The gender agenda

Fund managers are taking up the challenge of improving their gender balance, says Jackie Turpin.

IT WAS A strange but not unusual phenomenon that occurred almost every time we met with our fund managers. Our investment committee comprising just over 50 per cent female members, advised by a female independent investment adviser (Nicola Parker), and serviced by a female head of finance, would be faced with a team of fund managers which comprised exclusively of men.

Of the numerous teams that had presented to us over the years, only one had ever included a female fund manager. Yes, we had seen female representatives of our fund management teams. However, generally they were present in the capacity of client liaison officer or ESG specialist.

Of course these roles are important. But they were not the people actually making the decisions about how our investment portfolio was invested. Those people were almost exclusively men.

On investigation, we found that our experience was reflective of practice more widely. Although evidence from the UK is lacking, research carried out by Morningstar in 2015 revealed that 78 per cent of US mutual funds were run by men-only teams while less than 3 per cent were run by women-only teams. Furthermore, a split of fund managers in US mutual funds by gender revealed a 91:9 male/female split.

Meanwhile, Hedge Fund Research suggested last year that since 2007, and notably through the financial crisis, hedge funds owned or run by women had on average returned 59 per cent compared to an industry average of 37 per cent.

Gender audit

Does this matter? We thought so. Last year the Joseph Rowntree Charitable Trust decided to undergo a gender audit, looking at the impact of gender not only within our organisation but also on our activities. We decided to look at it not only in the context of our grant-making programmes, but also to extend it to how we invest.

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Each committee was charged with looking at its own work through a gender lens. One of the issues that stood out most clearly for the investment committee was the gender imbalance in the fund management industry, especially given that the fund manager role seemed ideally suited to working mothers. In particular, the committee wondered whether the failure of the investment industry to progress female fund managers impinged on our universe in selecting the best fund managers.

We did not see it simply as a matter of fairness, although of course that was important. We were also concerned about what impact the lack of gender balance would have both on the size of the talent pool available to us and on our fund managers’ overall decision-making. Although individual women and men show a range of different traits, research has demonstrated that gender norms do influence how men and women tend to make decisions.

In particular, men tend to be extremely confident in their own judgement, trade more and follow immediate trends. Women tend to research more, take less risk and focus on the longer term. It seemed logical to us that a mix of approaches would provide a stronger collective temperament. Furthermore, as a responsible investor, it was extremely important to us that any house managing our funds should be well positioned to be able to take a long-term view.

We further recognised that there was likely to be a knock-on effect from the gender imbalance extending to our investee companies. What sort of message were we giving them if the representatives of the ultimate investors were predominantly male? Could we be sure that the important gender issues affecting them, for example female representation on their boards, would be properly aired and managed?

Meeting the managers

Given this, we decided to take a rather unusual step of convening a meeting of our fund managers. Normally we meet with them individually. But in May this year, with a degree of trepidation, we brought them all together in the same room. To be honest, we didn’t know how successful the meeting would be. Our concern was that, in the company of their peers, our fund managers would be closed and defensive, and that we would make little progress.

However, no doubt reflecting the quality of our fund managers, we did in fact have an open and rich discussion around the topic. We were particularly gratified that, in addition to female representation, they had seen fit to send along their senior partners and fund managers (male), who clearly recognised the
seriousness of the issue and were willing to contribute honestly and positively to the debate.

Furthermore, recognising that our investments don’t stand in isolation from the rest of our work, we were also pleased to be able to welcome to the meeting two of our grantees, working in the field of gender inequality. Sam Smethers of the Fawcett Society and Kat Banyard of UK Feminista both gave illuminating presentations, providing historical context to the current gender imbalance and suggesting practical action points that our fund managers could easily adopt to promote gender equality.

What was clear was that a number of factors appear to conspire against young female analysts who enter the fund management industry as they try to progress to become fund managers. These include: the failure to address gender discrimination or bias; opaque remuneration arrangements; an environment in which a quick-fire, combative approach to decision-making is encouraged and the admission of mistakes is seen as a failing rather than an opportunity for learning; the failure to encourage, and put into place systems to support, a healthy work/life balance; and rigidity around the sharing of maternity and paternity leave.

It was acknowledged that getting these things right would not only help the retention of women and improve the gender balance, but also had the potential to significantly improve the output and job satisfaction of male fund managers.

“As investors, are we guilty of selecting fund managers in a certain image?”

Targets
Following the discussion, we were hugely encouraged by the enthusiasm among our fund managers to take these discussions back to their own firms. We were also pleased to respond to a request for us, as a client and an investor, to set them targets in this area. So, for example, we are now asking our fund managers to:
- Conduct gender-blind pay analyses for both analysts and fund managers;
- Establish mentoring schemes for female analysts and fund managers;
- Work towards correcting gender imbalances within their teams by incentivising those responsible for recruitment and promotion;
- Ensure that team activities are not gender-biased.

We recognise that the improvements we want to see will take time to work through, and that in firms where there is a relatively low turnover of fund managers, real change will not happen overnight. So our targets are not set in stone. Rather they are an indication of the direction of travel that we expect to see, and we will be looking at what progress our fund managers have made in these areas when we review their performance.

We will also include questions on gender and diversity in future requests for proposals.

As a final reflection, it is astonishing that in this day and age we are still have these discussions, especially in respect of an industry which attracts some of the finest analytical brains. However, it is possible that responsibility for the gender imbalance doesn’t lie solely with the fund managers themselves. As investors, are we guilty of selecting managers in a certain image – are we drawn to the suited white males who speak with educated accents, who have always dominated the industry and who feel like a safe bet?

Clearly as investors we are right to engage with our fund managers on these issues. But perhaps we also need to be careful to ensure that we do not exhibit a misplaced prejudice when appointing them in the first place?

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