the movement calling for accelerated progress. Fundraising LPs have been inquiring about diversity levels at the general partners (GPs) in which they are about to invest; we've noted that LPs place diversity among their top three concerns, just below performance.

While organisations, athletes, celebrities, academics, politicians, and other prominent individuals have urged corporations to increase diversity at all levels, institutional

investors have argued that public pressure alone won't change the asset management industry. In a September FundFire story, institutional investors including Illinois State Treasurer Michael Frerichs and Employees' Retirement Fund of the City of Dallas Chief Investment Officer Cheryl Alston, among others, pressed the Securities and Exchange Commission to push for more demonstrable DEI gains at asset management and investment consultancy firms.⁶

Allocators recognise they have levers to pull with asset managers. Connecticut Treasurer Shawn Wooden has said he will consider more closely the DEI track records of GPs when dispensing the roughly \$37 billion of the state's pension funds. Wooden has communicated that he would work to ensure investments of state money go further to promote diversity and inclusion initiatives.⁷

What's more, Carnegie Corporation Chief Investment Officer Kim Lew argued on a Capital Allocators podcast that large firms hold the key to diversifying the asset management industry.⁸ By hiring more people and creating bigger pipelines, these firms can generate a larger impact, expanding the diverse manager population over time.

According to Lew, employees at larger organisations are the ones who most often break away to start new firms.⁹ Crucially, large firms also provide the wherewithal for people to build networks. And because individuals are generally hardwired to turn to those they trust, particularly in business, networks built at large firms tend to expand that pool of trusted people.

SHIFTING CONSCIOUSNESS REFLECTS URGENCY

Prior to this year, too many alternative investment firms had been falling short in their responses to calls for increased DEI. Many such 'alts' only started paying attention after George Floyd's death sparked a renewed media focus on inequality, protests, and the Black Lives Matter movement.

As a recruiter, I see diversity touch every conversation I have with alternative invest-

ment managers, whether with regard to measuring and metrics, accountability, talent sourcing, or offering programmes. Fortunately, the discussion has gained traction among organisations' Chief Operating Officers and human resources professionals, who increasingly ask themselves how they can place more women and PoC onto their platforms and into front-office positions.

To be sure, this re-energised attention is new and will require months before firms' efforts translate into staffing numbers. But these conversations nevertheless, underscore a seismic shift that's taken place in the consciousness around DEI.

There are steps organisations can take to move them in the right direction: building a broader pipeline; hiring a head of DEI at the senior level; bringing in diverse senior candidates for investment staff hires; and getting to the grass roots through programmes and internships. Many alt firms have started one or more of these. In August, for example, Capstone Investment Advisors President Jonathan Sorrell launched #100blackinterns. These types of initiatives need to be executed and measured.¹⁰

THE POWER OF ACTIONABLE DATA

Properly collected data can illustrate the level of diversity at a firm, showing recent diverse hires, departures, promotions, and seniority. Data analysts can compare the investment and distribution platforms, as defined by their strategy and asset class focus, to those of their peers in the alternatives space. And data points offer LPs and institutional consultants an easy way to measure the degree to which certain managers truly value diversity.

It's possible to pull, cleanse, and cross-reference data from readily available public sources to verify that alternative investment firms have produced diversity statements or formed diversity-based organisations. Data can also be used to widen and sharpen firms' recruitment focus; data analysts can track how organisations find diverse professionals, whether from traditional recruitment sources such as Ivy League and comparable colleges and universities, or nontraditional ones such as historically black colleges and universities. Moreover, data analysts can help alternative investment firms follow professionals from firm to firm as their careers progress, as well as monitor their positions and promotions.

Data can — and will — provide alternative investment firms the following:

- Comprehensive breakdowns by gender and by race or ethnicity, from entry level to C-suite (in each case, showing the number of individuals, the percentage

they comprise, where across the firm they work, their years of employment)

- Views on women and PoC in senior, actionable positions (where they're able to bring on more women and PoC, as well as create and raise more capital)
- Tools that help firms produce talent search shortlists with at least 50% diverse candidates
- Tools that compare firms' diversity data with their competitors'
- Benchmark compensation tracking for different positions at different types of firms (ensuring diverse candidates receive fair compensation based on their qualifications)

Bringing onboard talented women and PoC isn't enough. For there to be real change at alternative investment firms, diverse professionals have to feel welcome, properly integrated, fairly compensated, and as though the culture provides them a genuine opportunity to advance their careers.

A qualitative analysis targeting such factors can also support alternative investors' DEI efforts. Diverse talent seeks firms that offer professional development programmes — including internships and mentorships, as well as other educational and leadership resources. They also assess how alternative investment firms compare with competitors in culture, philosophy, management style, and compensation.

THE BOTTOM LINE

In addition to helping redress past injustices and opening doors to much-deserved and previously inaccessible opportunities, hiring more women and PoC has proven good business. A McKinsey & Company report last May echoed many other studies when it concluded that corporations benefit from diverse leadership.¹¹

The consultancy's research, which drew from a data set encompassing 15 countries and more than 1,000 large companies, showed that firms in the highest quartile for gender diversity on executive teams were more likely to have above-average profitability than those in the lowest quartile. What's more, the consultancy shared that ethnically diverse executive teams increase the likelihood of company outperformance even further.

On the whole, results from decades of work to diversify the investment space still illustrate how DEI progress stands mired in its early stages. But the consciousness of how DEI needs to change at alternative investment firms, from the perspectives of policy, procedure, and intention, has made a quantum leap forward. Similarly, alternative in-

vestment firms have been asking themselves the right questions and have been collaborating with recruiters to hold themselves more accountable.

Over the past 20 years, technology has evolved to the point where it can harness data more powerfully to support DEI initiatives across industries. Now these data can be used to measure and accelerate progress in the alternative investment space alongside reinvigorated demands for long-overdue change.

1. *Jensen Partners Quarterly Newsletter, Q3 2020*
2. *United States Government Accountability Office, Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers, September 2017*
3. *Jensen Partners Quarterly Newsletter, Q3 2020*
4. *Jensen Partners Quarterly Newsletter, Q3 2020*
5. *Jensen Partners Quarterly Newsletter, Q3 2020*
6. *FundFire, "Investors Urge SEC to Use Rulemaking to Promote Diversity," September 17, 2020*
7. *FundFire, "Asset Mgmt Giants Answer Conn. Treasurer's Call for Diversity Working Group," September 28, 2020*
8. *Capital Allocators: Diversity, Equity & Inclusion 2: Kim Lew - The Opportunity and the Challenge (Ep.152)*
9. *Capital Allocators: Diversity, Equity & Inclusion 2: Kim Lew - The Opportunity and the Challenge (Ep.152)*
10. *FT Advisor, "Fund managers launch #100blackinterns initiative," September 17, 2020*
11. *McKinsey & Company, Diversity wins: How inclusion matters, 19 May 2020*



Sasha Jensen, Founder and CEO, launched Jensen Partners in 2012 with the focus on solely identifying the preeminent human capital talent for raising capital within the alternative investment industry. In fact, Ms Jensen was described as 'the most successful executive recruiter for asset gatherers' by *Institutional Investor* magazine. In 2020, Jensen Partners expanded its team; in February, Peter Mayer, previously a Partner at PJT Partners, was appointed Head of Europe, and in March, George Lewis was named Managing Director of the infrastructure practice in London. In August, Peter Sipsas, an experienced financial services retained executive search professional, joined as Managing Director and Global Head of Private Equity and Credit Search, expanding Jensen Partner's platform to include a dedicated recruiting practice for investment professionals.

Over the last five years, Ms Jensen's firm has received several rounds of institutional funding, experienced transformational growth and expanded to 14 professionals located in New York and London. Jensen Partners' executive recruiting model applies a 'big data' approach.

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