

Harpowell Capital Advisors

2021 Fund Manager Diversity, Equity and Inclusion Study



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Diversity, Equity and Inclusion:
Analysis of Progress of Fifteen of Harpswell Capital Advisor's Top Managers

Introduction

This past year, protests over racial injustice and the racial and ethnic health disparities of COVID-19 have prompted a national conversation on racial inequality, demanding firms across the country to publicly reflect on the state of their current diversity and inclusion practices. Within the financial services industry, an industry with a history of underrepresentation based on gender, age, race, ethnicity, disability and sexuality, this is especially pertinent. 2020 has forced financial services firms to confront the growing momentum of such demands and recognize that a diversity statement is simply not enough; initiatives and programming must supplement any statements in order to both produce a more inclusive industry and mitigate risks of reputation and regulation that stem from expectations that the industry can, and must, do better.

At Harpswell Capital Advisors, an advisory firm serving nonprofits and foundations, ensuring that the values of its managers align with the interests of its clients is a top priority. Harpswell Capital Advisors recognizes the benefits of incorporating diversity, equity and inclusion practices into its investment processes, not only out of recognition that it aligns with the interests of its clients, but also out of recognition that it is good business; diverse workforces create benefits that can lead a firm to outperform their peers financially. The following study takes a deep dive into diversity, equity and inclusion initiatives of fifteen of Harpswell's top managers to determine the actions that they are taking within the space, best practices, and overall alignment with the DEI demands seen across the country.

Current Landscape

Workforce diversity, equity and inclusion (DEI) practices stem from the recognition that our country has a history of injustice that has led to the marginalization of certain groups within the workplace. DEI measures are intended to ensure that all individuals, regardless of their identity, receive the same opportunities for employment, promotion, and impact as their peers. While DEI is well-regarded as mattering intrinsically, it is also increasingly recognized as having business benefits for a firm.

Research continues to support that workforce diversity can help a company achieve superior financial outcomes. A recent study performed by McKinsey determined that companies with greater representation of gender-diverse and ethnic or culturally-diverse executives were more likely to outperform peers with less representation.¹ More notably, McKinsey noted that top-quartile companies in regards to ethnic and cultural diversity outperformed those in the fourth quartile by 36 percent in profitability.²

Yet despite recognition of the immense benefits that can result from prioritizing diversity within the workforce, achieving diversity remains a challenge and is slow-moving in the asset management industry. According to the Knight Foundation, only 1.3 percent of assets in the \$69 trillion asset management industry are managed by firms owned by women or minorities.³ Asset management remains one of the least diverse industries in the United States, and lacks a clear pipeline for diverse candidates to senior leadership positions. As the Knight Foundation further identifies, one of the greatest challenges related to diversity in the asset management industry is the clear lack of data collection or publication by industry participants, making it particularly challenging to determine the success of firm initiatives and diversity progress industry-wide.⁴

The following analysis studies fifteen of Harpswell Capital Advisor's top managers based on their publicly outlined DEI agendas in the areas of workforce and leadership diversity, training and education, employee engagement, initiatives, and vendor diversity. In doing so, it provides a commentary on diversity data offered publicly by these firms to determine their current progress towards achieving workforce diversity and avenues for improvement in the future.

¹ McKinsey & Company, 2020, *Diversity Wins: How Inclusion Matters*, www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters.

² Ibid

³ "New Study Shows Diverse-Owned Firms Represent a Small Fraction of Asset Management Industry Despite Equal Performance. (2019, January 28). Retrieved January 04, 2021, from <https://knightfoundation.org/press/releases/new-study-shows-diverse-owned-firms-represent-a-small-fraction-of-asset-management-industry-despite-equal-performance/>

⁴ Lerner, Josh. Knight Foundation, 2019, *Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry*, knightfoundation.org/wp-content/uploads/2019/01/2019_KF_DIVERSITY_REPORT-FINAL.pdf.

Analysis

Workforce and Leadership Diversity

As outlined above, there is a clear lack of workforce diversity data within the asset management industry. The reality is that many companies do not collect or publicly release this data, often citing General Data Protection Regulation and legal concerns as hindering them from their ability to collect and analyze workforce data.⁵ With a lack of publicly available workforce diversity data, Harpswell relied heavily on responses to our request for information as well as board and senior leadership composition in our analyses outlined in this study.

A slew of recent research continues to support the correlation between board diversity and financial performance. A 2016 study had particularly compelling findings, determining that board diversity on the basis of age, gender, race, financial expertise, and number of directorships, corresponds to lower stock volatility by leading to the adoption of less risky financial policies.⁶ Recognition of the benefits of board diversity has also led to state litigation. California law now requires that all publicly traded companies have at least one female director and one who is self-identified as Black, African American, Hispanic, Latino, Asian, LGBT+, Native, American, Native Hawaiian, Pacific Islander, or Alaska Native.⁷ As board diversity continues to gain momentum, it should remain an area of priority within any firm's DEI framework. Of the firms incorporated into the study, 53 percent had public data on board diversity, averaging 24.5 percent female representation and 16.8 percent minority representation.

Also studied was CEO and senior leadership diversity, however this data was less uniformly provided. Three of the firms incorporated into the study have a CEO that is either ethnically or gender diverse (14 percent female and 6 percent ethnic minority representation) and senior

⁵ Financial Services Skills Commission, 2020, *Diversity Data - The Challenges of Data Collection and Developing a Culture of Self-Reporting*, wp.financialservicesskills.org/wp-content/uploads/2020/10/Diversity-Data-the-challenges-of-data-collection.pdf.

⁶ Bernile Gennaro (帅纳), et al. SSRN, 2017, *Board Diversity, Firm Risk, and Corporate Policies*, <https://ssrn.com/abstract=2733394>

⁷ Bell, David, et al. "New Law Requires Diversity on Boards of California-Based Companies." *The Harvard Law School Forum on Corporate Governance*, 10 Oct. 2020, corpgov.law.harvard.edu/2020/10/10/new-law-requires-diversity-on-boards-of-california-based-companies/.

leadership mirrored that of board diversity: 24 percent of senior leadership was of female representation and only 15 percent encapsulated racial or ethnic minority leadership. Workforce data publication was neither uniform nor common among those surveyed, making it difficult to comment on diversity trends. Diversity data can have immense benefits, ensuring no bias in talent management, signal a more inclusive workplace and culture, and serve as a tool to identify target areas for improving diversity and inclusion measures. This represents a clear area for improvement both industry-wide and among Harpswell's managers, as there is no clear consistency among participants with regards to the release of workforce diversity data.

Training and Education

Training and education are important aspects of diversity and inclusion, as they equip the workforce with the skills and resources necessary to help mitigate unconscious biases and barriers to inclusion in the workplace. Such training can also serve to bolster employee engagement and employee retention rates by fostering an environment of inclusion.

According to *The Diversity Primer*, DEI training can broadly be defined by three categories: awareness-based, skills-based and integration-based strategies.⁸ Awareness-based strategies educate employees on diversity, bring awareness to unconscious biases, address stereotypes and encourage group sharing.⁹ Skills-based strategies provides individuals with a framework for addressing daily challenges and develop diversity-interaction skills.¹⁰ Integration-based training integrates diversity and inclusion into preexisting training programs for employees and new hires.¹¹ While every organization is unique, it is broadly recognized that a combination of each of these types of strategies is most effective.

Eleven of the fifteen managers incorporated into this study publicly reference their diversity training and educational initiatives. The most common type of diversity and inclusion training among managers was the utilization of awareness-based strategies. Unconscious bias detection was

⁸ Manson, Eric. "Training and Education." *Diversity Primer*, www.diversitybestpractices.com/sites/diversitybestpractices.com/files/import/embedded/anchors/files/diversity_primer_chapter_09.pdf.

⁹ *ibid*

¹⁰ *ibid*

¹¹ *ibid*

a point of emphasis among those surveyed, with many mandating training and providing online resources for employees to refer to in order to foster an inclusive culture and recognize diversity within traditional business practices. Many firms also supplemented this training with celebration of days or months including Black History Month, Pride Month, Hispanic Heritage Month and International Women’s Day. In most cases, training and education was curated by diversity and inclusion committees, with the exception of one company utilizing business resource groups for the organization of diversity and inclusion related events and training.

Many of the firms studied lacked additional skills-based or integration-based measures to further their DEI training and provide employees with a framework and skills to tackle diversity-related business problems faced in the workplace. Many of the firms also lacked clear metrics to measure the progress of their diversity and inclusion training, such as internal surveys or feedback mechanisms, to ensure that their training measures aligned with overall DEI corporate strategy.

Employee Engagement

A major trend among Harpswell’s top managers was the utilization of Employee or Business Resource Groups. These groups are voluntary, employee-led networks that allow employees to connect, network and generate awareness about the challenges they experience within the workplace. Often organized via shared background or interest, these allow for the creation of support systems and platforms for women, people of color, veterans, or people with disabilities to connect.

Employee Resource Groups (ERGs) have evolved immensely in past years, and exceptional programs have evolved beyond professional development opportunities to having tangible business impact on an organization. Known as Business Resource Groups (BRGs), these programs take an additional step beyond ERGs, by supplementing career development with business initiatives, allowing these networks to serve as a catalyst for innovation, productivity and employee retention.¹² Within the study, 73 percent of Harpswell’s managers surveyed have developed some

¹² Dahunsi, Ayo. “The Future of Employee Business Resource Groups.” *LinkedIn*, 9 Dec. 2017, www.linkedin.com/pulse/future-employee-business-resource-groups-ayo-dahunsi/.

form of employee resource group and 33 percent have developed business resource groups with both career development and business impact.

Furthermore, many of Harpswell's managers supplement their ERGs or BRGs with additional measures, such as volunteer initiatives, charitable giving programs, and annual engagement surveys that allow employees to provide feedback and insight into their experiences and target areas for improvement in diversity and inclusion measures. Integrating DEI initiatives into employee engagement practices demonstrated a strong effort by managers to support a more diverse workforce and acknowledge the challenges of being a minority within a more homogenous industry.

Recruiting Practices

Recruiting practices is another key target area for diversity and inclusion measures within the financial services industry and this was one of the stronger areas for Harpswell's managers. A multitude of recruiting practices were used to diversify the talent pool, with a particular focus on entry level positions. Comprehensive exploratory and recruiting programs provided opportunities for women, Black, Hispanic/Latinx, LGBT+, veteran and candidates with disabilities to gain access to the asset management field. Within the managers surveyed, 80 percent had some form of commitment to diverse recruitment, either through hiring policies or programs, 46 percent had established exploratory programs for students of underrepresented backgrounds, and 20 percent have established recruiting programs specifically targeting women, Black, Hispanic and Latinx, LGBT+, veterans or candidates with disabilities.

Practices outside of targeted recruiting programs included initiatives to mitigate bias within recruiting, by limiting job description requirements to minimum criteria and ensuring gender neutrality to ensure phrasing is nonbiased. Unconscious bias training specific to interviewers was another area established to mitigate bias within recruiting practices, to ensure hiring committees and managers eliminate bias from the decision-making process in hiring qualified candidates from diverse backgrounds. Likewise, several firms established diverse interview panels to both mitigate unconscious bias and demonstrate representation to candidates.

Achieving recruiting diversity is also intersectional with employee engagement practices. Strong employee resource groups or business resource groups can serve to bolster recruiting initiatives, as they signal to candidates a diverse culture in which employees from nontraditional demographics are both supported and represented within an organization. Of the firms surveyed, those with strong recruiting initiatives tended to also have strong employee engagement initiatives that often overlapped to create access and opportunity for both recruiting candidates and employees. Two of the firms surveyed also utilized BRGs to create and implement recruiting initiatives.

However, many firms incorporated into the study lacked clear recruiting initiatives beyond their intern and junior analyst classes, demonstrating that there still remain gaps in creating access for upper level positions. A singular firm incorporated into the study engaged in programming that helps professionals restart their careers after absence from the workforce. The firm also offered programs to increase access for veterans to enter the financial services sector and created a retention initiative for managing directors, to ensure that promoted talent from diverse backgrounds receives the support and career development needs to find success. Others must mirror this type of programming to create a clear pipeline for diverse candidates to all levels of talent, from the intern class to senior leadership.

Initiatives

This was the broadest category incorporated into the study, intended to capture initiatives that lie outside of training, employee engagement and recruiting measures. The firms incorporated into this study implemented three main types of initiatives between 2018 and 2020.

The first was the implementation or reinforcement of a Diversity Committee, composed of leaders and employees across the firm to further develop events, training, and metrics to measure the success of the firm's DEI efforts. Diversity Committees are essential to a strong DEI framework, as they serve to enforce a DEI statement and work towards actionable change within an organization. Of the firms incorporated in the study, 40 percent introduced or improved their Diversity Committee during this period.

A second type of initiative implemented took the form of a monetary commitment to a target community. In August of 2019, signatories of the Business Roundtable recognized the community

as an essential stakeholder in a business, stating that a major purpose of a corporation involves respecting all stakeholders, including the communities influenced by a company's business practices.¹³ Within this study, monetary commitments over a defined time period encapsulated numerous areas of inequity, from housing projects, access to banking, growth of diverse businesses to other giving campaigns. One third of the firms in the study, most often large public corporations, have made monetary commitments to their community to support a variety of target areas.

Finally, many firms introduced extensive volunteer efforts to engage employees on projects within their community by partnering with charitable organizations and donating time, supplies and other essentials to support the missions of these organizations. These programs are often supplemented by incentives, such as paid time off or grants for specific organizations of an employee's choosing, to encourage involvement and allow employees to take ownership over the projects they engage in. Incorporated into the study, 46 percent referenced volunteer initiatives as essential to their DEI strategy.

Vendor Diversity

Vendor diversity, alternatively known as supplier diversity, is an additional aspect of diversity and inclusion measures that can be extremely impactful on underrepresented communities. There are approximately sixteen categories that identify differed groups within a diverse vendor program, including include Small Business Enterprises (SBEs), Minority-owned Business Enterprises (MBEs) and Women-owned Business Enterprises (WBEs).¹⁴ In order for an organization to record a vendor as diverse, the vendor must receive a third-party certification to authenticate them as a diverse group.¹⁵

The benefits of vendor diversity are multi-faceted; the programs can help with supply-chain diversification while also positively impacting communities through job creation, increased wages,

¹³ "Statement on the Purpose of a Corporation." *Business Roundtable*, 19 Aug. 2019, s3.amazonaws.com/brt.org/BRT-StatementonthePurposeofaCorporationOctober2020.pdf.

¹⁴ Fong, Amy, and Peters, Geoff. The Hackett Group, 2019, *Supplier Diversity: Moving Beyond Compliance Drive Meaningful Value*, assets.sig.org/s3fs-public/srcDocs/S22_Supplier_Diversity_The_Hackett_Group_2019_04_09.pdf?file=1&type=node&id=14886&.

¹⁵ *ibid*

and access to capital.¹⁶ They also are a powerful tool in supporting a corporate culture of diversity, reputation, and meeting investment objectives within local communities. Furthermore, vendor diversity programs have also been shown to have financial benefits. Studies have shown that companies that pursue increasingly diverse spending practices also see an increase in market share superior to companies with lower levels of diverse spending.¹⁷

Five of Harpswell Capital's Managers have actively built out a robust vendor diversity programs that target historically underrepresented groups, including businesses owned by minorities, women, veterans, individuals with disabilities, and members of the LGBT+ community. Initiatives include diversifying suppliers for major real estate projects, integrating vendor diversity into business processes, and partnerships with both industry and non-industry partners. These managers often represented companies with much higher assets under management and were often public corporations, demonstrating the greater resources to implement such a program as well as corporate social responsibility mandates.

Vendor diversity represents an area for improvement among managers, as many incorporated into the study have not actively pursued a formal vendor diversity program. As demonstrated, building out vendor diversity programs can have both social and financial benefits to a company. Vendor diversity is additional strength attributed to Harpswell's managers with formally established programs already in place.

Conclusion

This study demonstrates the range of DEI efforts among fifteen of Harpswell's top managers and their current progress towards achieving workforce diversity within an industry of particularly homogenous roots. Of those surveyed, progress has been made most through employee engagement measures and in recruiting diversity. There is no doubt that diversifying leadership

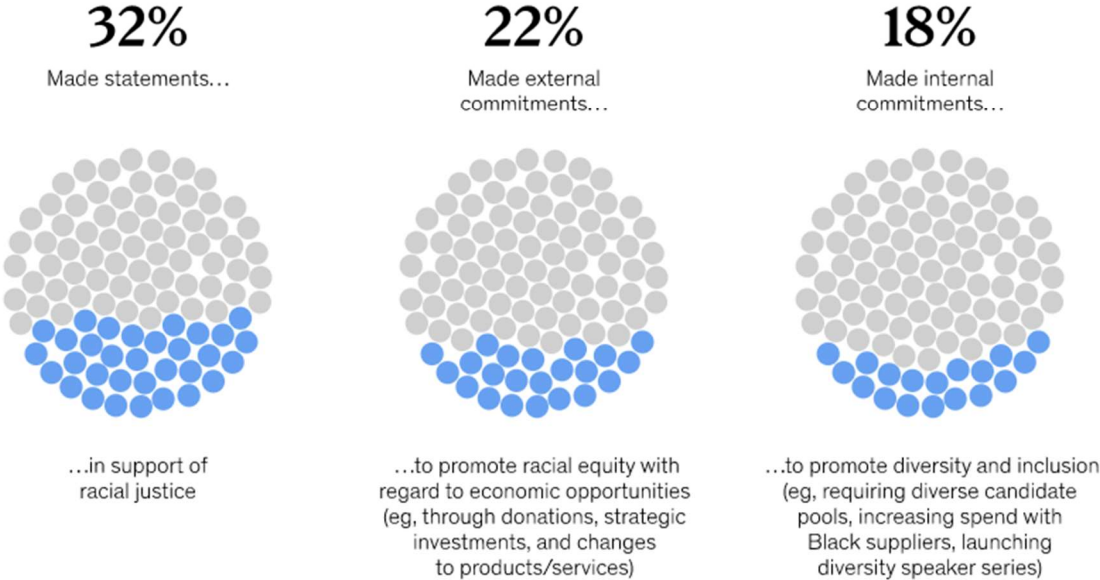
¹⁶ "What Is Supplier Diversity and Why Is It Important? ." *CVM Solutions*, 18 Dec. 2019, blog.cvmsolutions.com/what-is-supplier-diversity.

¹⁷ Fong, Amy, and Peters, Geoff. The Hackett Group, 2019, *Supplier Diversity: Moving Beyond Compliance Drive Meaningful Value*, assets.sig.org/s3fs-public/srcDocs/S22_Supplier_Diversity_The_Hackett_Group_2019_04_09.pdf?file=1&type=node&id=14886&.

will ultimately take time, and the implementation of strong Employee or Business Resource Groups creates networking, professional development, and mentorship opportunities for employees across backgrounds to find success. Likewise, recruiting practices that foster an inclusive talent pool and diverse representation among recruiting classes is likely to support the integration of diversity among firm leadership in the long-term.

Since the George Floyd protests, many companies have committed to reducing racial disparities.

Individual commitments by top 1,000 US companies, May 25–Oct 31, 2020¹



¹May not reflect all commitments made by corporate roundtables, alliances, etc.
Source: Outside-in profiling of largest US companies by revenue (May 25–Oct 31, 2020); n = 1,144, encompassing new and recently removed Fortune 1000 companies

However, 2020 marks a crossroads for firms in the financial services industry. The momentum of renewed racial justice movements, in combination with the research outlining the social and financial benefits of workforce diversity, is ample evidence that firms must continue to reevaluate their current DEI practices and integrate diversity into all aspects of business. The chart above highlights the genesis of a movement across all sectors that needs to move forward with even more drive. Strong DEI frameworks provide an opportunity for Harpswell’s managers to not simply state commitments to diversity, but to actively invest in diversity. As movement towards DEI within the industry has been historically slow-moving, surpassing the current pace is both socially and financially advantageous. Only time will tell who will capitalize on this opportunity.

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