



CFA Institute

ACCELERATING CHANGE
DIVERSITY, EQUITY, AND INCLUSION
IN INVESTMENT MANAGEMENT



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EXECUTIVE SUMMARY

This report summarizes the actions taken by 41 investment organizations—Experimental Partners (XPs), members of the CFA Institute Experimental Partners Program—to advance diversity, equity, and inclusion (DEI) in their organizations during a highly dynamic period of change, from mid-2019 to the end of 2020. It has been written for industry leaders, their business partners, and investment teams to share the learning from our close monitoring of those DEI actions and their impact. The seismic shift we record and reflect on is that DEI leadership is moving from human resources (HR) to business leaders—from a *nice to have* to a *need to have*—because over 90% of XPs' leadership believes that DEI will lead to better business outcomes. This dynamic is significantly reinforced by client demand for increased DEI in the industry and for detailed data to measure it, suggesting clients also see value in this work. Evidence for DEI's increased business relevance is also reflected in the XPs' clear commitment to their selected strategies and, in particular, a growing focus on DEI metrics.

Our findings are reflected in the CFA Institute DEI Code designed to accelerate industry change (www.cfainstitute.org/en/ethics-standards/codes/diversity-equity-inclusion). We recognize that (1) a diversity of perspectives will lead to better investor outcomes, (2) an inclusive investment industry will better serve our diverse society, and (3) an inclusive organization will be a better place to work. We urge investment organizations to become signatories to the DEI Code.

Key Takeaways from Experimental Partners' Actions to Advance DEI

We summarize the main learning points from the program, with an emphasis on those that are practical, are actionable from the outset, and cover the key areas for long-term development. The main body of the report explores strategies and programs for organizations at all stages, including those where DEI work is relatively advanced.

Foundational Concepts Key Takeaways

- **Start with leadership support:** Having informed support from leadership—from the CEO all the way down—is essential. If leaders communicate with clear messages about the purpose of

DEI training and the change it drives, it is more likely to succeed.

- **Make a training communications plan:** With a voluntary training program, a robust communications plan is needed, and it may still take time for a majority of employees to participate. To be effective, unconscious bias training requires a repeat every two years at a minimum.
- **Measure success:** The success of training is most commonly measured by participation rates and session evaluation results. There is an expectation that employee engagement survey results will be positively affected over time, but the impact is less direct. Feedback can deteriorate as expectations are raised by a greater focus on DEI before strategies start to have an impact.
- **Pace yourself:** Book clubs, discussion groups, and recommended resources can help with DEI learning, but a fast-track mindset can lead senior leaders to want to skip over the simple concepts and move to more demanding material, even though they do not have the necessary context. Highly educated investment industry leaders are especially prone to this temptation since they are accustomed to grasping factual issues quickly. DEI is more emotionally challenging, requires sustained behavioral change, and cannot be fast-tracked in the same way.

Communication Key Takeaways

- **Communicate on an ongoing basis:** DEI dialogues work best as part of regular organizational communications. After biases, communication was the second most popular area of focus for XPs, as the anti-racism protests made silence an unacceptable option.
- **Have uncomfortable conversations:** XPs found they could not wait for everyone to be at ease with these issues, but courageous conversations can still be designed in an inclusive way.
- **Use storytelling:** This approach helps unpack and explore some topics XPs had not explored fully before, such as what we mean by a diverse group of employees. Sharing stories helps build an interest in learning about how to be an ally.

- **Develop talking points:** These can be for both external and internal uses, particularly for client-facing colleagues as demand for DEI data increases.

Talent Acquisition Key Takeaways

- **Consider skills and potential:** While managers often prefer someone who can hit the ground running, they may have a blind spot for simply hiring experienced talent. The solution is to focus not on the years of experience but on the basic skills required to do the job. Thereafter, it is crucial to map the actual role to on-the-job training programs and bench strength of the team to know exactly what is needed. ERGs (employee resource groups) can be helpful to maintain contact with potential candidates from underrepresented groups over an extended time period, especially to build the middle of the pipeline and identify lateral hires.
- **Recruit younger and more broadly:** Targeting high school and early university students helps encourage women to pursue STEM (science, technology, engineering, and math) disciplines and consider investing as a career path down the road. Recognize that brief early contact with sophomores and juniors is valuable: When they have some experience, they may come back to join permanently.
- **Educate students:** Many students do not understand what investment management is. There is potential for more industry collaboration to educate students by using volunteers, such as employees already working with high school students in the classroom.
- **Partner with student organizations:** XPs without a high profile with the general public found working with national organizations and global programs, such as the annual CFA Institute Research Challenge, was a good way to attract a diverse group of candidates and introduce students to the organization. Give students exposure to the organization, its culture, and the many possible roles in investment management.

Talent Development Key Takeaways

- **Search for overlooked potential:** High-potential programs are typically focused on fast-tracking those who are already performing well. While these programs are useful, it is also worthwhile to consider targeted interventions for employees who have been stuck in a role for some time.

- **Create intentional and rigorous programs:** Rigor in sponsorship and mentorship programs both helps accountability and builds conviction. When programs are structured with Individual Development Plans (IDPs) and matching tools, the work becomes more intentional.
- **Select sponsors strategically:** Sponsorship programs run by XPs tended to be more successful if the sponsor and sponsored employee were in the same line of business, with the sponsor having visibility into the sponsored employee's work. The success of sponsorship programs can be monitored through promotion and performance data.
- **Cultivate your alumni:** Some XPs recognized that turnover is inevitable, but a boomerang path can benefit the employee and the organization. Some people will leave, but they may return later if the process is well managed. XPs can create brand ambassadors and then welcome them back if these relationships are maintained.

Measurement and Accountability Key Takeaways

- **Report publicly and explain why:** Some XPs shared key DEI metrics on their public websites to evidence their work to stakeholders. Making the direct link between the data and business imperatives, including how teams made up of a diverse group of people that are managed inclusively can produce better analysis and make better decisions, is important for employees and clients.
- **Focus on employee trust:** There are many challenges of collecting employee census data, particularly for global organizations facing a myriad of different laws and regulations. Building trust is key to increasing employee response rates, including clear communications about the purpose and use of the data.
- **Use dashboards:** There was a trend toward DEI dashboards for all executives with quarterly measurement for retention, representation, hiring, turnover, promotions, and manager-initiated moves. The administrative database dashboard could involve complex data management functions, but the data visualization and analytics dashboard should be intuitive and simple: Use clear visuals and minimal tables, and focus on key figures.
- **Calibrate the level of detail:** Having too many diversity data points might be counterproductive,

particularly in the early stages. It is important to prioritize a small set of key metrics for senior leadership focus while the DEI team analyzes the data in detail.

become fatigued and overstretched, particularly when current events are directly impacting their communities.

Networks Key Takeaways

- **Align policies:** Creating a more inclusive culture requires revised policies and practices (organizational inclusion) to be clearly communicated to employees and effectively implemented to produce changes in individual behavior (behavioral inclusion). Changing policies alone will not change the culture; behavioral and organizational inclusion will.
- **Link policies to an overall plan:** A comprehensive, strategic DEI plan that builds in organizational changes in people policies is more likely to change the culture than is changing the policies without reference to a wider plan.
- **Use resource groups effectively:** ERGs and BRGs (business resource groups) can be highly influential in implementing a DEI program, even in some cases helping with program design. BRGs are usually a feature of more advanced DEI development than ERGs because BRGs typically have direct input into business strategy; however, both focus on specific employee communities. ERGs and BRGs emerged from the program as sources of leadership talent.
- **Support resource groups:** Both ERGs and BRGs need to be well supported so members do not

Key Components of Successful DEI Programs

Overall, we found that for DEI programs to be successful (i.e., to have a positive impact in changing behavior and for initiatives to be integrated into operational structures), they relied on three key components:

- Leadership that is clearly committed, DEI trained, and accountable, with aligned governance
- Frequent, informative communication with employees, in both directions
- A DEI plan embedded in the overall business strategy

We thank the XPs for the data they shared during the Program. While the investment industry is in general moving to improve DEI outcomes, it is never easy for leaders to look critically at their organization and commit to making sustained change. Indeed, the industry has made attempts before without lasting impact. However, CFA Institute and those charged with designing the CFA Institute DEI Code know that the commitment to DEI reflected in this report will lead to greater inclusion of wider viewpoints from the best talent, which will contribute to better investment outcomes and help create better working environments.

INTRODUCTION

The future success of investment organizations depends on their ability to adapt and innovate. Having inclusive practices is a huge advantage in building the trust and resilience needed to accelerate change.

—Chief investment officer
of a public pension plan

An Unexpected Experiment

The CFA Institute Experimental Partners Program ("the Program") began in mid-2019 as an 18-month experiment to test the effectiveness of diversity, equity, and inclusion (DEI) practices in investment management organizations, but no one could have guessed what a truly experimental time period it would be. Investment management leaders, like those across other industries, were confronted with managing the unknowns of a global pandemic, the sudden pivot to remote working, and the deeply personal reactions to the tragic deaths of African Americans, including George Floyd, Breonna Taylor, and Ahmaud Arbery, which reignited communities' grief about similar deaths in over 60 countries¹ from Belgium to Brazil.² Books on race topped the bestseller lists, protests occurred in many cities, and CEOs issued statements about diversity,³ often accompanied by corporate action plans or targets to measure future success and accountability.⁴

This report details actions that the Experimental Partners (XPs) took before, during, and after these events. As one organization described it,

We have been building "cultural intelligence," which will help us manage through both the acute and chronic issues in DEI. In 2020, we had an ongoing stream of acute issues, and as we get through each one, we build a

little more trust and confidence that we can address the chronic issues together, too.

These organizations facilitated challenging conversations on the issues in the form of organization-wide town halls, smaller team discussion meetings, and learning sessions led by underrepresented employees. This period was marked by a greater willingness to have difficult conversations about racism and to explore what it means to be an ally. Essentially, the corporate world broke a long-held taboo about discussing racism in the workplace. In some cases, senior leaders shared their deeply personal experiences. Employees asked for resources to better understand the issues, and employers were

seen as a more trustworthy source of information than other institutions.⁵ Meanwhile, client and consultant requests for more information about asset manager demographics and diversity plans grew, setting the stage for questions about DEI to become part of the manager selection process.⁶

XPs told us about investment mandates they had won because of the strength of their DEI work. The year 2020 was when an organizational investment in DEI resources went from a "nice to have" to a "need to have." DEI

leaders who had been strictly internally facing began attending client meetings as featured speakers, and DEI practices became a prominent agenda item. These changes showed the business case for DEI in action, affecting core commercial outcomes.

This report references the CFA Institute DEI Code, which launched its public consultation on 7 July 2021.⁷ The Code is intended to drive change in the investment industry supported by the accompanying Implementation Guidance. We have used many of the tested practices and learnings from the Program to build the Implementation Guidance and inform the principles of the Code itself.

We have been building "cultural intelligence," which will help us manage through both the acute and chronic issues in DEI. In 2020, we had an ongoing stream of acute issues, and as we get through each one, we build a little more trust and confidence that we can address the chronic issues together, too.

Organizations That Completed the Experimental Partners Program

AllianceBernstein	Macquarie
Aon	MFS Investment Management
British Columbia Investment Management Corporation	Morningstar
BNY Mellon	Neuberger Berman
CDPQ	New York Life
CalPERS	Northern Trust
CBRE Global Investors	OTPP
CFA Institute	PGIM
ClearBridge Investments	Schroders
Eaton Vance	Sionna Investment Managers
First Sentier Investors	State Street
FactSet	SLC Management
Franklin Templeton	Teacher Retirement System of Texas
Frontier	Vanguard
FS Investments	Victorian Funds Management Corporation
Global Endowment Management, LP	Voya Investment Management
GMO	Wellington Management Company
Income Research + Management	Wells Fargo Asset Management
Invesco	Western Asset Management
Lazard Asset Management	William Blair Investment Management
Loomis, Sayles & Company	

Note: Organizational participation does not imply endorsement of all the contents herein.

Definitions

The definitions used in this report are listed here and are used by CFA Institute both internally and externally. We emphasize inclusion in this report since organizations can work on being inclusive before they become demographically diverse. Inclusive organizations create space for all individuals to grow and flourish, which, in turn, helps retain and attract people from diverse backgrounds and experiences. We believe that pursuing diversity in representation without pursuing inclusion in practice is not meaningful and does not yield organizational benefits.⁸ We see inclusion as focused on action, which our

activities are intended to produce. Please note that individual XP definitions may be different from those used by CFA Institute.

- **Diversity:** The full spectrum of human attributes, perspectives, identities, and backgrounds
- **Equity:** Fairness of access, opportunity, and advancement for all within an organization, which requires eliminating barriers and root causes that have prevented underrepresented groups from full participation within the workplace
- **Inclusion:** A dynamic state of operating in which any employee can be and feel respected, valued, safe, and fully engaged

Diversity, equity, and inclusion are referred to together in this document as DEI. However, we note that equity is at a very early stage of development in the investment industry; it is included as a long-term goal for the industry.

Overall Progress

At the start of the Program, more than half of the XPs were characterized, by themselves and by us, as at an early stage in their DEI work. They had not conducted DEI training for employees, they did not have governance in place to make policy decisions, and senior leaders were not necessarily actively engaged, although they had committed to the Program.

By the end of the Program, the majority of XPs (63%) had advanced to a moderately developed level relative to industry peers. This meant they had senior leaders who were visibly involved and engaged, they had employee resource groups (ERGs), and they had experienced some initial success with their initiatives.

The XPs that we assessed to be relatively mature (20%) were characterized by a well-established DEI council with clear goals, CEO support, proactive and respected ERGs, and defined success metrics. One emerging indicator of progress was the appointment of a chief diversity officer, reporting to the CEO. A third of the XPs linked CEO pay to progress on culture and diversity metrics, another clear indicator of commitment. In the next three to five years, we are looking for XPs and the industry as a whole to move toward a more multidimensional, intersectional approach supported by distributed DEI resources throughout functions and regions.

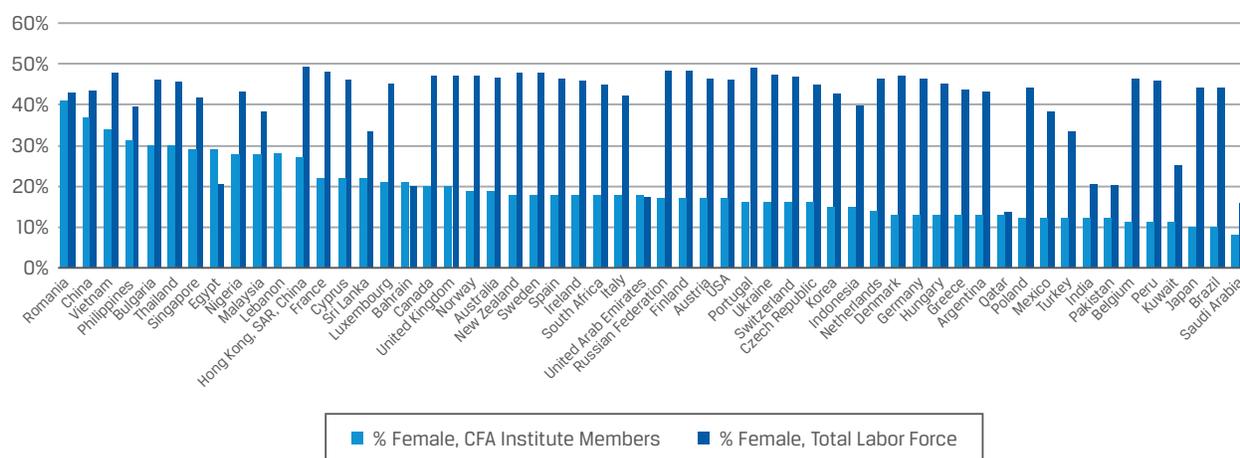
At the start of the Program, DEI work was often ad hoc, dependent on individual champions, and underresourced. These factors made it difficult to create any impact and in turn win greater support. More mature XPs, however, recognized how applying analytical rigor and even bringing in data scientists and behavioral experts could drive interest in solving the industry's DEI challenge. It became a problem to be solved together and was informed by a broader focus on sustainability and the recognition of the cost of behavioral biases in investment and operational decision making.

The Current State of Diversity, Equity, and Inclusion—The Business Case

Academics, regulators, affinity groups, and clients, among others, tracking this subject will point to two main metrics as evidence that progress has been minimal: (1) assets managed by women or people of color and (2) diverse representation among portfolio managers. In the United States, total assets under management are approximately \$69 trillion, but just 1.3% of these assets are managed by organizations led by women or people of color.⁹ Similarly, Morningstar released an article in March 2021 showing that the percentage of US female portfolio managers is not even 15%, essentially unchanged since 2000.¹⁰ Although these metrics reflect the situation in the United States, they are broadly indicative of the state of the industry globally. In some places, there is even less diverse representation.

Exhibit 1 shows the percentage of women in the total workforce across markets compared with the

EXHIBIT 1. WOMEN ARE UNDERREPRESENTED IN THE INVESTMENT PROFESSION



Sources: CFA Institute member demographic survey and World Bank data.

percentage of women who are CFA Institute members in those markets. Except for a few places where overall workforce participation is very low, women are underrepresented in finance around the world, giving them the potential to be the universal diversifier for the industry globally. Women control 32% of the world's wealth and are adding \$5 trillion to the wealth pool globally every year—faster than in years past—making women in the workforce a growth market the investment industry cannot afford to ignore.¹¹

While we do not yet have a full picture of the different dimensions of diversity across the global industry, the scattered data available from different organizations and surveys indicate that underrepresentation is not limited to gender. CFA Institute preliminary demographic data suggest that Asians are 14% of our US membership, but Black and African Americans are only 3% and Hispanic and Latinx only 4%; so, we know that our Black, Hispanic, and Latinx colleagues are far short of the proportion of the US-based industry than they should be. Talent is equally distributed across all populations. In sum, we think the industry is missing out on talent and customers while professionals in underrepresented communities are missing out on opportunities they should have. Across the broader US economy, McKinsey & Company has estimated that closing the Black–white and Hispanic–white racial wealth gaps would increase consumption and investment by \$2 trillion–\$3 trillion, equivalent to 8%–12% of GDP.¹² A report by Citi showed that if gaps experienced by Black Americans in wages, education, housing, and investment were closed 20 years ago, \$16 trillion could have been added to the US economy. Today, if these gaps are closed, \$5 trillion can be added to US GDP over the next five years.¹³

The US Census projects that the United States will be minority white by 2045, and the Brookings Institution has estimated that the tipping point among those who are 18–29 years of age will be in 2027.¹⁴ Given that millennials are a more diverse generation, it is not surprising that diversity has long been considered an important topic among this group. "The Deloitte Global Millennial Survey 2020," however, offered some good news on this front: More than 70% of respondents said their employer was doing well with creating a diverse and inclusive working environment, a small increase from the prior year.¹⁵ Given the increasingly diverse population, those organizations that have not created inclusive cultures are likely to be at a disadvantage—not only in hiring talent but also in understanding and serving customers and in delivering performance.

In 2020, the perception of business risks changed, and it became clear that doing nothing to address inequalities could be the greatest risk of all. Concern about the lack of DEI progress, alongside the tumultuous events of 2020, led to more ideas about what might catalyze change, such as the following:

- **A new standard for taking companies public:** Goldman Sachs CEO David Solomon announced, *Effective July 1, Goldman Sachs will only underwrite IPOs in the U.S. and Europe of private companies that have at least one diverse board member. And starting in 2021, we will raise this target to two diverse candidates for each of our IPO clients.*¹⁶
- **Exchange listing rules:** NASDAQ filed a proposal with the US Securities and Exchange Commission (SEC) in December 2020 to adopt new listing rules related to board diversity and disclosure. If approved, *the new listing rules would require all companies listed on Nasdaq's U.S. exchange to publicly disclose consistent, transparent diversity statistics regarding their board of directors. Additionally, the rules would require most Nasdaq-listed companies to have, or explain why they do not have, at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority [an individual who self-identifies in one or more of the following groups: Black or African American, Hispanic or Latinx, Asian, Native American or Alaska Native, Native Hawaiian or Pacific Islander, or Two or More Races or Ethnicities] or LGBTQ+. Foreign companies and smaller reporting companies would have additional flexibility in satisfying this requirement with two female directors.*¹⁷
- **Diversity databases:** In December 2020, eVestment began collecting diversity data with a consortium of investment consultants called the Institutional Investing Diversity Cooperative. As of April 2021, more than 500 organizations had completed eVestment's D&I (diversity and inclusion) questionnaire.¹⁸
- **Consultants' preferred lists:** Willis Towers Watson, which has \$2.6 trillion in assets under advisement, analyzed more than 2,400 individual investment teams globally and found that diverse groups

outperformed those with no gender or ethnic minority employees by 20 bps a year, on average. The organization has warned that asset managers that do not make progress on diversity may be removed from their preferred list of managers.¹⁹ Similarly, a study by Greenwich Associates found a link between the perception investment consultants and investors have regarding an asset manager's commitment to diversity and inclusion and their interest in recommending or hiring a manager.²⁰ Diversity leaders appear to have a material advantage.

- Toolkits by industry groups:** The Institutional Limited Partners Association (ILPA) launched its Diversity in Action initiative in December 2020, which is a toolkit that provides actionable recommendations on steps that can be taken to improve DEI in private markets based on the experience of the initiative's signatories. As of April 2021, it included 130 limited partners, general partners, and investment consultants. Similarly, the Diversity Project North America – NICSA has a Next Practices committee gathering forward-looking ideas in this developing space.
- DEI pledges:** CEO Action for Diversity & Inclusion began in 2017 and now has 2,000 signatories. Participating organizations share their actions online, and part of the pledge focuses on unconscious bias education. The Corporate Call to Action: Coalition for Equity & Opportunity is a working group launched in 2020 by the Connecticut Office of the State Treasurer and the Ford Foundation, and organizations representing \$26 trillion in assets under management are making a series of commitments, including disclosing workplace demographic data reported to the US Equal Employment Opportunity Commission.²¹

In addition to industry-initiated efforts, diversity is of growing interest to regulators and policymakers. In March 2021, Congresswoman Maxine Waters, chair of the US House Committee on Financial Services (HFS), and Congresswoman Joyce Beatty, chair of the Subcommittee on Diversity and Inclusion, sent requests to the 31 largest US investment firms—those with \$400 billion or more of assets

under management—for data on their diversity and inclusion.²² The Reporting Framework for the CFA Institute DEI Code is based on the form used by the HFS.

Meanwhile, in the United Kingdom, signatories of HM Treasury's voluntary Women in Finance Charter,²³ published in 2016, are making progress on their charter commitments, with more than 70% of signatories having met their targets or on track to meet their targets for female representation in senior management.²⁴ The UK gender pay disclosure requirements, which began in 2017 and apply to employers with at least 250 employees, have driven changes well beyond the United Kingdom's borders. These requirements were put on pause for six months because of COVID-19, but many organizations, including some XPs, chose to continue reporting.²⁵

Inclusion efforts are also important as demand has grown significantly for sustainable investment and consideration of environmental, social, and governance (ESG) factors. According to Morningstar, total assets in sustainable funds at the end of 2020 were at record levels of approximately \$1.7 trillion.²⁶ As asset managers are evaluating companies based on these factors, these asset managers are in an untenable situation if they themselves have not addressed DEI issues, which can be material to both social and governance factors.

One XP commented that they valued "the opportunity COVID-19 has given us to prove that flexible/remote working is effective and can work for all and is therefore no longer a barrier for our people. However, we need to ensure this endures post a return to the office."

Inclusion and Flexibility during the Pandemic

Team leaders who were not used to their colleagues working from home found managing their teams remotely during the COVID-19 disruption to work more challenging than leaders at organizations that had flexible policies already. Research over the years by the Chartered Institute of Personnel and Development²⁷ on change management has consistently shown that organizations that create more flexible work policies and permit better work-life balance generate more trust among peers, better understanding, and more knowledge in working with technology.

Another benefit from the shift to online meetings was the ability to convene many more employees—moving from smaller groups to thousands in virtual town

halls. Also, intersectionality became more apparent; for example, an LGBTQ+ Pride ERG hosting its Black colleagues' ERG led to more collaboration. And with no one in the office, senior leader access was equalized.

XPs recorded their awareness that maintaining inclusion will be a greater challenge with a hybrid model, so they were considering how best to manage this. As one organization advised,

Become comfortable with the evolving virtual environment. Being 100% virtual seemed like a roadblock for D&I initiatives at first, but we learned to use technology and change our communication styles to become very effective.

Seeing colleagues in their own homes could challenge biases. Equally, not everyone was comfortable with

what can feel like an intrusion, particularly because many employees struggled to find an office-like space (in contrast to more senior colleagues with home offices). Some XPs offered a stipend to pay for additional equipment, including a desk and chair in some cases. This then revealed that not all employees, especially new, junior colleagues, had the space to set these up.

One XP commented that they valued

the opportunity COVID-19 has given us to prove that flexible/remote working is effective and can work for all and is therefore no longer a barrier for our people. However, we need to ensure this endures post a return to the office.

METHODOLOGY

In September 2018, CFA Institute published the report "Driving Change: Diversity & Inclusion in Investment Management,"²⁸ which was the culmination of a series of workshops held from October 2017 to May 2018 across North America, including more than 300 participants from nearly 100 investment industry organizations. It included data from these organizations and a list of 20 recommended actions for the industry to become more inclusive.

CFA Institute then issued an invitation to the industry to join an effort to work on the issue of DEI together—to see what really works in practice at investment organizations. Research shows that innovation comes from curiosity and experimentation.²⁹ So how would these good ideas play out when brought into the context of real organizations?

This was the experiment, and CFA Institute asked interested organizations to select up to three of the ideas published in "Driving Change: Diversity & Inclusion in Investment Management" that they would commit to work on for 18–24 months, through December 2020. Although most organizations were working on more than three of the items on the list, the selection of three items was meant to encourage focus.

In addition to doing the work, the XPs agreed to have confidential, quarterly check-ins for this period through a form, a telephone call, or both. There were no legal agreements and no fees, and it was not a compliance exercise. We did not agree to requests for non-disclosure agreements because they would have been incompatible with the purpose of the effort and the trust required to participate. The overall structure of these check-ins was to report on what had happened in the last quarter, to detail plans for the next quarter, and to share lessons learned.

The recruitment phase was January through June of 2019, and CFA Institute announced a list of

42 participating organizations, representing \$17 trillion in assets under management, in September 2019.³⁰ The early adopters (about 20% of the group) began work in the first quarter of 2019, but the analysis presented here will focus on the 18 months that included all XPs, from July 2019 through December 2020. Two organizations had parallel experiments running, either in different departments or in different office locations. A few organizations joined following

the announcement, but we note that four organizations left the Program: Two ceased operations, one was acquired, and in one case the champion for it departed the firm. In total, 41 organizations completed the Program.

These changes are indicative of the realities of DEI work—namely, that it can be disrupted because of organizational changes and turnover. Organizations with continuity of leadership in the DEI area are rare and at a great advantage. In addition, there is a wide range in the expertise and effectiveness of DEI leaders. Many organizations hired a full-time DEI staff member during the time period, and in cases where there were key personnel changes—either the DEI leader, the chief human resource officer (CHRO), or the CEO—it often impacted the organization's efforts during this 18-month period.

This report draws from two surveys of the participating organizations—essentially before and after snapshots—and qualitative input from 250 individual organization check-in calls. The calls were simply conversations where we discussed the details, expectations, and initial reactions to programs or policies. These are the qualitative aspects that help assess effectiveness in the moment but are often lost in formal reporting. In addition, DEI reporting has historically been less systematic since senior executives and the board have asked only occasionally about the subject. With increased focus, however, the process for reporting has become more defined in

The Teacher Retirement System of Texas saw the CFA Institute Experimental Partners Program as an opportunity to have an additional accountability element as our new DE&I director at the time was initiating the development of a DE&I strategic plan. In addition to using CFA Institute resources, we were able to hear from others in the industry about their experiences and best practices for their organizations. It became a practice lab for the work we wanted to get done.

frequency, and the amount of diversity data desired has grown.

While the approach of the Program was meant to minimize the administrative burden on organizations, the consensus feedback from the XPs was that the accountability was helpful; in some cases, participation in the Program was the catalyst for sustained leadership support of DEI. In many organizations, just one person is leading the effort, so these individuals were eager to report in and discuss the details of their activities.

The group of XPs also became a network to share ideas, and they were polled on various topics in optional monthly topical conference calls. Some of the findings from these calls are also included in this report. The usefulness of the network was summarized by one organization as follows:

The Teacher Retirement System of Texas saw the CFA Institute Experimental Partners Program as an opportunity to have an additional accountability element as our new DE&I director at the time was initiating the development of a DE&I strategic plan. In addition to using CFA Institute resources, we were able to hear from others in the industry about their experiences and best practices for their organizations. It became a practice lab for the work we wanted to get done.

Profile of Organizations

XPs reflect a wide range of business types and profiles within the investment industry.

Geography

Recognizing the complexities of DEI globally, the Program was designed for organizations in North America, although it also attracted a few organizations in Australia. Overall, 83% of participating organizations are in the United States, 10% are in Canada, and 7% are in Australia. In some cases, the organization is headquartered in another country, but the project was being run out of the US office. The median number of office locations is 12, though 60% of organizations have a majority of their employees in one office.

Type

Of the 41 organizations represented, 73% are investment managers, 15% are asset owners, and 12% are data or service providers to the industry. They represented more than \$26 trillion of assets under management in 2021.

Employees

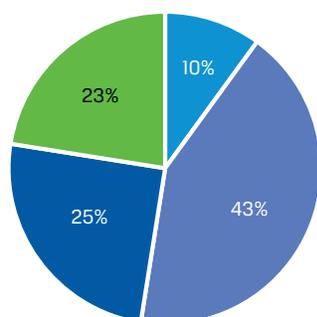
These organizations employ more than 234,000 people, 98% of whom are full-time employees. **Exhibit 2** shows the distribution of participating organizations by size, based on number of employees and assets under management.

Structure

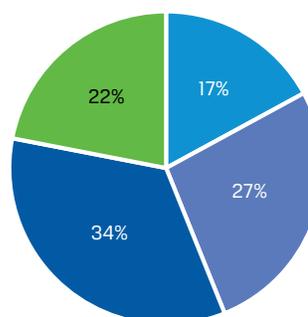
The size and structure of the organizations influenced the development of their DEI plans. Entities that were part of a larger corporation had to decide whether to adopt the corporation's existing programs and policies

EXHIBIT 2. ORGANIZATIONS BY SIZE

A. Based on Number of Employees



B. Based on Assets under Management



Note: Numbers may not add to 100% because of rounding.

or develop something more specific. Organizational structure also impacted DEI leadership staffing.

DEI Expertise

A quarter of the organizations do not have any dedicated DEI employees, though nearly all organizations with more than 1,000 employees have at least one. The median number of employees per DEI staff member is 700. About a quarter of the participating organizations added a DEI staff person during the last two years.

Maturity

In terms of the maturity of their programs, based on their own assessments, about 20% are relatively mature, well-established programs, 70% are moderately developed with key elements in place, and 10% are in early stages. Most of the early-stage organizations are smaller in size and cannot commit the resources that larger organizations can. Accordingly, the CFA Institute DEI Code Implementation Guidance includes ideas for smaller organizations to use in implementing inclusion initiatives.

Momentum

Regardless of their maturity level, most organizations (73%) said their work within the Program has made significant progress since 2019. They report strong positive momentum with employees and leaders, as seen in **Exhibit 3**, with only a small minority reporting inconsistent support from leaders.

Budget

The increased societal focus on DEI led to greater attention on the area, and many organizations committed more funding, as shown in **Exhibit 4**.

Caveats

An experiment such as this has inherent challenges in terms of observing the full impact of policies and actions taken during the time period. As such, it likely underestimates the impact of such activities because they will have impact into the future. For example, the decision to change the hiring process following DEI training may take full effect 6 or 12 months later. A benefit of the methodology of the Program, however, is that it created a narrative for each organization to go back through history and see what had happened.

A traditional scientific experiment aims to isolate the effect of a single variable and hold other factors constant, but this was never a possibility in a situation involving organizational cultures. We wanted to discover what works in different environments. Accordingly, the check-in metrics were not overly prescriptive, and this was an intentional part of the design to encourage organizations to try different approaches. The application form asked for the ideas selected, the rationale, the desired outcome, the resources required, the background if the idea had been tried previously, and next steps. In addition, each organization needed to designate an implementation leader and an executive sponsor. For each idea, the update form asked for current activities, next steps, metrics (including anecdotal evidence), and advice for others.

EXHIBIT 3. DIVERSITY LEADERS' VIEWS ON DEI MOMENTUM AND SUPPORT

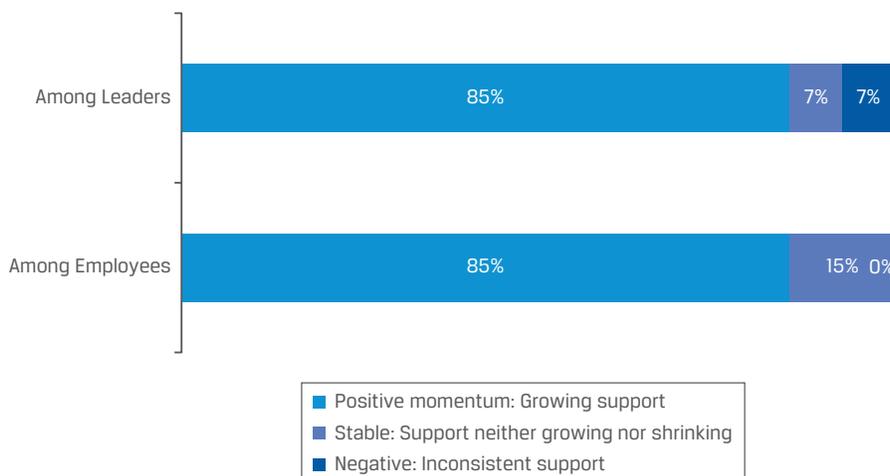
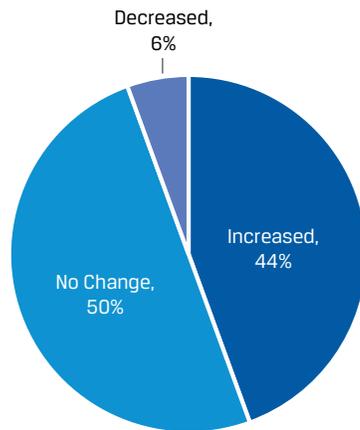


EXHIBIT 4. INVESTMENT ORGANIZATION DEI BUDGETS IN 2020

Lastly, it is always possible that self-assessments may be biased, as it is common for employees to think of their organization as better than the industry as a whole.³¹ The particular time period, however, may counteract this tendency as media coverage of DEI was significant and educational resources grew. As a result, even those who have significant expertise in the area have seen there is much more to learn. This should be seen as a positive development, one which provides a foundation for real change.

THE IDEAS IN ACTION

The 20 ideas from which the XPs selected can be categorized into six larger areas: foundational concepts, communication, talent acquisition, talent development, measurement and accountability, and networks. The XPs' selections by category are shown in **Exhibit 5** and are described in the shaded box. For more background, see "Driving Change: Diversity & Inclusion in Investment Management."³²

The three most popular ideas chosen by XPs were understanding biases (in foundational concepts), communication, and data (in measurement and accountability). The only ideas not selected by any organization were "know your candidate" (in talent acquisition) and "cultural taxation" (in networks).

At the end of the Program, we asked the XPs to complete a self-evaluation of these different areas, noting in which areas they were already successful, which areas were in progress, which were too early for the organization to consider, and which were not relevant. The areas with the most already successful responses included the following: having a good definition of diversity (68% of organizations), successful internal networks (41%), and effective

communication (29%). Clearly, there is still room for more progress.

Description of Original 20 DEI Ideas Organized by Category

Foundational Concepts

Define diversity: Commit to a specific, useful definition of diversity that leads to common understanding and shared language. Discuss your firm's motivations for pursuing an inclusive culture, being aware that individuals in your firm may have differing motivations around diversity.

Biases: Employ creative training techniques that will help uncover biases and provide tools to identify them in the future. Simulations and role-playing formats allow people to test real situations to see their natural reactions.

Intersectionality: When creating an intentionally diverse group, do not oversimplify the demographic profile of individuals. Challenge assumptions based on a sample of one. Diversity should cover both visible and invisible dimensions. This term recognizes that individuals are a combination of characteristics (i.e., that intersect), and categorizing them in only one dimension reduces the opportunity to leverage their perspectives and does not reflect their full identity.

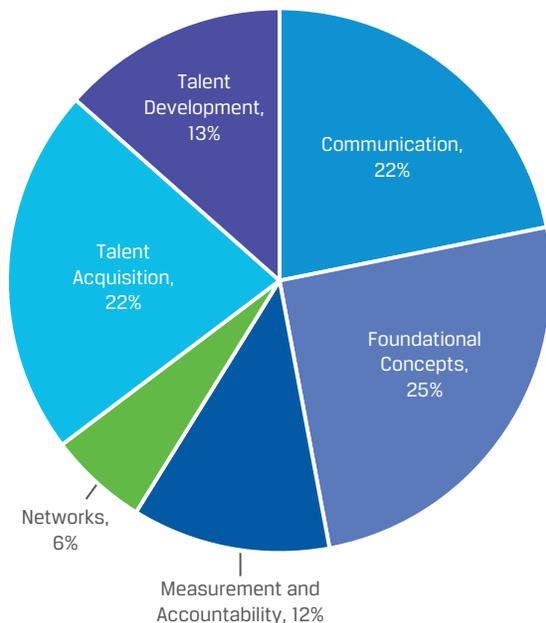
Communication

Communicate: Have regular communications from senior leaders about diversity efforts. Provide talking points to help the broader management team initiate discussions, with the caveat that official talking points are simply a resource for authentic conversations.

Storytelling: Encourage the use of stories within and across organizations in two ways: (1) Personal stories help staff understand how experiences have shaped their colleagues and thereby enable greater leveraging of diverse perspectives, and (2) stories are the basis of qualitative evidence about how D&I progress is made.

Open dialogue: Encourage candid conversations about diversity topics and informal discussions about current events.

EXHIBIT 5. TYPES OF IDEAS SELECTED



Talent Acquisition

Outreach: Align corporate citizenship with efforts that build the pipeline by generating awareness and interest in math and investment management.

Candidate slates: When engaging an executive search firm, explain your firm's definition of diversity and select search firms that have a track record of providing diverse candidate slates.

Interviewers: Create diverse interview panels whenever possible, leveraging the diverse viewpoints in your firm. Structure the feedback process so that all voices are heard.

"Always on" recruiting: Adapt your recruiting mindset to an "always on" approach, recognizing that opportunities may arise quickly and outside of typical recruiting schedules. Attend conferences and expand the network beyond familiar recruitment pools (i.e., the usual colleges and alumni networks).

Know your candidate: During the hiring process, seek to learn broadly about the background and perspective of each candidate and consider how differences can be leveraged to improve your firm's effectiveness. Although every interviewer should be educated about the kinds of off-limit questions and topics that could offend or cause legal issues, being too hesitant to connect at a personal level also hinders the process and could give the impression of an intolerant firm culture.

Talent Development

Mentors and sponsors: Encourage mentoring at your firm, and urge leaders who are well regarded and influential within the organization to become sponsors. Teach them what each role entails.

Retention: Conduct stay interviews with employees to understand why they choose to stay at the company and what might make them leave. Third-party interviewers will be most effective. Consider carefully which employees are asked to participate so people do not feel singled out.

Returnship: Create a returnship program or other ways to fill the pipeline from the middle. Encourage recruiters and interviewers to consider nontraditional career paths.

Measurement and Accountability

Data: Beyond tracking employee demographics, use such tools as the Global Diversity, Equity & Inclusion Benchmarks to identify gaps and strategic action items. Do a gender pay gap analysis. Ask about inclusion when conducting employee engagement surveys.

Compensation: Tie leadership-level compensation to progress on culture and diversity metrics. When making promotion decisions, consider a person's ability to hire, develop, and lead a diverse team.

Business diversity: When selecting asset managers, ask consultants to propose diverse slates of firms consistent with your definition of diversity. Differentiate between emerging firms and firms with diverse ownership. Report results and metrics by firm category.

Networks

Internal networks: Create programs that facilitate exposure to people across the organization—for example, internships, cross-training, rotational programs, and ride-alongs (e.g., shadowing or attending meetings with senior leaders).

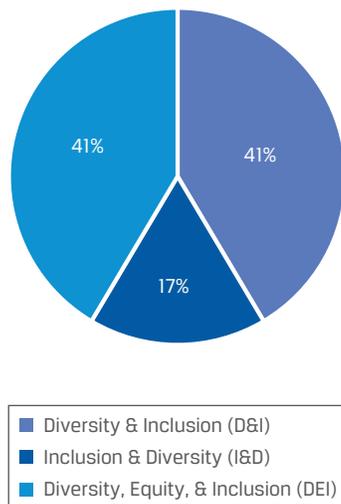
Culture vs. policy: Track who talks about D&I to understand how infused it is in the culture: Are you missing those in middle management?

"Cultural taxation": Create processes to ensure that employees engaged in D&I efforts are adequately compensated and recognized for their time and that such efforts are considered when making personnel decisions. Build in time for these activities instead of making them add-ons. This is a phenomenon in which people from historically underrepresented populations are doing extra work to advance firm diversity (i.e., they are overtaxed), and there is a negative correlation between doing this work and getting promoted.³³ In other words, doing diversity work is penalized because it takes them away from other, recognized work.

Foundational Concepts

XPs assessed their business readiness before instigating change. There was a general recognition that "hitting the ground running" might not produce the best outcomes in the long term. Those organizations starting out, therefore, focused positively on these foundational concepts.

EXHIBIT 6. HOW DOES YOUR ORGANIZATION CURRENTLY REFER TO YOUR EFFORTS?



Define Diversity

What Should You Call Your Program?

The first decision point for a DEI leader is the name of the program itself. **Exhibit 6** shows that "diversity, equity, and inclusion" (DEI) now rivals the more traditional term of "diversity and inclusion" (D&I) in terms of popularity. Some choose to list inclusion first.

Equity is a complicated concept and can be challenging for organizations. In the context of the workplace, it means the task of eliminating barriers and root causes that have prevented underrepresented groups from full participation. This goes beyond equal opportunity, and organizations should think carefully about whether they can deliver on that as a promise. DEI is growing in usage as a term, though most of the mature and best-developed programs use D&I as their terminology. We use "DEI" in this paper, while noting the risk this term may create in terms of overpromising.

What Is Your Definition of Diversity?

Next, most organizations (85%) have a definition of diversity, and two-thirds of organizations say they have a good definition of diversity. While revisions may be needed over time and the development of a definition can be challenging, it is one of the few areas with a clear deliverable that can be managed by a dedicated leader. In their check-in calls, XPs reported that the process of formulating their definitions was valuable as an exercise in and of itself. Building ownership was one key outcome.

EXHIBIT 7. COMMON LANGUAGE IN XPS' DEI STATEMENTS

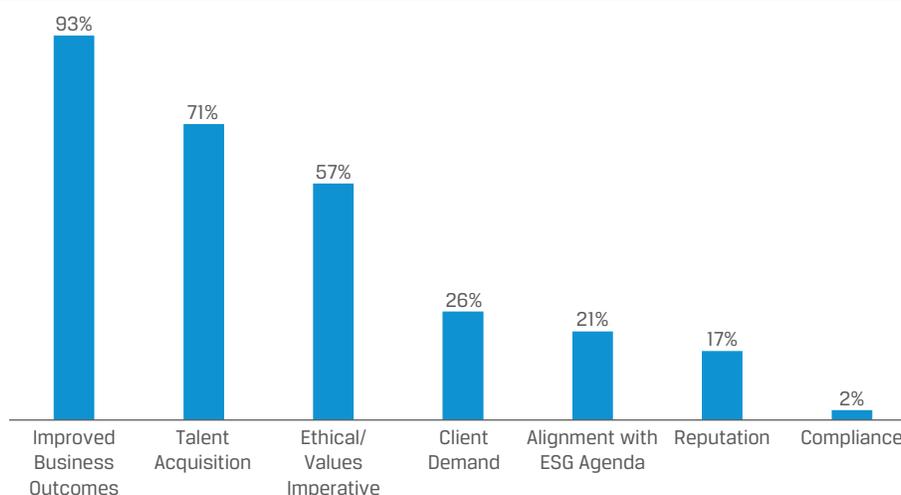


The word cloud in **Exhibit 7** indicates common words used in the Experimental Partners' DEI statements at the start of the Program.

By the end of the Program, the organizations' statements had changed only slightly. While this may be surprising given the amount of change during this time period, developing a shared language takes time for an organization. It is the sign of a good diversity statement if it can largely endure over time while having the flexibility to adapt. We anticipate that statements will change further in the next two to five years, particularly regarding the use of the term *equity*.

What Motivates Your Organization to Do DEI Work?

The definition chosen by organizations will often link to the motivation the organization has for pursuing DEI. **Exhibit 8** shows that the majority of XPs are motivated by improved business outcomes, talent acquisition, and an ethical or values imperative. As one organization said, "This is a business imperative, creating an equitable future." These findings are very similar to responses we gathered in 2017–2018, although improved business outcomes are an even greater motivator now, suggesting that there is a growing consensus around the business case for DEI. The business case is often driven by a combination of competition for talent and increasing client demand for investing in businesses with sustainable business practices. Organizations are exploring how DEI can lead

EXHIBIT 8. FIRM'S MOTIVATION FOR DEI ACTIVITIES (SELECT UP TO THREE)

to better decision making, more effective teamwork, and overall better investment outcomes.

Biases

The most common diversity activity of organizations in the Program and more broadly continues to be training related to understanding biases. Many XPs have been focused on this, and some have been conducting unconscious bias training (UCB) for a decade or more. The concept has been applied in companies and educational institutions since the 1930s. If it alone were the solution, the issue would surely be solved by now.

XPs who have started to think about UCB as just one part of an overall program seem to be the most effective, recognizing there must be opportunities to apply the learnings and to refresh and update employees' knowledge over time. The question should not be, What unconscious bias training should we do? Rather, it should be, What kind of unconscious bias training should we do *now*? Training that is iterative and close to the point of relevance can be helpful. For example, organizations can explicitly link training for team leaders to the annual appraisal process or a hiring drive. But UCB is not the quick fix many XPs may have envisioned.

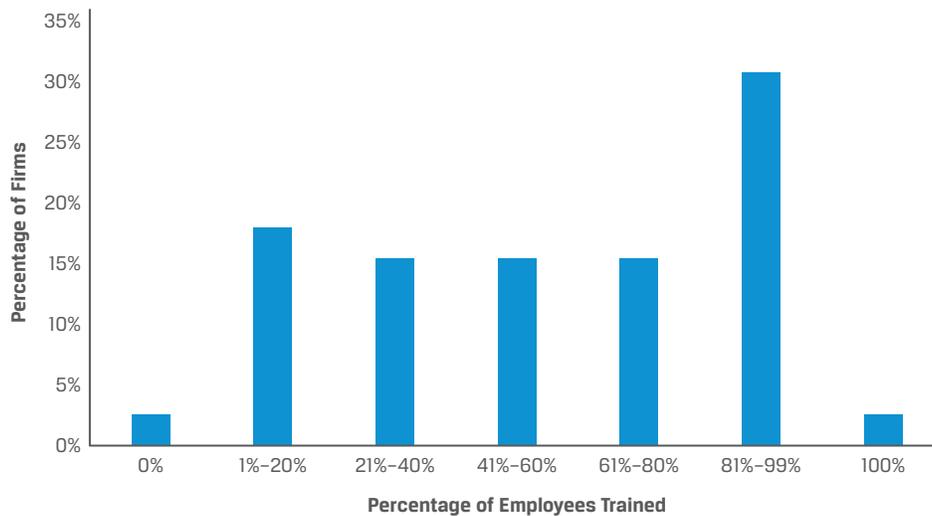
One XP found it helpful to think about UCB not as an end in itself but as a grounding for building cultural intelligence, and this made more impact than UCB without a clear business purpose. UCB also worked if used as a due diligence approach aligned with behavioral finance. Typically, UCB was introduced early in the sequence of inclusion interventions.

How Much Training Have Organizations Done?

Although training programs before COVID-19 were primarily done in person, organizations were able to pivot to online courses. For many, the work-from-home environment allowed more time for training. By December 2020, approximately a third of the organizations reported that 80% or more of employees had completed these courses (see **Exhibit 9**).

What Is the Difference between Unconscious Bias Training and Inclusive Leadership?

XPs have begun to move toward inclusive leadership training instead of unconscious bias training, particularly for team leaders and senior management. Usually, UCB training raises awareness as a first step. Inclusive leadership³⁴ is about including individuals from the widest range of cultures, ethnicities, genders, and so on, and incorporating them all into a team. This takes skill building, with the expected result of behavior change in leadership style. Necessary characteristics for an inclusive leader include curiosity, humility, commitment, and cultural intelligence. An effectively staged program can start with bias awareness, move to developing skills in mitigating bias, and then empower change to produce more dynamic and innovative outcomes rooted in effective collaboration. Inclusive leadership training can work well when integrated into leadership coaching.

EXHIBIT 9. EMPLOYEES TRAINED ON UNCONSCIOUS BIAS AND/OR INCLUSIVE LEADERSHIP**Should Training Be Mandatory or Voluntary?**

A major point of discussion is around mandatory versus voluntary training. Many have chosen to have mandatory training for managers and then voluntary training for the rest of their employees. The formats of these UCB training programs may differ in order to be scalable. For those doing voluntary training, an initial participation rate of about 30% is typical, and this can increase over time with multiple offerings, particularly if senior leaders take part.

Participation rates can be remarkable, though, and the anti-racism protests served as a catalyst for learning: One organization found that 70% of employees had registered in the first week and 7,000 courses had been taken. Another organization found that with a small investment in time and limited resources, it was able to hold cross-organization training, book groups, and discussions during this time. For example, it held focused conversations on the Black and Latinx experiences that would have been more difficult conversations previously. Bite-sized resources can have an even bigger cumulative impact. Some XPs' voluntary participation rate with these resources has reached 100%.

Several XPs made training mandatory for all employees following the anti-racism protests. The XPs indicated that these training sessions were well received, perhaps due to current events. However, mandatory courses generally risk alienating members of the organization's majority groups.³⁵ A heavy weight of expectation is often placed on UCB to change culture

quickly even though evidence shows that repetition is required and managers need to be able to demonstrate relevance to improving business outcomes.

What Are Some Ways to Make Training Sessions Particularly Engaging and High Impact?

XPs explored many creative approaches, including the following:

- Use of the Implicit Association Test³⁶ as prework, combined with small group discussions to share reactions, which can make the training more personally relevant
- Role play by actors to show biases in action
- Encouraging participants to share personal stories (i.e., bringing in storytelling)
- Having a tone of low guilt, high responsibility
- Doing UCB training with a team during its annual strategy meeting, which helped make it more connected to the business and allowed people to see ways to connect the learnings with future activities

How Can an Organization Extend the Impact of the Training?

A common concern is that even if the training is sound, much of the knowledge is forgotten soon after the class is over. XPs agreed that the first set of training sessions usually is focused on awareness of biases, but time constraints mean they cannot delve into too

many strategies on how to manage them. XPs found ways to continue the impact:

- Actionable follow-up training that answers, How do I apply this to my job?
- Having a refresher training before hiring or performance review time
- Giving a helpful hints tool about bias (a prompt sheet) to managers during performance appraisal time, reminding them of biases common during evaluations
- Incorporating UCB advice into training for hiring managers and interview guides at the outset
- Including UCB courses as part of the onboarding process for all new employees
- Adapting and reframing training:
 - "Making better decisions" improved engagement with investment teams.
 - An exercise in reviewing demographic data to detect impact was a good way to engage quant analysts.
 - In India, discussions around caste were more useful than discussions on race.
- Bringing in a neuroscientist to explain how our brains look for shortcuts based on biases, which was a popular session for portfolio managers and investment analysts
- Offering a guided tour of a local African-American art and culture center, which attracted a high proportion of employees and received very positive responses because it put UCB into action in a relatable way
- Offering bite-sized training that is easy to access and specific to the management process
- Connecting bias conversations to external events, such as current news stories

One XP did a three-month pilot using a behavioral nudge app. A group of 100 employees used it to help them recognize their biases, and then it nudged them toward ways to overcome them. Employees reported that after using the app, they felt more educated and better able to interrupt negative messaging or decision making through these nudges. A range of these apps are now available.

Intersectionality

Understanding and applying the lessons of intersectionality can take organizational DEI strategy to the next level. However, it needs the foundational work to be established before being introduced.

How Can Organizations Connect DEI Areas for Greater Impact?

This topic was not chosen as an area of focus by many organizations, despite an increasing use of the term. Since intersectionality tends to be a focus for more mature DEI programs, this is consistent with our industry assessment. However, one organization put this concept into practice by encouraging collaboration between ERGs, and this is a practice that 90% of XPs support.

Intersectionality also emerged in unexpected places through storytelling. One white cisgender male leader shared with colleagues his personal history as the grandson of Holocaust survivors; he could speak to family trauma growing up and how it made him empathetic to underrepresented colleagues.

Foundational Concepts Key Takeaways

- **Start with leadership support:** Having support from leadership—from the CEO all the way down—is essential. If leaders communicate with clear messages about the purpose of training, it is more likely to succeed.
- **Make a training communications plan:** With a voluntary training program, a robust communications plan is needed, and it may still take time for a majority of employees to participate. Effective UCB training requires a repeat every two years at a minimum.
- **Adapt globally:** It is important to recognize cultural differences needed by offices globally, and it can be challenging to find one vendor that can provide multilingual training.
- **Use feedback:** Collect feedback from participants at all times and make adjustments along the way.
- **Measure success:** The success of training is most commonly measured by participation rates and session evaluation results. There is an expectation that employee engagement survey results will be positively affected over time, but the impact is less direct. Feedback can deteriorate as expectations are raised by a greater focus on DEI before strategies start to have an impact.
- **Pace yourself:** Book clubs can help with DEI learning, but senior leaders sometimes want to skip over the simple concepts and move to more demanding material, even though they do not have the necessary context. Highly educated investment industry leaders are especially prone

to this temptation since they are accustomed to grasping factual issues quickly. DEI is more emotionally challenging, requires behavioral change, and cannot be fast-tracked in the same way.

- **Create tools:** A simple one-page document of tips, an interactive virtual version, or regular reminders can be very effective.

Communication, Storytelling, and Open Dialogue

Explaining DEI initiatives, their purpose and the overall plan, can make a major difference in how employees perceive them.

Communication

During the Program, XPs became more accustomed to the language of DEI and the degree of discomfort that proved to be an indication of change.

How Can Organizations Talk about Their DEI Work?

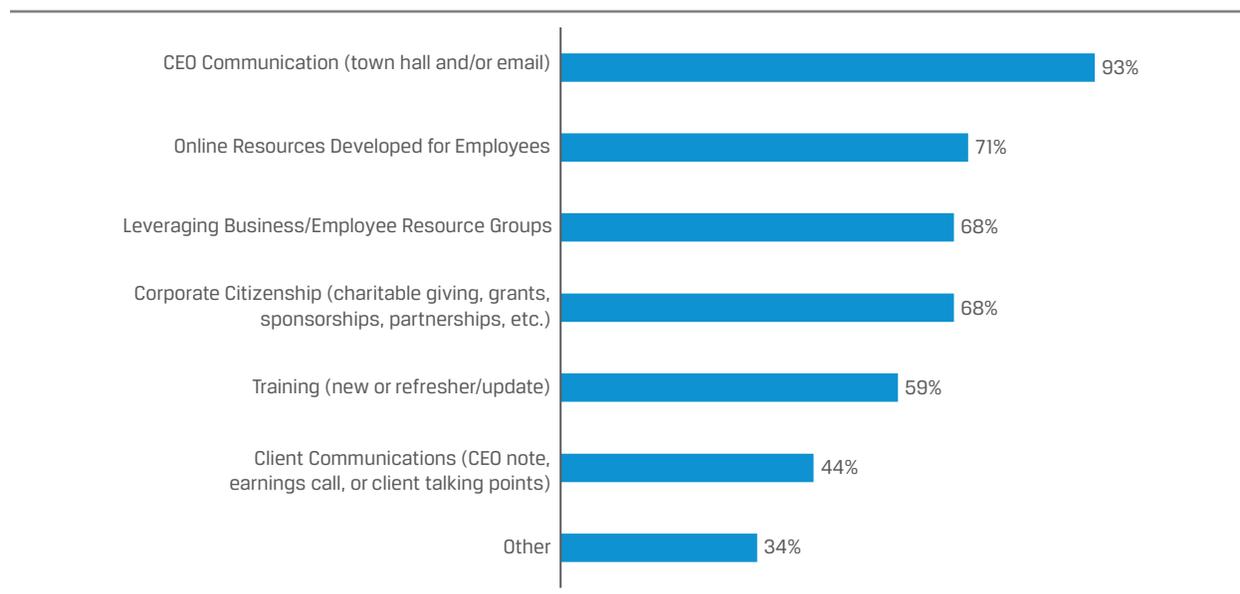
Communication was the second most popular area of focus, after biases. This involved communication internally as well as externally, which became a high priority even among organizations that had not planned to focus on it. Communication was in focus as protests erupted following the deaths of George Floyd, Ahmaud Arbery, and Breonna Taylor. The actions XPs took are reflected in **Exhibit 10**.

Not surprisingly, XPs' check-in calls during this time focused almost exclusively on these events. We saw a marked change in the language the XPs used in our calls, as words that had previously been almost taboo became common concepts not only in the DEI world but among all employees. An analysis of earnings calls and investor meetings found that hundreds referenced systemic racism and Black Lives Matter (BLM) in company events by early 2021.³⁷ There was a grassroots movement to change from talk to action. Colleagues were asking their DEI leaders, "What can I do?" An organization with an established DEI program commented, "*This is the last chance to act, and if we don't, we will lose all credibility that we are committed to acting.*"

Other responses included creating DEI action plans, doing days of service, and holding open dialogue sessions (e.g., courageous conversations, listening sessions) and book clubs with employees. Some XPs took the opportunity to hire a chief diversity officer, who reported to a C-suite executive, in order to sustain longer-term momentum.

Three-quarters of the XPs now have DEI talking points for externally facing employees, with the rest providing more limited support on an ad hoc basis. An interesting development has been that the DEI specialists, who usually are in human resources and are only internally facing, now are being called upon to come to meetings with clients and prospective clients. In some cases, DEI is a major area of focus in client updates or a significant factor in the decision to work with a new investment manager.

EXHIBIT 10. ORGANIZATIONAL RESPONSES TO ANTI-RACISM PROTESTS



In terms of measuring what communications work internally, XPs monitored views of DEI videos and tracked visits or views to the DEI site to see which areas got traction. XPs found that language had to be chosen carefully, and colleagues reported feeling "messed out" if communications were artificial or heavy-handed. For example, the word "quotas" was not received well by skeptics, but "targets" aligned with wider business targets were accepted as part of normal leadership discourse.

Storytelling

The premise behind this initiative is that employees are more likely to engage with DEI stories than with precepts. They may also feel able to share their stories if there are regular forums for doing so.

How Can Organizations Encourage Employees to Share Their Experiences without Overburdening Them?

Storytelling was central to the work of advancing inclusion for XPs. One core component was creating a safe space for employees to explore their understanding and be open to learning. Research shows that growth comes at the nexus of support and challenge.³⁸ Conversation with the majority group needed to be planned; otherwise, it could increase the sense of otherness for underrepresented individuals if they are expected to speak about their experiences.³⁹ A sense of otherness occurs when a well-intentioned comment leads someone from an underrepresented group to feel excluded because they are the *other* group set apart from the *normative* group. XPs found that the number of participants had to be limited or it did not feel like a safe space; typically, 25 emerged as the upper limit of participants, both in person and online. When well managed, these conversations were psychologically safe and helped bridge gaps in understanding.

Breakout sessions structured around specific news coverage of racially charged incidents could reference lived experiences without burdening colleagues. XPs learned, however, that they should be sensitive in expecting people of color to share some aspects of their lived experience, because in many cases this required substantial emotional energy and in extreme cases was akin to asking a veteran to share how posttraumatic stress disorder has impacted their lives—making them relive painful memories. However, underrepresented colleagues often volunteered for this work and were recognized for it.

One organization used storytelling very successfully for its LGBTQ+ Pride group. It had three senior

professionals from big firms in the industry come as guest speakers and share their stories, which allowed the employees to relate more to actual people within the industry and normalized the conversation. Amid visible bias against Asian Americans at the start of the pandemic and heightened awareness of Asian Americans as victims of racially motivated crime,⁴⁰ there was general celebration at one organization's Asian ERG when an Asian American in investment management rang the bell on Wall Street. Another XP started its DEI work with employee stories. The introduction was answering the question, What do we mean by a diverse employee?

Open Dialogue

Breaking the silence, particularly around race and ethnicity, was a key development during the Program.

How Do You Get the Conversation Started?

Acknowledging what you see is a start. Often, not knowing what to say causes some people not to say anything at all. XPs found they could support their employees by sharing appropriate resources, which educated and broadened perspectives and allowed conversations to get started.

One organization developed a popular series of discussions called Courageous Conversations. They covered a variety of topics, including racial anxiety, gender bias, and racial discrimination. They worked with an external partner who presented research on bias and then asked HR business partners, their leadership team, and their legal team to serve as leaders in the sessions to keep the conversation going and monitor the exchanges. Leading these conversations with personal stories from senior leadership can prompt more open dialogue among colleagues. Despite the controversial nature of the subjects, the conversations remained respectful.

At another organization, open dialogues were held with facilitators to create space for difficult conversations, which were often emotional exchanges. One XP saw 85% participation rates, showing it is possible to hold these sessions in the workplace. It can also work with experienced BRGs if they have sufficient support and recognition. One of the participants in the Program reported, "*The fact that we are having these conversations at the organization level is progress.*"

Another advised,

Just get started. . . . Change cannot occur without open dialogue. If you wait until everyone is on board or don't want team

members to be uncomfortable, progress will not be realized. It is when we come together to learn, . . . grow, and connect in new ways that we make progress and break down the ill-formed preconceptions that can influence our actions and decision making.

As one organization said,

You need to push yourselves out of your comfort zone and address issues in real time. We delayed in our response to having internal dialogue following George Floyd's killing but have been better in having timely responses and immediate follow-up following recent current events (i.e., the election and attack on the capital).

Another participant commented,

We have found (and I am sure we are not the only ones) that we should always be honest, humble, and OK with the fact that we don't always have the right answer to every issue.

One XP said,

We started getting comfortable with the uncomfortable conversations speaking to issues of race—social issues very relevant to what has been happening globally. I wish we had started this sooner. It provides a platform for employees to share work and personal experiences and helps others learn or have empathy.

One organization collaborated with industry peers to host more than 2,000 colleagues in discussions around National Coming Out Day and mental health awareness. They also hosted and participated in regular internal dialogues on such topics as race in the workplace, resiliency, and balancing work and personal life. Through these sessions, the organization shared stories and learned ways to become better allies in the workplace.

Communication Key Takeaways

- **Communicate on an ongoing basis:** This was the second most popular area of focus, after biases, as the anti-racism protests made silence an unacceptable option. Having started their DEI

dialogues, XPs found they became part of regular organization communications.

- **Use storytelling:** Storytelling helped unpack and explore some topics XPs had not explored fully before, such as what do we mean by a diverse employee? Sharing stories helps build an interest in learning about "allyship."
- **Develop talking points:** XPs developed talking points for external use, as well as internal use, particularly for client-facing colleagues as demand for DEI data increased.

- **Open dialogue:** Open dialogue starts with acknowledging the reality of peoples' lives—what you see around you. Encourage candid conversations about diversity topics and informal discussions about current events.

- **Have uncomfortable conversations:** XPs found they could not wait for everyone to be at ease with these issues. Having courageous conversations can enable these to take place inclusively.

- **Track internal DEI resource use:** Tracking how often internal DEI resources are consumed helps inform what is working and what is

not when designing videos, podcasts, and reading material for employees.

We started getting comfortable with the uncomfortable conversations speaking to issues of race—social issues very relevant to what has been happening globally. I wish we had started this sooner. It provides a platform for employees to share work and personal experiences and helps others learn or have empathy.

Talent Acquisition: Candidate Slates, Interviewers, Outreach, and "Always On" Recruiting

Typically, huge resources were focused on recruitment because frequently it is the locus of change in the diversity goals of XPs. This is why we made expanding the talent pipeline the first principle and talent acquisition the second principle of the CFA Institute DEI Code. The general expectation was that organizational diversity could be increased through recruitment. However, the impact not only of COVID-19 but also of the industry slowdown, with fee compression making increasing an organization's headcount harder, meant XPs could not just rely on hiring to increase diversity. A core long-term strategy was to work on creating an inclusive culture so that when underrepresented

individuals were attracted to join, they were more likely to stay. In the meantime, all employees could benefit from the change in culture. If hiring was an option, the majority of XPs wanted to make the most of the opportunity to bring about change, balanced against the urgency most hiring managers felt to have a role filled.

At some organizations, candidate diversity data analysis was required to secure sign-off for a new hire. Our research showed this extra step had the effect of increasing diversity in the candidate pool and extending the duration of the hiring process, but the outcome of more hires from diverse backgrounds was found to be worth the extra time and effort.

Example in Practice

Virtual interviews: Once the move to remote work occurred, many organizations continued their recruitment efforts by conducting virtual interviews. One organization noted that an unexpected benefit was that this allowed them to see how the candidate dealt with technology and remote communication, which are important skills for success in the increasingly tech-savvy and globally connected investment industry. It is important to set the expectations for this virtual call prior to having the interview so that both parties have a clear idea of what is expected, when to ask questions, how to interject with responses, and so on. The organization also used technology to engage with high school students in sourcing for possible internships. In this case, virtual interviewing was more accessible for students and less intimidating for those unfamiliar with an office environment. The result was that they were more confident in the interview, and more students from diverse demographics attained internships.

Many organizations are exploring how artificial intelligence (AI) can improve their talent acquisition processes. New techniques are being applied to screen CVs (curricula vitae) and recognize embedded biases in the wake of the issues discovered in Amazon's hiring algorithms.⁴¹ In addition, many organizations now use tools to create more inclusive job descriptions, with guidance to help the hiring managers. Training investment teams to refine job description language using software helped, but it also exposed their biases—many of which they actually valued—so it was difficult to make changes. Educating investment team leaders on the importance of "cultural add" versus cultural fit helped, though. Cultural add is a concept where the hiring manager appoints people on the basis of the additional differences of identity, perspectives, thinking styles, and experience they can bring to the team, rather than how easily they fit in. It bears comparison to the principles of portfolio diversification. Overall, many XPs sought to make their recruitment process more rigorous during the Program.

Candidate Slates and Interviewers

XPs made such changes as establishing demographic representation goals and supporting process changes, including significant improvement to the interview process, the development of interview training, the introduction of diverse interview slates, and interview panels—all are required to achieve significantly different outcomes from the past. One XP noted that its adjusted hiring practices attracted a more diverse pool of candidates, and 24 of the past 25 hires have been female, BIPOC (Black, Indigenous, and people of color), or both.

See **Exhibit 11** for how these policies have been implemented. In most cases, diverse candidate slates and diverse interview panels are encouraged

EXHIBIT 11. POLICY IMPLEMENTATION: CANDIDATE SLATES AND INTERVIEW PANELS



but are not required. Diverse panels are important signifiers that underrepresented groups are part of the organization; they can help answer candidate questions about their experiences working there, even if they are in a different part of the business. For candidates to be recognized for their skills and attributes, there needs to be more than one candidate from a historically underrepresented background on the slate—to avoid being viewed as “the diverse candidate” or, even more pejoratively, “the minority hire.”

One organization noted that it has adopted a version of the US National Football League’s “Rooney Rule” for recruitment,⁴² meaning that recruiters must report aggregate diversity data for candidate slates throughout the process. The rule required that the organization could not confirm an individual’s identity until the offer was made, and at that time the individual could self-identify. This contributed to a diversity recruitment diagnostic. For key roles where recruiting diverse talent had been a challenge, the DEI team created a specific recruitment plan.

Outreach and “Always On” Recruiting

Although the recent period has been a turbulent one for hiring, nearly all the XPs (93%) have been expanding their network to recruit a more diverse pool of candidates.

This work is consistent with the “always on” recruiting mindset, meaning that to get the best talent, you may need to break out of overly rigid recruitment cycles.

Given the events of 2020, more XPs sought collaborations with affinity groups and racial inclusion foundations. Partly, XPs felt driven to act after decades of talk, but they also realized they were not necessarily ready to make big changes, so there was some element of reverse engineering. This was not necessarily a negative outcome, but it accompanied the recognition that with the taboo on acknowledging racism gone, action needed to be visible and real.

As STEM-related industries also increase outreach efforts, sometimes for women with similar skill sets (data scientists, risk analysts, and business and IT analysts), women have more choice, so some XPs concluded that the investment industry needs to

step up its efforts to attract talent to the industry. Despite the competitiveness of the industry (including for talent), this is an area where there is significant collaboration occurring because it will benefit the industry more broadly. Since small organizations often do not have brand recognition—with both good and bad associations—they have to work harder.

For smaller organizations, part of outreach may be developing an employer brand. Becoming more deeply involved in students’ lives by being involved in off-campus investment learning activities can be a solution. Smaller organizations also may not have marketing or communications support for recruitment, so their recruiting strategy often relies more on employee individual networks.

One organization said,

We learned that we would have benefitted from more intentional external strategic partnerships. In retrospect, we wish we were earlier entrants in fostering these relationships.

We learned that we would have benefitted from more intentional external strategic partnerships. In retrospect, we wish we were earlier entrants in fostering these relationships.

One popular strategy is to have an internship program, and these continued virtually during the COVID-19 period. In fact, one XP reported a very strong intern class with remote presentations that were the best the managers have ever seen. A program targeting first-generation college students resulted

in 75% of candidates being from racially diverse demographics. Many organizations in the industry, including XPs, hosted interns from Girls Who Invest, an organization committed to changing the imbalance in gender diversity on investment teams.⁴³

Recruiting from a broader range of schools was also a popular strategy. Many XPs’ outreach activities for early-stage careers involved recruitment at a number of Historically Black Colleges and Universities (HBCUs) and Hispanic Serving Institutions (HSIs). Given the competition for hiring, one organization said it offered itself as a resource, which can include classroom visits, case competitions, and mock interviews to help students understand the industry. Business and investment clubs at universities were also found to be effective partners.

Examples in Practice

Company ambassadors: One organization applied "always on" recruiting with a company ambassador approach. Volunteers used their network to talk about the organization and build interest for future employment, even when there were no current openings and the individuals approached were not actively seeking new roles. It began with about 15 volunteers and grew to 40. The ambassadors could each have two candidates in their pipeline and talk to the candidates twice a year. This was a very soft sell approach. The organization helped focus this effort by giving guidance about prospective candidates that were likely to be qualified. This can work for both entry-level and experienced hires. The organization found that employees tended to react enthusiastically to the initiative, but at both entry points, the employees involved needed support and guidance to make the outreach effective.

Client networking: Another example was leveraging the networks of female portfolio managers to bring together groups of 10–12 women, typically clients, prospects, and friends, for an investment-led discussion about the firm's thought leadership. These participants' names were then kept in mind for the future as potential hires.

First-mover advantage: One organization carried out a diverse talent research project with an external firm, looking for people about five years before they would typically be considered. This was a more inclusive approach to focusing on years of experience. This identified about 300 candidates, and the organization then narrowed it down to 30. Then it did speed interviews with them and hired three in Year 1 and two in Year 2. They were candidates who the hiring manager was keen to hire, candidates who did not even know they could qualify, and this led to increased diversity in their organization.

Talent Acquisition Key Takeaways

- **Recruit younger and broader skill sets:** Targeting high schools and colleges, especially students who have not yet declared their area of study, helps those in historically underrepresented communities pursue STEM and consider investing as a career path down the road. Recognize that brief, early contact with sophomores/juniors is valuable: When they have some experience, they may come back to join permanently.
- **Use your employee resource groups to recruit:** This is especially important to build the middle of the pipeline and identify lateral hires. ERGs can be helpful to maintain contact with potential candidates from underrepresented groups over an extended time period. ERGs are often eager to provide support related to recruiting a diverse group of potential employees.
- **Consider skills and potential:** Managers often prefer someone who can hit the ground running (i.e., someone with experience). There can be a blind spot for just hiring experienced talent. The solution is not to focus on the years of experience but, rather, to work with the basic skills required to do the job. Then, map this description with on-the-job training programs and the bench strength of the team to know exactly how many years of experience are actually needed. It is important to unpack what is being sought versus what is actually needed.
- **Educate students:** Many students do not understand what investment management is, so there is potential for more industry collaboration on this topic. In response, we added "pipeline" as the first of the CFA Institute DEI Code principles. For entry-level candidates, have various touchpoints to keep the conversation going. Reach them early and allow them to utilize the organization as a resource to answer questions related to working in the industry.
- **Track what works:** When these programs work and attract more applicants, the organization needs to make sure there is a good tracking system, capturing engagements and their types (e.g., email engagements, lunch meetings, phone calls).
- **Partner with student organizations:** XPs without a high profile with the general public found working with organizations that hold global events, such as the annual CFA Institute Research Challenge, to introduce students to their organization helped attract a diverse pool of candidates.
- **Use volunteers:** Identify employees already working with high school students in the classroom.
- **Host student programs:** Bring students from the campus to give them exposure to the organization and its culture and all the possible roles in investment management.
- **Adapt your onboarding:** "Always on" recruiting may require a change to the onboarding process since organizations have longer relationships with new hires and may hire outside of a typical cycle.

Talent Development: Mentors and Sponsors, Returnship, and Retention

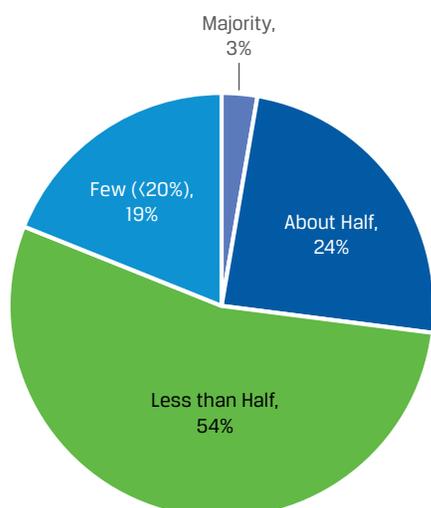
Building career paths is an important area, and many leaders said that retention of employees from diverse backgrounds is even more challenging than recruiting them. Indeed, there seemed to be a preference to hire new staff instead of promoting internal candidates, despite the investment already made in employees, as seen in **Exhibit 12**.

Mentors and Sponsors

The results shown in Exhibit 12 suggest that employees are not receiving adequate mentorship or sponsorship to progress in their careers. XPs also may have been failing to fully realize their investment in human capital. Typically, the XPs focused on high-potential employees rather than targeted interventions for employees who have been stuck in a role for some time and may have overlooked potential. Therefore, in general, we saw a relatively conventional approach to talent management.

Mentorship and sponsorship programs are examples of how to boost investment in people. Mentors help prepare people for career success, and sponsors advocate on their behalf, particularly for promotion and stretch assignments. Mentors typically give wide-ranging advice, including which training or credentials help with career progress, whereas sponsors are focused on advancing the career of their protégé.

EXHIBIT 12. WHAT PERCENTAGE OF ROLES ARE FILLED WITH INTERNAL CANDIDATES?



Sometimes mentoring programs can be very time intensive, so organizations need to innovate on how to connect employees. For example, one organization had a mentoring program that was volunteer based, where volunteer employees mentored other employees on specific topics within office hours in slots of 30–60 minutes. This flexible model allowed both the mentor and mentee to develop skills that otherwise might have needed a formal, time-consuming mentoring process.

Mentorship programs can be resource intensive in terms of logistics, but they come in many different variations and may only have been done in certain areas of an organization. Many XPs are doing high-potential training, and some are focused on underrepresented populations. Sponsorship historically tends to be more organic in nature, so fewer formal programs exist, except in large organizations. However, following the success of sponsorship efforts in improving gender diversity at senior levels, that approach is changing. The marker of a successful sponsorship program is that participants progress as a result.

Many XPs had begun with gender diversity development programs, but not all had racial diversity development programs, which was the area of most rapid change during the Program. Even where these programs existed, they were not always well known. High-potential, underrepresented employees often needed to find out about the voluntary programs available to opt in. Regular DEI council communications also boosted engagement. The range of programs is shown in **Exhibit 13**.

Returnship

Other forms of development, such as returnship programs (for those who have taken a career break),

EXHIBIT 13. TALENT DEVELOPMENT PROGRAMS CHOSEN

Talent Development Programs	% of XPs
Mentoring	73%
Talent development/high-potential programs	66%
Sponsorship	32%
Returnship	22%
Reverse mentorship or peer mentorship	15%

peer mentoring, and reverse mentoring, remain relatively rare. One organization engaged leaders effectively through reverse mentorship, which tended to be cross-generational and involved predominantly white male leaders engaging with junior colleagues from diverse backgrounds.

To incentivize what is often a less supportive or frozen middle management to try new approaches, XPs found tying results to financial incentives most effective. This outcome contrasted some research that suggests that tying DEI outcomes to compensation can be counterproductive in producing changed mindsets or can produce unintended consequences.⁴⁴ The key is in determining the definition of success.

Example in Practice

Alumni community: One organization noted that it has a diverse alumni base, so it follows up with this group with quarterly updates that include current openings so they can provide referrals (although it did not offer a financial reward for referrals; that was only for current employees). Some had alumni groups on LinkedIn, but others just relied on an email database. This kind of "always on" recruiting can be organization-wide and is more likely to build networks of a diverse pool of potential candidates and identify individuals who are ready to be contacted when vacancies occur.

Retention

Stay interviews are a tool used to address retention challenges. These are like exit interviews but are done proactively to retain talent. These are different from engagement surveys or suggestion boxes. Among the participating XPs, 88% do exit interviews but just 22% do stay interviews. Stay interviews can be difficult to execute without raising expectations as to promotion. To avoid that risk, we found it was important to do these broadly among the employee base, not singling people out based on demographics. We see this as an area for development for the industry since retention is a core outcome of an inclusive culture. We also made retention part of the third principle of the CFA Institute DEI Code as we considered this work so important in changing workplaces.

Mental health has been the focus of many conversations with colleagues. One organization introduced weekly calls with medical practitioners, expanded medical benefit coverage, and introduced access to a virtual health care app. It also saw

inspiring examples of how employees worked together to both support each other—through such activities as virtual yoga and fitness classes—and to help those in need, including raising nearly \$1 million for charities in Canada, the United Kingdom, Hong Kong, SAR, China, and Singapore.

Neurodiversity is an area of growing interest. Just as the technology industry identified that individuals with autistic spectrum condition (ASC) can excel at data analysis, a segment of the investment industry is also keen to engage with this group. In particular, XPs were working to understand what adaptations might be necessary to enable those with ASC to flourish at work, such as more spacing between desks, different lighting, and ambient noise reduction.

The most effective XPs took a holistic approach to talent development. During the Program, they continued to embed DEI in their talent review processes, succession benches, and development plans to improve promotion readiness and advance talent from all backgrounds. We also saw the addition of internal and external development and leadership opportunities that help high performers and high-potential individuals leverage peer networks and experts in other industries as coaches, mentors, and sponsors.

Talent Development Key Takeaways

- **Search for overlooked potential:** High-potential programs are typically focused on fast-tracking those who are already performing well. While these programs are useful, it is also worthwhile to consider targeted interventions for employees who have been stuck in a role for some time without recognition. Promotion metrics are an important way to understand how inclusive the culture is. Promotion is not just about a change in job role; it can also be about getting stretch assignments. We made "promotion" part of the third principle of the CFA Institute DEI Code.
- **Create intentional and rigorous programs:** Rigor in sponsorship and mentorship programs both helps accountability and builds conviction. Programs structured with Individual Development Plans (IDPs) and matching tools make the work intentional. We find that unmonitored spontaneous mentoring, for example, risked biases in selecting candidates. Note that pilots in global organizations or even US-only firms may not work the same way in all centers.
- **Track effectiveness of programs:** Following the progress of those in sponsorship and mentorship

programs helped reduce the number of departures of employees from diverse backgrounds.

- **Frame programs carefully:** Sometimes it can be challenging to convince employees of the worth of programs aimed at specific audiences. For example, at one XP, a talent development program started with the intention of focusing on female employees but was not successful because it was perceived as a program designed to fix the women rather than enable them to succeed. Framing these programs as rigorous and effective career catalysts is important in persuading potential participants of their value.
- **Select sponsors strategically:** Sponsorship programs run by XPs tended to show that they were much more successful if the sponsor and the sponsored employee were in the same line of business, with the sponsor having visibility into the sponsored employee's work. The success of sponsorship programs can be monitored through promotion and performance data.
- **Use returnship programs:** These are not widely used currently but can offer a structured route back for former employees or for new candidates after an extended career break. Third-party recruiting organizations specialize in the returners profile, and these can be excellent ways to get talent. Virtual programs are now much more likely to be effective.
- **Cultivate your alumni:** Some XPs recognized that turnover is inevitable, but a boomerang path can benefit the employee and the organization. Some people will leave, but they may return later if the process is well managed. XPs can create brand ambassadors and then welcome them back if these relationships are maintained.

Measurement and Accountability: Data, Compensation, and Business Diversity

Despite investment being a data-centric industry, collection, analysis, and use of DEI data are not yet well developed, although XPs agreed on its increasing importance. A growing number of XPs are linking DEI to compensation, but the relevant data to judge results vary considerably. Only one XP chose business diversity as a topic in the Program.

Data

While data and metrics were monitored across all activities, only a quarter of the participating

XPs chose to focus on this area specifically. Events in 2020, particularly with the data on the disproportionate negative impact of COVID-19 on historically marginalized populations,⁴⁵ prompted many environmental, social, and governance (ESG) experts to think more about how to measure the "S" factor. Measurement forms the sixth and, in some ways, the most important principle of the CFA Institute DEI Code.

Measuring the impact of any program or even an internal communications campaign through rigorous evaluation helps shape DEI strategy. For example, audit work, including sharing expectations at the outset, with External Diversity Partner Organizations (EDPOs) or affinity groups and vendors benefits both sides. Some vendor and affinity organizations have a theoretical national presence, but often coverage is patchy and may not align with the sponsoring firm's locations and they may only have local knowledge.

Some HR teams hired data scientists for their teams, though a significant constraint was the need for employees to self-identify to get a demographic profile. Demographic data were usually analyzed by segment, such as executive team, senior professionals, investment professionals, employees in support functions, client-facing professionals, and board members.

How Are Diversity, Equity, and Inclusion Typically Measured?

The most common way of measuring an inclusive culture is to look at employee engagement surveys and analyze the differences in engagement by demographic segment; triangulating data can give deeper insights.⁴⁶ Looking at promotions and retention by demographics is also very common now, and often promotion cycles will include a diversity overlay to make sure all have been fully considered.

Research by New Financial, the consultancy supporting the UK Treasury, also shows that reviewing pay equity came into focus thanks to the UK Treasury's Women in Finance Charter and the requirement for gender pay gap analysis. The compositions of candidate slates and interview panels are also important in the recruiting process. Monitoring the profile from applicant stage to candidate to hire is essential for full DEI metrics. Ironically, low turnover (10% or lower) can inhibit increasing diversity, which is typically done through new hires. However, inclusion work is relevant to organizations with any population, even if it is not yet diverse.

Exhibit 14 shows the usage of these typical metrics among the participating XPs.

EXHIBIT 14. DEI DATA TOOLS IN USE BY XPs

Tool	% of XPs
Employee engagement survey	95%
Employee demographic data	90%
Promotion/advancement by demographics	80%
Retention by demographics	76%
Pay equity analysis	73%
Candidate slates composition	63%
DEI event metrics (attendance, viewership)	63%
Interview panel composition	41%
Other	12%

In addition to the types of data collected, there was general agreement that it is important to prioritize a small set of key metrics for senior leadership focus, while the DEI team could and should drill down into the data in detail. One organization explained that it found that 5 good data points can tell a story better than 30 that did not relate. Once the practice was established, it could be built out to include more metrics to give greater detail on key issues.

At the outset, some XPs counted diversity through a gender lens only. By the end, virtually all XPs had widened their definition, even if they were yet to collect the data. As one organization said,

Our D&I diagnostic (2019) revealed that a number of staff (both women and men) felt we had devoted too much time and focus to gender diversity and had neglected other dimensions of diversity. To address this, our D&I strategy must set out a roadmap that clearly describes our broad D&I objectives over two to three years. And there is an ongoing need to educate and remind our staff about the workplace challenges faced by women and that women in fact comprise approximately half of our population and workforce, and thus gender diversity is a good place to start if there is a need to prioritize.

The industry desperately needs valid, accurate talent data sources that have a baseline measure for dimensions of diversity beyond gender.

How Do Companies Collect Employee Demographic Data, and Why Does It Matter?

XPs were at very different stages in collecting employee data. Some had completed first or second requests to colleagues, and others were still determining how to approach self-identification.

Demographic self-identification campaigns (i.e., employee censuses) typically took 12 months to plan and design, and they often included legal input. A communications plan is also essential to get employee buy-in. Calling it a demographic survey rather than a diversity survey encouraged more people to complete it.

XPs needed to answer sensitive questions from employees, such as what counted in terms of diversity measures (i.e., whether the race of parents and grandparents matters for demographics). Resistance to the survey was often expressed along the lines of "Don't put me in a box," so XPs had to work with employees to explain the value for them—namely, that

their needs could be better served and concerns better understood by knowing more about them as individuals. We noted the trend report recorded by the US Census Bureau to self-designate as "other"—the fastest-growing racial/ethnic designation.

For employee demographic data to be sufficiently robust for external use, XPs needed 85% of employees to participate.

Typically, this reached about 30% in the first year and 60% in the second year. One organization targeted a 50% response rate within the first year, but that was unusually high. New mandate pitches frequently ask for these data, which are essential information for XPs to have for their diversity work and for the industry as a whole. As one organization said, *"The industry desperately needs valid, accurate talent data sources that have a baseline measure for dimensions of diversity beyond gender."*

One benefit of the process was that collecting the data can show that the organization is making progress. An XP recorded an increase in employees voluntarily and confidentially self-identifying their affiliation to underrepresented groups in the region: 75% of the organization responded to the second year's survey versus 37% to the first survey. It noted seeing positive signs: While not all employees completed the survey, of those who did, it found it was above labor pool

availability (LPA) of visible minorities (40% versus 32% LPA), with about 20% (15 out of 76) of senior leaders self-identified as visible minorities and about 33% (25 out of 76) of senior leaders self-identified as female.

One XP observed that small organizations' leaders often feel they know everyone, although this can be deceptive if colleagues do not feel able to be open about their identity. Assigning identities to employees by visual assessment or assumption is not good practice and is likely to create distrust.

Compensation

Within investment organizations, managers were increasingly evaluated on leadership skills, including managing in an inclusive way, though just one-third of XPs have leadership-level compensation tied to progress on culture and diversity metrics. Other XPs used key performance indicators (KPIs), such as a high participation rate in the employee survey on DEI or EDGE Certification,⁴⁷ as evidence of inclusive leadership to inform compensation awards. Another organization's approach to measuring inclusive leadership was to launch an annual employee sentiment survey and a new DEI benchmark assessment, both developed by the Centre for Global Inclusion.

Reporting also leads to accountability. One organization explained that every department lead would have DEI goals, which have been signed off on by the leadership team by the end of 2020. They must meet quarterly in the presence of the CEO to report progress on these. This was intended to ensure they can figure out any roadblocks and keep moving toward accomplishing their goals. It also widened ownership of both the goals and the data.

Example in Practice

Transparency and leadership motivation: One organization reported diversity statistics on headcount, attrition, and promotion. This visibility created an appetite among senior leadership members to see more, so the organization has continued to expand the amount and types of data provided. Team motivation to improve the metrics also helped encourage people to call out noninclusive behavior, such as team leaders who show favoritism in allocating projects.

Business Diversity

This topic was defined as looking at vendors/procurement, in relation to plan sponsor expectations.

However, it was chosen by only one XP, so it was not possible to collect meaningful data on this idea.

Measurement and Accountability Key Takeaways

- **Use dashboards:** There was a trend toward DEI dashboards for all executives, with quarterly measurement for retention, representation, hiring, turnover, promotions, and manager-initiated moves. The administrative database dashboard could involve complex data management functions, but the data visualization and analytics dashboard should be intuitive and simple: Use clear visuals and minimal tables, and focus on key figures.
- **Calibrate the level of detail:** Too many diversity data points might be counterproductive, particularly in the early stages of collecting diversity data. It is important to prioritize a small set of key metrics for senior leadership focus, while the DEI team should drill down into the data in detail. While it might be tempting to develop correlations, ratios, and all kinds of metrics, do not overcomplicate things.
- **Report publicly:** Some XPs shared on their public websites key DEI metrics to evidence their work. One showed that more than 3% of employees were veterans, and another showed that 11.3% of controllable spending (equivalent to \$1.3 billion) was spent with suppliers from historically underrepresented groups in the last year. Sharing diversity data can say a lot about the organization's inclusion efforts and the opportunities it offers.
- **Focus on employee trust:** Collecting employee census data is challenging, particularly for global organizations with a myriad of different laws and regulations (e.g., the UK General Data Protection Regulation [UK GDPR]). Building trust, including clear communications about the purpose and uses of the data, was key to increasing employee response rates.
- **Explain why:** Make the direct link between the data and business imperatives, including how teams made up of a diverse group of people managed inclusively can produce better decisions.

Networks: Internal Networks, "Cultural Taxation," and Culture vs. Policy

These ideas were approached very differently. Internal networks focused on ERGs and BRGs—the standouts of the program. However, cultural taxation was not selected at all, despite the risk that the increased

involvement of ERGs added to the burden of those from underrepresented communities. Culture versus policy was a rich area of growth for the XPs as they looked more holistically and systematically at change, partly prompted by the wide media focus on the need to address systemic racism.

Internal Networks

This area focused on how organizations structured their DEI efforts. ERGs had become an important element of diversity work at most XPs, and 90% of participating XPs

had these groups. The median number of groups was five, and some large XPs might have twice as many. **Exhibit 15** shows the types of groups represented in the Experimental Partners cohort.

It is possible that some of these smaller groups could grow in the future. For example, the greatest concerns about employee well-being were around mental health (100% cited this as a concern) and childcare and eldercare support (80%), even above the physical health issues related to COVID-19 (59%).

EXHIBIT 15. WHICH OF THE FOLLOWING EMPLOYEE/BUSINESS RESOURCE GROUPS DOES YOUR FIRM CURRENTLY HAVE IN PLACE? (SELECT ALL THAT APPLY)

Type	% of XPs
<i>Race and ethnicity groups</i>	
Black/African American	49%
Hispanic/Latinx	44%
Asian	32%
Other ethnicity (general, Indian, Irish, Italian, Middle East, Native Peoples)	12%
<i>Other groups</i>	
Parents	15%
Faith-based (broad, Christian, Hindu, Jewish, Muslim, Sikh)	10%
Educational (alumni, CFA charterholder)	5%
Allies	5%
Other demographic (military, virtual employees)	5%
Mental health	5%
Other interests (innovation, sustainability, travel)	2%

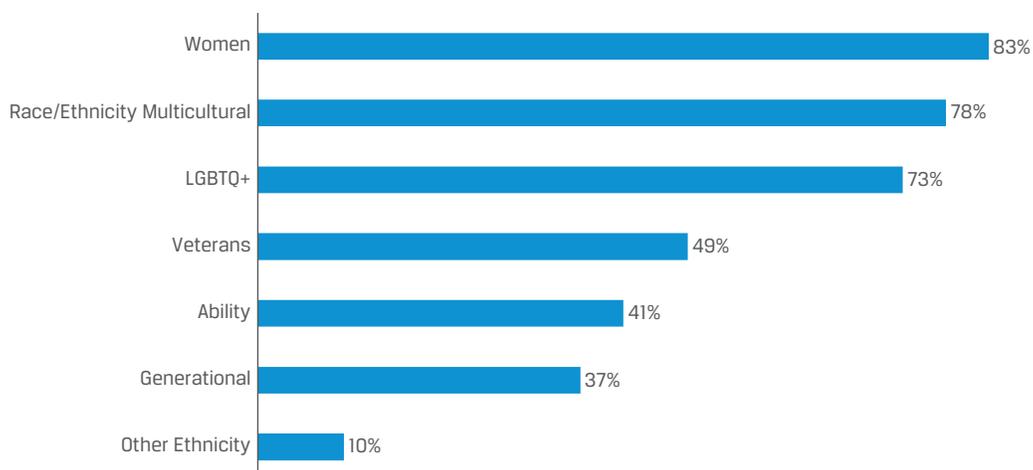
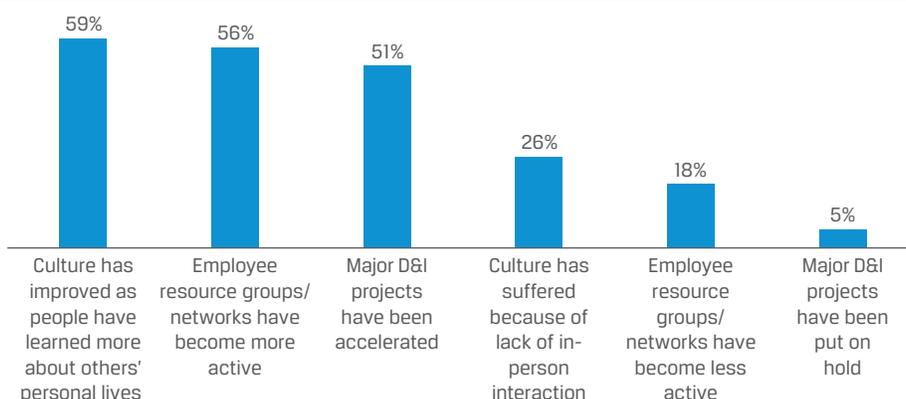


EXHIBIT 16. WHAT IMPACT HAS COVID-19 HAD ON YOUR DEI EFFORTS? (SELECT ALL THAT APPLY)



More than half (56%) of the XPs said ERGs and BRGs played an increasingly important role in 2020, as seen in **Exhibit 16**, both because of the challenges of remote working that highlighted the need for community and because the focus on diversity meant these groups were well placed to advise the organization's executives on how to respond. They were also leveraged for recruiting a more diverse pool of candidates.

One XP launched its Inclusion Education Series (IES) to employees firm-wide in May 2020. Designed and developed by its employee-led BRGs, the IES aimed to increase awareness about inclusion, increase cultural sensitivity in the workplace and community, and support employees in feeling safe to bring their whole selves to work. This work was particularly timely and made them well prepared and more resilient for the events that followed.

Many XPs established new ERGs in 2020, especially ones focused on Black and African American employees and ones focused on Latinx employees. Launching a veterans ERG was another popular move, with one large global firm recording over 8,500 veterans among its workforce. One XP saw a 33% increase in members in the company's ERGs from 2016 to 2019.

XPs that were more advanced (i.e., having moved beyond foundational stages) worked to build out BRGs. One XP reported, *"We've truly activated and elevated our business resource groups with new chapters launching across the globe and greater impact with the business."*

Example in Practice

Collaboration tools: Networks can also form outside of official ERG structures. Another XP used a collaboration tool internally to connect about 1,500 people around such events as International Women's Day, Black History Month, and mental health awareness. It examined how to use this tool to engage people around the anti-racism protests and to collate all the questions staff may have around race more generally.

"Cultural Taxation"

ERGs and BRGs can be very beneficial for organizations, but they run the risk of "cultural taxation," where the work done on diversity is essentially considered to be equivalent to volunteering and not central to the organization's effectiveness. **Exhibit 17** shows how XPs recognized this type of work.

EXHIBIT 17. RECOGNIZING ERG AND BRG WORK

Recognition	% of XPs
Formal recognition, including compensation or promotion opportunities, is given	13%
Informal recognition is given	58%
Recognition is uneven	25%
No recognition is given	5%

ERGs excelled at storytelling, which helped with diversity fatigue—a particular issue given the tragic events at the forefront through the later stages of the Program. A common concern at this time was that Black employees were exhausted, but they did not want the mission led without them. One organization's solution was for them to form a Black Employee Council; their managing the momentum mattered.

One chief diversity officer (CDO) commended her colleague on the investment team: They work together on initiatives where the investment team leader does not rush to the forefront but allows the CDO to shine. She remarked, *"This is what we need to do: not just commend and let Black colleagues be within their box but allow them to rise and shine."*

Culture vs. Policy

At the outset, the focus tended to be on fixing or supporting individuals, but by the end, it was moving toward system and cultural change. Working on the culture to become more inclusive involved everyone, not just the underrepresented groups. This was a similar trajectory to the early days of the gender diversity movement in the industry, which moved from *fixing women* to changing the organization's culture to become more inclusive of women. XPs spent time and resources refining policies to become more inclusive, understanding how making these operational adjustments incrementally helped implement a change in the culture by changing individual employee behaviors.

Key differentiators were understanding the difference between well-intentioned work and a positive impact. This is comparable to considering microaggressions, sometimes referred to as subtle acts of exclusion, where the intention is not as important as the impact. The capacity to review impact without giving undue

weight to intentions allowed XPs to create a learning culture that admitted its failures alongside its successes and adapted in response.

Cultural competence is best thought of as an evolutionary process. It has to be iterative, and it comprises many micro changes, as well as a macro one.

Networks Key Takeaways

- **Use resource groups effectively:** ERGs and BRGs can be highly influential in implementing a DEI program, even in some cases helping with program design. ERGs and BRGs emerged from the Program as great sources of leadership talent.
- **Support resource groups:** Both ERGs and BRGs need to be well supported to avoid becoming fatigued and overstretched, particularly when current events are directly impacting their communities. Resourcing ERGs and BRGs becomes more important as their success and membership increase. Ironically, success can place a greater burden on the leaders of these groups.
- **Link policies to an overall plan:** A comprehensive, strategic DEI plan that builds in changes in people policies is more likely to change the culture than is changing the policies without reference to a wider plan.
- **Align policies:** Creating a more inclusive culture requires revised policies and practices (organizational inclusion) to be clearly communicated to employees and effectively implemented to produce changes in individual behavior (behavioral inclusion). Changing policies alone will not change the culture; behavioral and organizational inclusion will.

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BEYOND THE FRAMEWORK

Progress on DEI in the investment industry has been very slow, despite many declarations of support and calls to action. However, there is now impetus for change, but to harness it, organizations need clear action plans and capabilities.

Building an Infrastructure for Action

Reviewing the Program once it closed, we found that XPs struggled to progress far with DEI initiatives without governance structures in place. Once these structures were established from that foundational work, strategic plans, additional staffing, and empowered ERGs could all combine as the *infrastructure for action*. The design of staffing and the understanding of the expertise needed were also critical to move from mid-stage to more mature DEI work. Finally, clear strategic plans were essential to XPs at all stages of inclusion maturity, the most mature integrating DEI into their business plans.

Governance Structures

XPs generally led with the establishment of a global DEI committee or a global inclusive leadership council. Typically, these were made up of key leaders from various areas of the business and were described by one organization as "*our biggest success*." Global XPs often established regional DEI councils that reported into the global committee following the success of active DEI councils in the United States. Another core governance effort was creating a comprehensive structure for ERGs, with assigned executive sponsors for each ERG.

Governance can start with only tepid support from boards, but sustained support is important. Visible, educated CEO commitment is crucial to this work, and ideally it is reinforced by board support. In the early stages, initiatives need quick wins; these build confidence for the next, more ambitious stages. One XP reported,

We are still in the very early stages, but promoting conversation, keeping D&I top of mind, and thinking more strategically about

our approach have been some of the biggest successes.

The main outcomes of these governance initiatives are increased impact, accountability, and transparency.

Staffing

Many XPs hired a DEI director or chief diversity officer (CDO) in the last 18–24 months, adding considerable expertise and experience to existing teams. Hiring a CDO was often intended to drive the work of defining diversity and the mobilization of ERGs. The reporting structure for the new CDO was seen as a critical measure of investment and commitment. Reporting to the CEO was an indication of an organization's DEI maturity.

At one organization, a program manager started to coordinate all DEI activities globally in late 2019. Following that, all the various DEI initiatives going on globally came together, and the employees involved became more able to include this as part of their personal work and goals. This meant that the organization was more ready to respond to the BLM protests and more resilient in the

face of the emotional demands on Black colleagues.

In one case, a full-time director of DEI onboarding was added as an experienced resource to ensure the recruitment process streamlined into better inclusion from the outset. Another organization noted, "*The integration of D&I into our client alignment strategy and the growth and embrace of our employee resource groups has been a positive culture shift for us.*"

One organization reported its DEI leader's role changed to have a 40% time allocation to reporting to clients from a negligible one previously. This XP noted that its clients wanted evidence, not just claims, of inclusivity.

In large organizations, DEI experts often work like internal consultants, whereas in small ones they often have two functions but will know people as individuals. The key is being empowered by a clear leadership commitment.

In addition to finding different levels of DEI maturity for XPs as a whole, we also identified different levels

The integration of D&I into our client alignment strategy and the growth and embrace of our employee resource groups has been a positive culture shift for us.

of DEI understanding among individuals within these XPs. At the board level, a number of XPs added a Black board member, while others were starting to recruit Black and Hispanic board members.

Strategic Plans

Defining DEI was often the first plank in XPs' strategic plans as they started to activate their governance structures. From that base, they established a DEI framework with additional DEI programs and initiatives.

Integrating plans takes time, so one XP dedicated regular departmental meeting time to DEI initiatives. Another commented that *"the policy framework we now have in place outlines our work program and allows us to frame what is important to us (and where to focus our efforts),"* showing that focus is important in the early stages of DEI work.

Many XPs found that events during the pandemic consumed valuable resources and required a deviation from their original plans. As one XP explained,

In late 2019, we conducted a D&I diagnostic, and this provided a solid foundation for developing our approach to progressing D&I in our firm. Managing through the pandemic distracted us in 2020; we fully intend to get moving again this year.

Examples of action plans include launching a departmental DEI mentor program and conducting a supplier diversity audit. Key to their success was wide ownership, with one important indicator being *"the transition from our diversity efforts not just being led by members of the HR team but being led by employees across all functions and locations of our firm."*

One XP incorporated all these areas, listing its greatest DEI accomplishments as

the creation of bespoke business plans for each business by the business leader, our ERGs materially contributing to business decisions, hiring two additional full-time EID (equity, inclusion, and diversity) resources, and creating a proprietary EID index to measure progress and keep ourselves accountable.

Another organization demonstrated these elements as follows:

We're proud of the focus on communication, education, and awareness of D&I in our organization. Our CEO added a chief diversity

officer to her direct report group. Under their leadership, we are expanding our firmwide D&I strategic plan, incorporating critical input from our leaders and employees.

DEI and Engagement across the Investment Organization (and Beyond)

One of the Program's successes was involving investment teams and HR with leadership buy-in. This combination was viewed as being key to the Program's impact within the business. For example, ERG executive sponsors from the business are critical.

We found that the increasing prominence of ESG in the industry elevated receptivity to DEI among investment teams; they recognized the need for internal consistency with the evaluation process that they were using for their investee companies. The head of ESG can be a good place to start in building wider buy-in. XPs that prioritize ESG issues are often more motivated or even more advanced in DEI.

Similarly, behavioral economics reminds investment professionals that people are not always rational and that biases drive undesirable behavior, which is useful context for learning about inclusion. Biases can come to the fore in hiring disguised as necessary screening tools. In some cases, investment team leaders were very attached to their biases, even while acknowledging they were biased. Recommendations from XPs included considering how to hire for potential and exploring how an individual can develop, including recognizing such characteristics as grit and resilience, which are hard to train for. The use of AI can also be a way to reduce bias, with the caveat that it can equally embed bias.

DEI Reporting

Data analytics is another area that is being applied to DEI and that investment professionals can easily relate to. A data dashboard with a few reliable data points was better than many points that did not link back to strategy. This engaged analysts with familiar sets of information from the company analysis and business plan modeling and utilized their core skills.

Client management leaders are increasingly becoming involved in DEI. RFPs (requests for proposals) ask for these data regularly; DEI is becoming pivotal to winning mandates. One XP observed that during mandate pitches, about 40% of clients asked for specifics related to diversity efforts, up from only 5% a few years ago, and other XPs gave similar feedback.

Market volatility at the start of the pandemic made DEI engagement with investment teams understandably difficult. However, the work of moving online required inclusion in action, even if it was not necessarily labeled that way.

Another indicator of progress was moving DEI from internal reporting only to external accountability. Typically, recording diversity data on a public website, for example, reflected inclusion maturity.

Extending Leadership Support

Key aspects of extended leadership support were increased leadership commitment, enhanced external organization partnership, and outreach promoting the firm as an employer committed to hiring people of diverse backgrounds and talent and committed to change and evolution of DEI in the industry. Getting feedback from multiple sources and levels within the organization can be the key to success.

One indication of more coordination and consistency at the corporate level was shown by CEOs making DEI

officially part of their goals. Other CEOs announced they, along with other senior leaders, were putting this work at the forefront of everything.

Releasing a DEI statement of commitment was a common response to the anti-racism protests after the death of George Floyd, sometimes reinforced with donations. One firm said,

Our leadership has voiced their support and demonstrated it through their actions, and as a firm we have pledged \$2.5 million in charitable donations to firms with D&I, racial, and social justice mission statements.

Another organization reported, "*Our firm has made significant investments in external organizations fighting for the advancement of racial equity.*"

Another XP cited active involvement in the Investor Leadership Network (ILN), a G7-inspired network focused on influencing asset owners and managers to implement strategies to advance DEI and build accountability in their own workplaces.

IN THEIR OWN WORDS: WHAT WERE THE BIGGEST LESSONS IN DEI STRATEGY AND EFFECTIVENESS IN THE LAST 18 MONTHS?

XPs reported multiple lessons learned over the duration of the Program. While many of these would have emerged in pre-COVID-19 conditions, the events of 2020 undoubtedly led to an acceleration and intensification of the work to drive inclusion. Throughout that time, those tasked with leading the Program had both more support and far more demands placed upon them.

Their reflections fall into broad groups, including the importance of leadership and governance, forming priorities, and communicating clearly about the work. The following comments are in the XPs' own words, except where they are edited for brevity.

Leadership

- *"The biggest lesson is to ensure DEI is embedded in everything you do, and leader engagement, sponsorship, and involvement are absolutely critical to advance your DEI work. Leaders who take ownership to drive inclusion across the business and view this as a part of their business strategy will greatly accelerate the strategy. If the CEO is the first chair of a newly created D&I council, it will have an impact. Without senior leader alignment, comprehension, or support, we cannot make any progress."*
- *"Strength in DEI efforts comes from engaging more leaders across the company to bring fresh perspectives to the work. This means executive ownership and accountability, as well as engagement of all employees across the enterprise. Interactive, cross-group, results-oriented councils help to drive progress. Accessibility to tools, resources, and education aid in having the conversations required to create an inclusion culture."*

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- *"The commitment to DEI is owned by the CEO and executive leaders, and there is direct accountability for DEI outcomes at all levels of leadership. They expect leaders to be personally competent and visibly committed to DEI, but even they can misspeak or misstep, so there are no guarantees."*

- *"We found the importance of getting buy-in from our partners and senior leaders, and, more importantly, ensuring they are involved and active in DEI programs and initiatives. Leading by example helps drive the effectiveness of the strategy."*

- *"Ensure there is representation from senior leadership in all our planning efforts. Buy-in from the business and leadership is crucial for the success of a DEI strategy. Do not strive for perfection; strive for progress. Senior leadership support and advocacy are instrumental in pushing for DE&I; setting goals and targets helps to keep your DE&I efforts on track; accountability is key."*
- *"Within a private firm partnership, it is very difficult to gain 100% alignment (even 50%) among partners that DEI*

should be a focus that requires their engagement. Our clients value stability and a firm that can successfully navigate through volatile times. We are proud that we are an employer of choice and one of the top workplaces in our industry. As a result, we retain longer-tenured employees (8–25 years) who have a deep understanding of the industry and our clients. Our turnover is low. However, the benefit of low turnover can also be a challenge as we continue our focus on the recruitment of women and diverse talent."

- "Leadership is critical to success in driving change." It is the fourth Principle in the CFA Institute DEI Code because of the importance we ascribe to the role business leaders have in DEI.

Change Management

- "It is important to communicate with employees early and often about DEI. Have a focused strategy with the possibility to adapt to context evolutions. Develop a strong communication plan aligned to the D&I plan. We fell into a trap of thinking we were overcommunicating, but we were leaving gaps in the general employee knowledge base. Communicating our DEI plans and progress is a highlight for us this year, not just internally, but to our clients and partners as well."
- "Transparency is critical. It is important to talk about representation, efforts, and opportunities."
- "The biggest lesson has been focusing on change from the ground up, recognizing the challenges that come with change and how it is very important to integrate D&I throughout everything we do (our culture, policies, processes, etc.) rather than thinking of it as something separate."
- "The strategy shifted from being HR led to being business led and HR facilitated. That was a critical shift."
- One firm hired a DEI leader at the outset and could show impact by the end. Another organization agreed and commented that it needed a DEI leader to coalesce everything that was happening throughout the organization. It commented, "Have an experienced resource as there are so many landmines that could derail all efforts."

It is important to recognize that for a global business, having a global or regional approach is challenging and we need to have some cohesive messaging that articulates as a global business what we have [in] common whilst also recognizing our differences.

- You need an approach that comprehends that "everything matters."
- One XP offered this advice, which was echoed by many along the way: "Don't recreate the wheel. If something effective is being done in one area of your business, expand and build on it."
- "This is a long-term effort, and there is no one-size-fits-all answer; each organization has to develop a strategy that fits their culture."
 - "It is important to have an enduring vision and an enabling framework."
 - A number of XPs discussed the challenges of DEI globally, and one said, "It is important to recognize that for a global business, having a global or regional approach is challenging and we need to have some cohesive messaging that articulates as a global business what we have [in] common whilst also recognizing our differences."

Patience

- "Don't get overwhelmed. It is a huge topic; start small, achieve those goals, get more support, set more goals (but just do what you can, make it successful and then set next goals); stay small and relevant and really embed your changes."
- "There are a lot of things/activities you can start doing, but to be most effective, you should start with defining what your DEI strategy is. We have a lot of different programs and are now taking a step back to figure out what is working, what is not, what are the gaps, and how does it all align with our overall DEI strategy."
- "It will take time."

ACCELERATING CHANGE: THE WAY FORWARD

The impetus for DEI comes from the need to build resilience and a capacity to innovate amid increased competition. It is ultimately founded on the twin moral and commercial imperatives to serve and understand society better. Emerging research shows that racial bias is a factor in the equitable and effective allocation of assets to managers,⁴⁸ potentially resulting in suboptimal investment decisions. Accelerating change will require a concerted and well-resourced effort, with leadership and ownership at all levels. Investment organizations, asset owners, consultants, and regulators all have a role to play. The major shift in the industry is that ownership of DEI is moving from the HR team to business leaders more broadly, with increasingly expert DEI practitioners advising on strategy. The relevance of DEI will continue to grow alongside the focus on sustainability and the recognition that teams made up of members with diverse perspectives, identities, and experiences working in an inclusive culture will produce better decisions.

Though it will take time for the industry to deliver on the commitments made in 2020,⁴⁹ the Experimental

Partners Program offers strong evidence that sustained work across all aspects of organizations can bring about change, even over a relatively short time. The investment industry has developed deep capacity to collect and analyze data and to innovate and evolve, enhanced by growing knowledge of human biases and data noise and how to ameliorate their consequences. Applied to DEI work, these abilities have a real prospect of success. Complex decision making, which is fundamental to the investment process, is probably one of the best examples of work that can benefit from DEI. If the skills and the knowledge are available and the imperatives are there, then when combined with leadership and perseverance, the industry should be well positioned to accelerate change into the future.

To meet the industry where it is and enable it to make the accelerated progress we argue for, we have produced the CFA Institute DEI Code, supported by extensive Implementation Guidance and a Reporting Framework. It was written for investor team leaders by investment professionals and advised by DEI experts to lead change. We urge investment organizations to become signatories and be part of that leadership.

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