

Attitudes to Diversity
In the
Investment Management Industry

Summer 2005 Survey

California State Teachers' Retirement System

CALSTRS

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Leading Edge Investment Advisors, LLC



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Anira Advisory Group, LLC



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Introduction

Is diversity good?

Should it be encouraged?

Does diversity help money management clients and pension plan members?

Many of us may feel that the answers to those questions are obvious, and so the issues bear no further consideration. Of course, some of us think, diversity is certainly good for our clients and plan members, and should therefore be encouraged, vigorously, but intelligently. Is it constructive to encourage the participation of women and minorities in our industry? Might it not, though, be even better to seek and encourage participation by qualified women and minority investment professionals?

Our industry, however, also bears other responsibilities to its clients, namely those of investment performance, and the priority of performance does not always coexist easily with other priorities and concerns. Furthermore, it is less clear that diversity is universally embraced in both sentiment and practice. Still, behavior is often the result of sentiment, and so we decided to try to measure how people in our industry feel about diversity.

Over two months last summer, we asked members of the investment management industry to participate in the first of a series of five surveys to tell us how they feel about diversity. Through this survey process, we aim to deepen understanding of the importance of diversity to our industry, its clients, and its professionals. Future surveys may seek to isolate other factors and effects of diversity, and hopefully both broaden and intelligently inform the dialogue about diversity in our industry.

At the outset, we noted two questions that could result from our survey.

- i) If diversity is broadly attractive, why is it that, at least anecdotally, so many women and minorities feel disadvantaged in our industry?
- ii) If diversity is unappealing, is it because, in an industry characterized by frequently quantified results, people believe that women and minorities have underperformed demonstrably, or still do not have requisite skills?

This initial survey did not provide definitive responses to either question above. Still, we hope that by the end of the effort, we will be usefully closer to measuring the breadth of sentiments about diversity. We also hope to understand how these sentiments coexist with behaviors of investment management professionals and organizations.

How We Did It

We composed a sequence of thirty-one simple multiple-choice questions, and utilized the Internet to assure that the survey was anonymous, far-reaching and convenient for participants. The survey was hosted on an Internet site where respondents could participate anonymously and see up-to-date results after they had completed the survey.

Respondents were solicited via electronic mail, and notified of the survey through industry and association media and newspaper articles. In total, the survey was available to participants around the

clock for some eight weeks. To address the risk of repeat participation, the survey was configured so that specific computers could only be used to complete the survey once.

Who Participated

More than five hundred people visited the survey site on the Internet; more than two hundred completed all the questions.

In a variety of respects, the survey takers were a diverse group. Nearly half, forty-six percent (46%), of them were women. Nearly half, forty-four percent (44%), were minorities.

As a group, the population of respondents was well equipped with academic and professional credentials. Nearly all respondents, ninety-six percent (96%), had earned undergraduate degrees, and nearly half, forty-five percent (45%), had earned MBAs. Additionally, twenty-three percent (23%) of the survey participants were CFAs, and sixteen percent (16%) were becoming CFAs. That means that a total of thirty-nine percent (39%) were either CFAs, or in the process becoming CFAs.

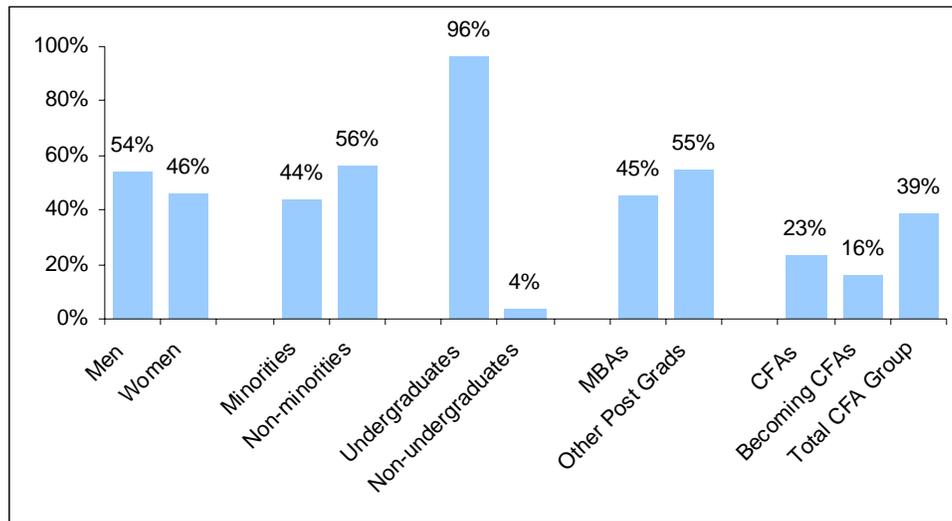


Figure 1 - Diverse, Credentialed Participants

Though not overly so in either respect, survey respondents were predominantly older, and also more experienced in our industry. With regard to age, sixty percent (60%) of respondents were in the over-forty crowd. In terms of industry experience, again, sixty percent (60%) of respondents also claimed ten or more years of experience as investment professionals.

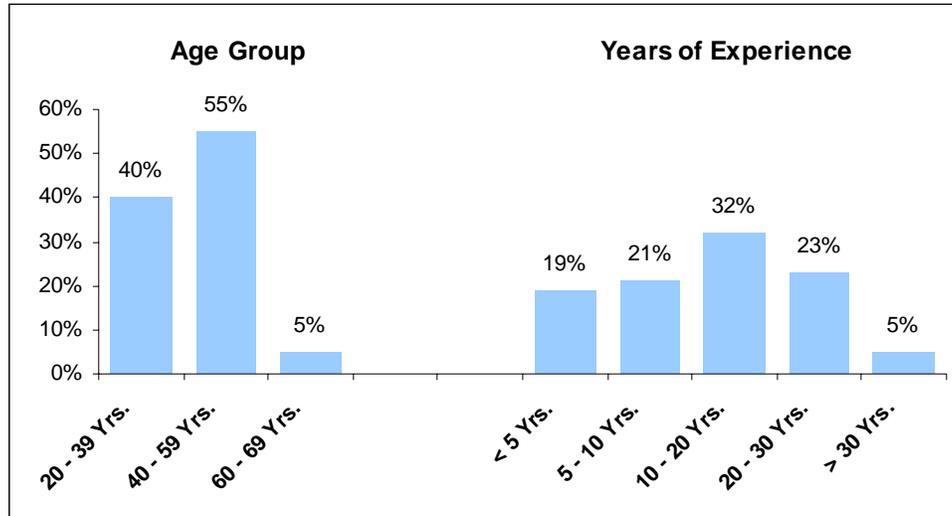


Figure 2 - Diverse, Experienced Participants

Who They Work For

The types of organizations at which participants worked were also well distributed. A total of forty-eight percent (48%) of respondents worked for state or municipal pension plans, corporate or other qualified plans, foundations, endowments, or investment consultants. The same proportion worked at investment managers.

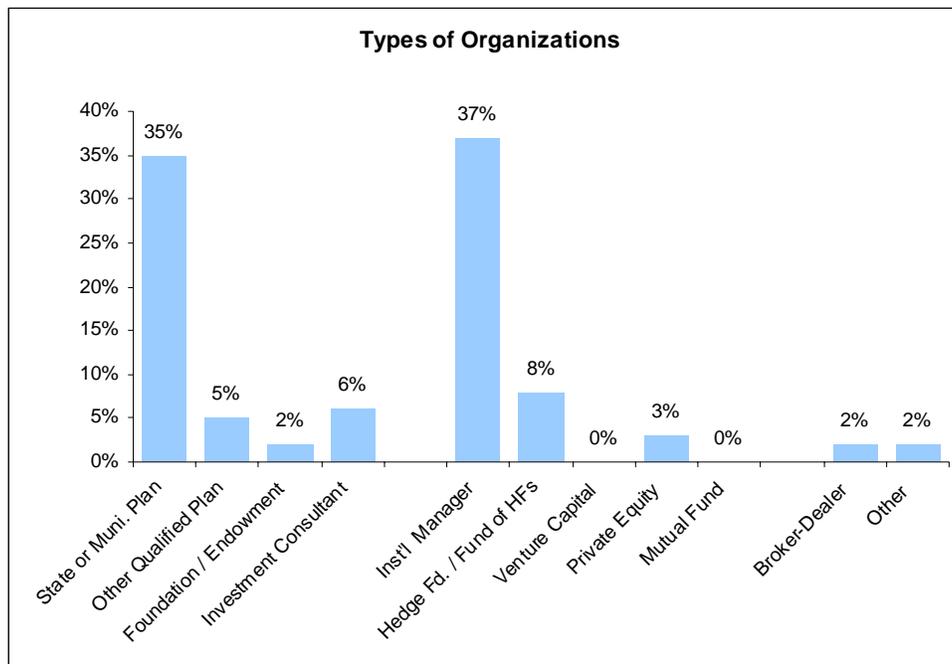


Figure 3 - Clients and Investment Managers Participated

Additionally, as shown in the two following figures, few potential participants at startups, or firms with less than \$10 billion under management seemed to have the time, or the inclination, to participate. Fully seventy-two percent (72%) of the respondents worked for organizations or firms that were more

than ten years old. Moreover, employees of firms managing more than \$10 billion were noticeably the single largest group of respondents to this survey.

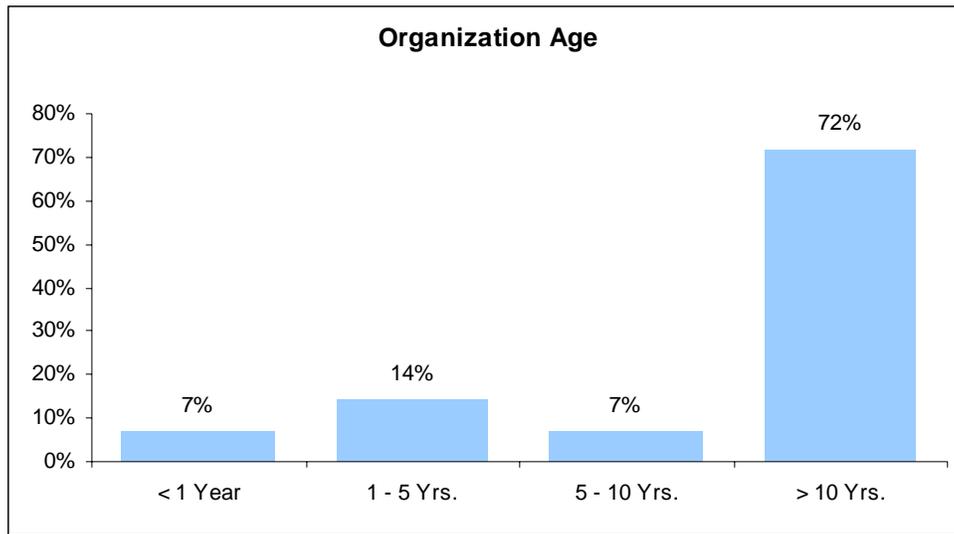


Figure 4 - Employees of Older Firms Respond

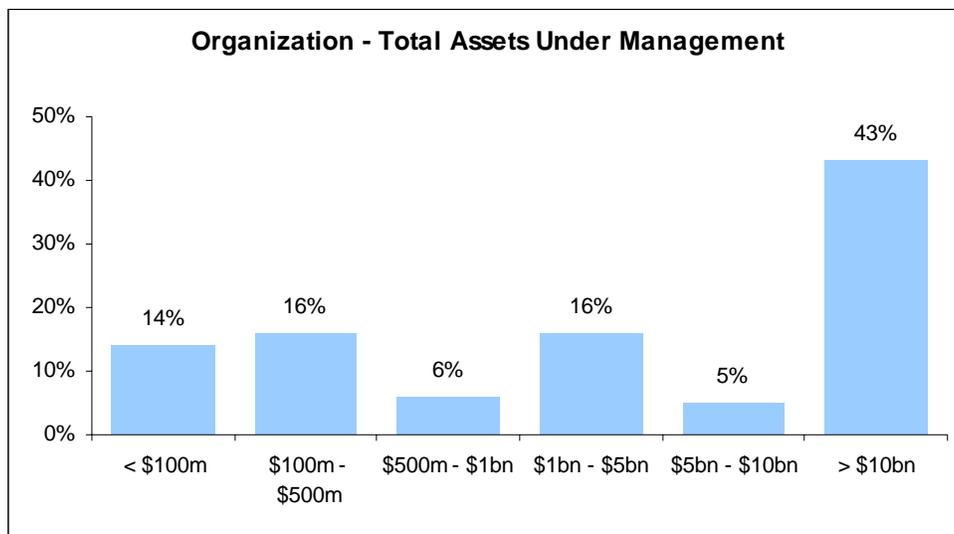


Figure 5 - Employees of Larger Firms Respond

Where They Work

Geographic representation was also mixed, despite a notable concentration of responses from the Pacific¹ region of the U.S. The regions with the largest single contributions were the Pacific, and then the Northeast², with forty-five percent (45%) and eighteen percent (18%) respectively. Of potentially odd note, more Europeans responded than did participants from East South Central U.S.A.³

¹ Alaska, California, Hawaii, Oregon, and Washington.

² Connecticut, Maine, Massachusetts, New Jersey, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont.

³ Alabama, Kentucky, Mississippi, and Tennessee.

In total, splitting the U.S. into the coasts and the center, twenty-five percent (25%) of respondents were from the East Coast, twenty-seven percent (27%) were from the Central and Mountain regions, and forty-five percent (45%) were from the West Coast and Hawaii.

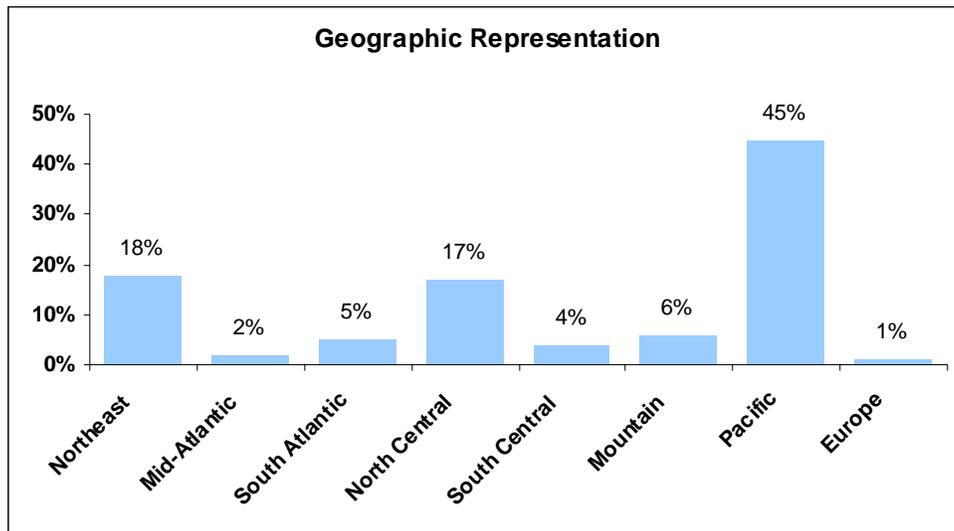


Figure 6 - West Coast Employees Respond More

So, summing the previous data, survey participants were roughly evenly split in terms of race and gender, and whether they worked for plan sponsors or investment managers. They were also somewhat evenly split in terms of age and industry experience. Respondents, however, tended to be well educated and credentialed.

Hurt or Helped By Their Status?

Regardless of how one perceives “reality,” two thirds of responding women and minorities felt that being women or minorities hurt their careers. It may also be worth noting conversely, however gratuitously, that one third of women and minorities felt they had been helped by being women and minorities.

The types of organizations at which people felt hurt by their gender or race did not seem confined to the “private sector” as represented by institutional or other investment managers.

Of those who believed their careers were harmed because of their race or gender, thirty-one percent (31%) work for state or municipal pension plans. A similar proportion, thirty-five percent (35%), are employed by institutional money management firms or mutual funds.

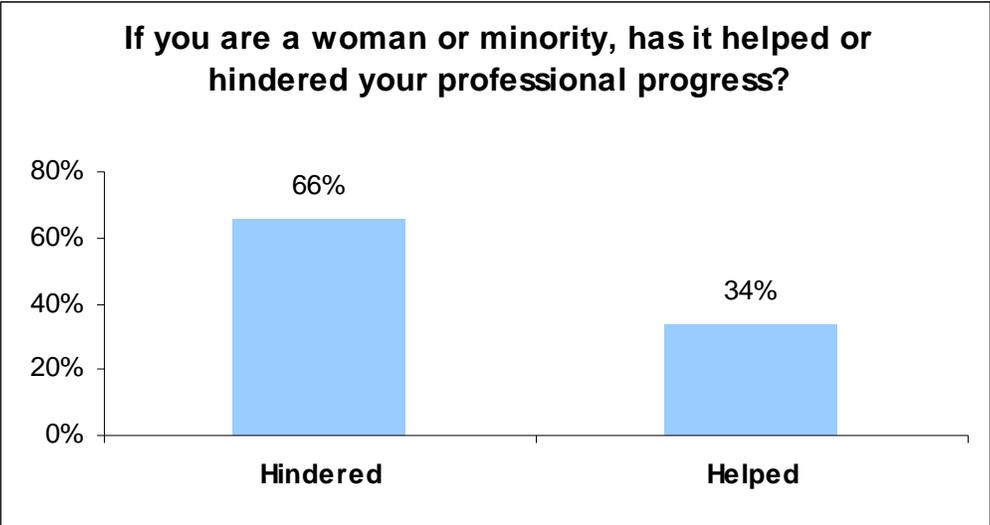


Figure 7 - Feel that Being a Woman or Minority Hurt Their Careers

As shown in the figure immediately below, of those who felt that they were harmed because they were women or minorities, fifty-eight percent (58%) were women.

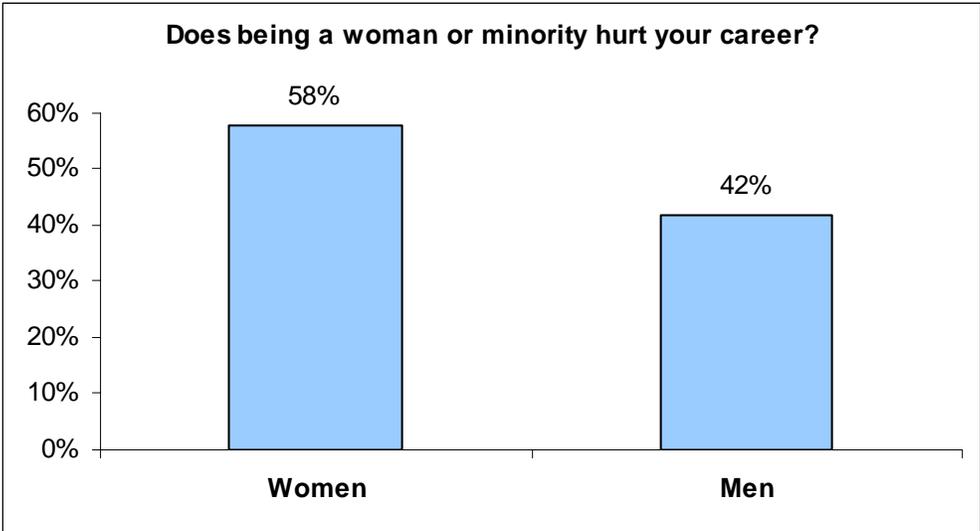


Figure 8 - Woman More Likely to Be Hampered by Gender or Race

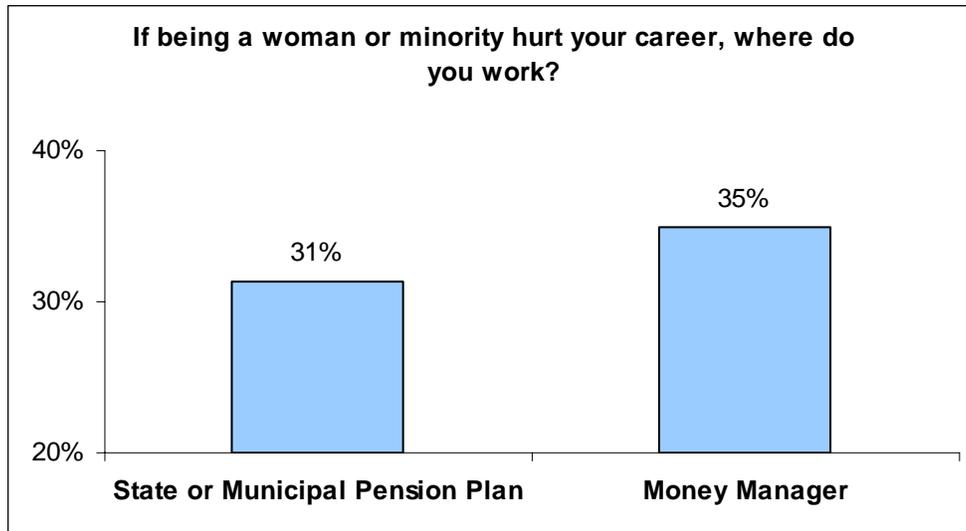


Figure 9 - Organization Type Seems Not to Matter

Also in terms of those who felt harmed, looking at age and investment management experience, the perception of harm due to gender or race seems to be similar between the age and experience factors. As depicted below, the sense of harm seems to span age groups, eighty-seven percent (87%), and experience levels, eighty-one percent (81%). This suggests that the perception and experience of bias are not only old, but that they persist today.

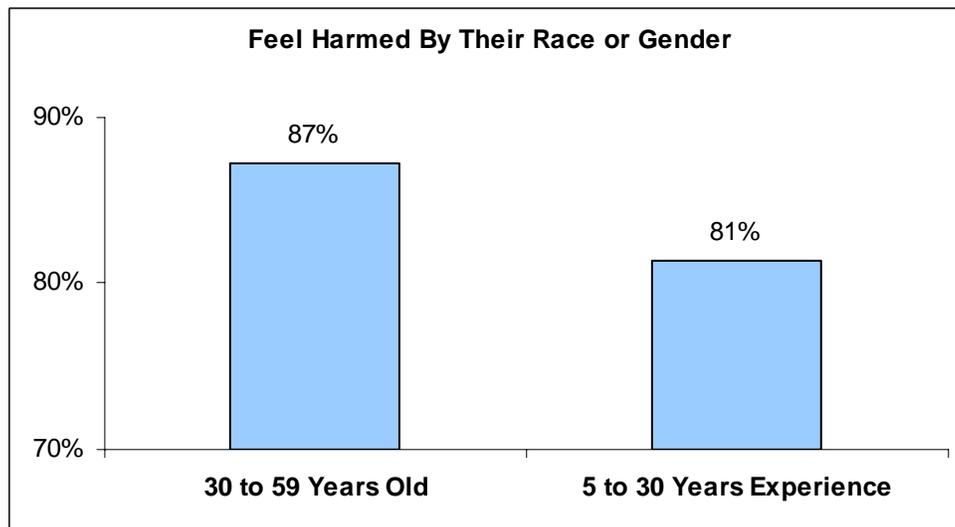


Figure 10 - Feeling It Through the Ages and the Stages

Can Women and Minorities Perform?

While the survey did not attempt to substantiate the actual investment performance of women and minorities, we were able to measure the belief that women and minorities can perform.

Most respondents, eighty-nine percent (89%), said that they do, or would, rely on investment services offered by women or minorities for their personal investment needs. Also, eighty-one percent (81%) of respondents rely on women or minorities at least as much as they do for work as they do for their personal investment needs. So, roughly nine in ten survey respondents believe women and minorities

qualified enough to handle their personal finances, and roughly eight in ten respondents use women and minorities at least as much for work as for personal investments.

In another reflection of open-mindedness, another large proportion, eighty-three percent (83%), of the group who believe that women and minorities offer better investment related services than men or non-minorities, do not believe that that better quality depends on the gender or race of the providers.

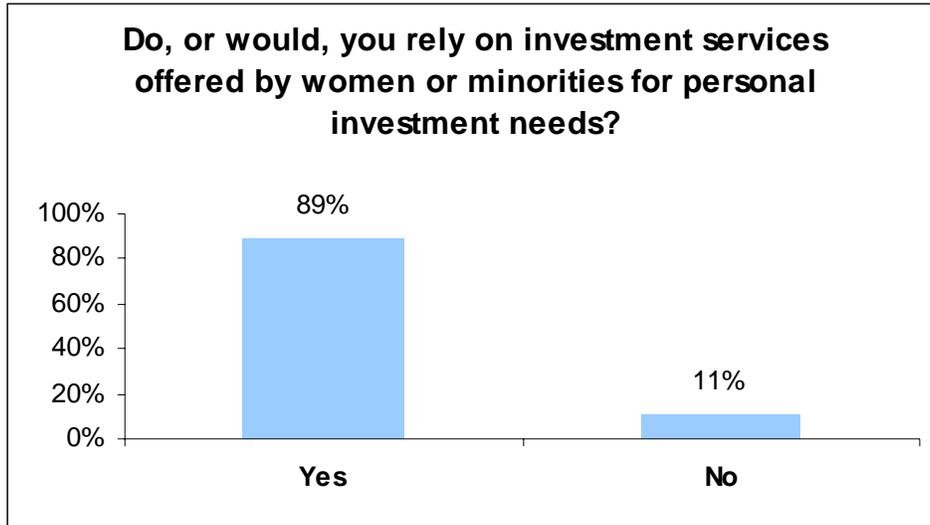


Figure 11 - Most Do, or Would, Rely on Women or Minorities

Also, of those who think investment services provided by women or minorities are competitively better, the race or gender is not seen as a factor. This suggests that women and minorities are simply seen as better professionals, and race and gender do not animate bias for them.

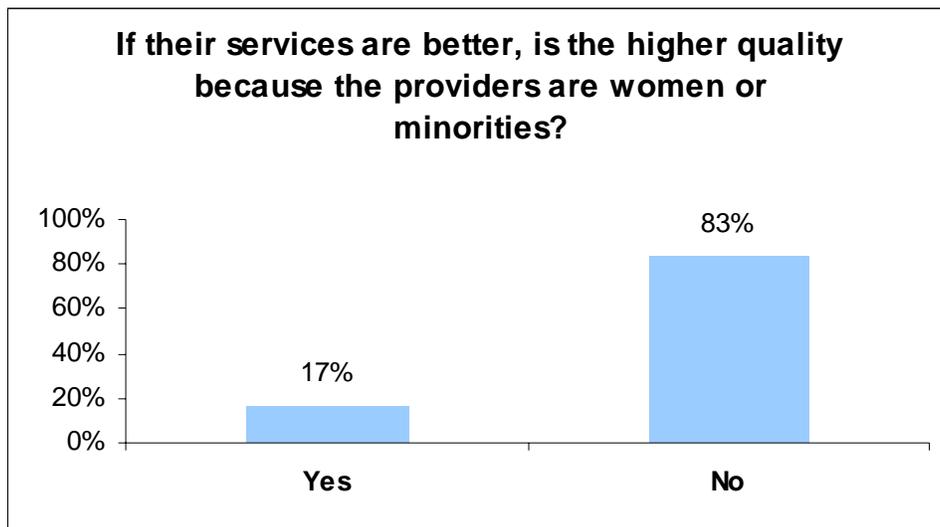


Figure 12 - If Better, Not So Because of Race or Gender

Deconstructing the participants who would or already work with women or minorities, ninety percent (90%) of non-minorities said yes, and eighty-eight percent (88%) of the minorities agreed with them.

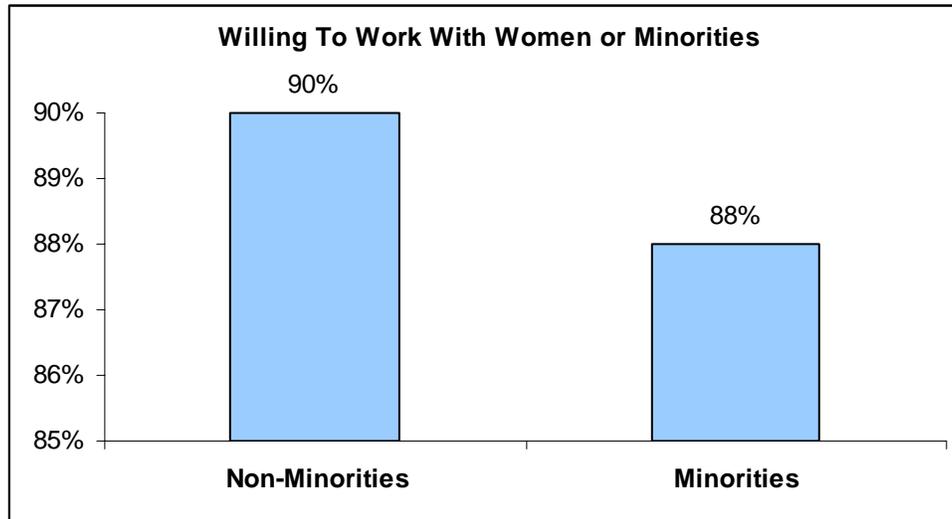


Figure 13 - A Majority Wants to Work With Women or Minorities

... But Bias Still Exists

A cautionary observation is that bias still exists, both for, and against, women and minorities.

On one hand, eleven percent of respondents said that they do not, or would not, rely on women or minorities. This “biased against” group was split evenly between minorities and non-minorities. Of the eleven percent (11%), seven percent (7%) were women, and four percent (4%) were men. Ten percent (10%) of the eleven percent (11%) who constitutes this group was at least thirty years old. In terms of where they work, roughly four percent (4%) of all the survey’s respondents are people who said that they work at state or municipal pension plans and do not and would not work with women or minorities. Also in terms of employment, that was the largest single group of people who are biased against women or minorities.

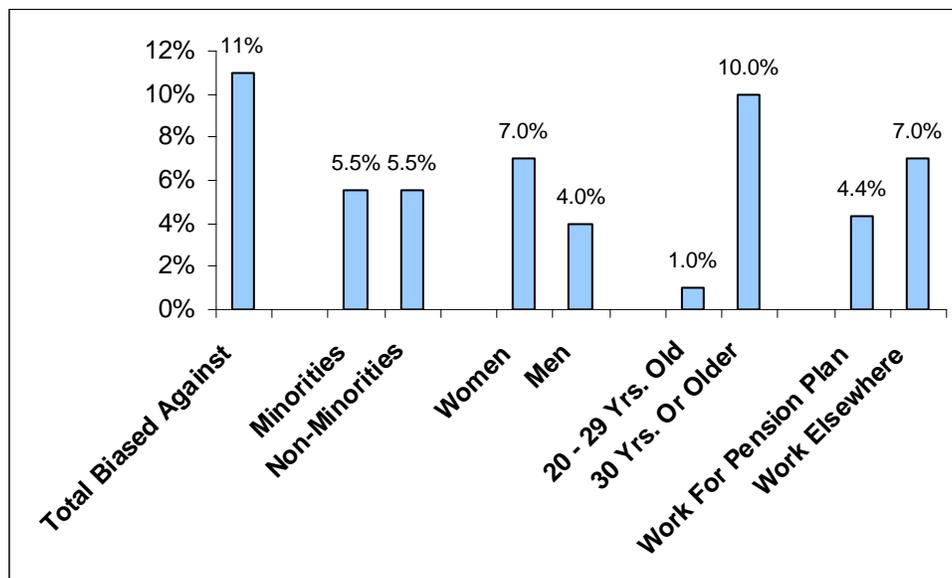


Figure 14 - Respondents Biased Against

On the other hand, perhaps just as surprisingly to some, a little more than nine percent (9%) of respondents said that they would use women and minorities for investment services even if those services were “of relatively poorer quality and/or relatively greater cost.” Of the respondents saying that they would pay those penalties to work with women and minorities, seven percent (7%) were minorities. In terms of where they worked, equal proportions of plan sponsor and investment manager respondents said they would pay a penalty in performance or costs to use women or minorities for investment services.

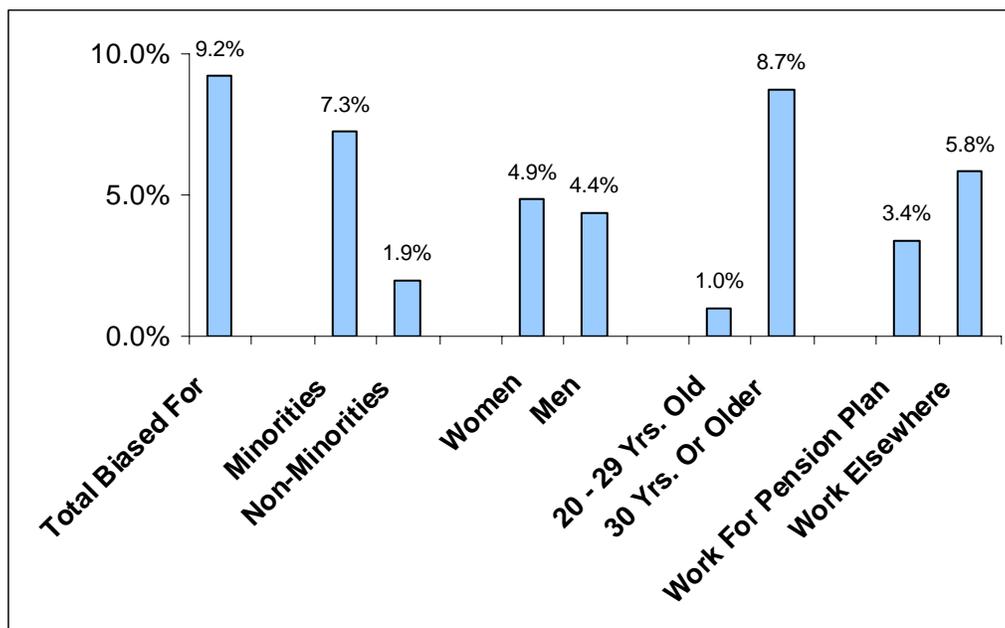


Figure 15 - Respondents Biased For

At the end of the survey there was an open comment section. The pair of verbatim quotes below seems to capture the essence of opinions that promote a level playing field.

Really, folks, you need only to watch CNBC or Fox's Money Watch to understand that ethnicity and sex are no longer germane factors. I really don't care how performance is achieved. Just "show me the money!" Show me a quality firm backing it up. Show me staying power.

And

I believe emphasizing diversity in fiscal or economic decisions is a waste of time. Concentrate on fiscal integrity, common sense, and forget this "fluff".

The two quotes above, though, and the opinions seemingly expressed by them, certainly contrast with the opinions expressed in the following two quotes.

I do believe that females and minorities are forced to work harder to be successful in the investment business due to negative perceptions of minorities and women in the business as well as the smaller numbers of women and minorities in the business. As this is a people business, people tend to hire people that look and have similar backgrounds as themselves.

And

Women and minorities often give better quality service than might otherwise be required simply to get a foot in the door. As such, they are a better deal when price and performance are held constant.

It seems that even in the perception of diversity there is diversity. Eleven percent (11%) of respondents were biased against women and minorities, and nine percent (9%) were biased in favor of women and minorities. Put another way, twenty percent (20%), or one in five respondents, were apparently biased one way or another.

What They See At Work

Most of the preceding text and charts describe how individuals feel, and what they do, or are willing to do with their personal investment choices.

Perhaps unsurprisingly, we were also interested in observations of organizational choices regarding diversity.

Here again there is either evidence of progress regarding diversity, or of data that competes with the perceptions of those who feel their careers are or were harmed by their gender or race. Eighty-three percent (83%) of respondents said that their organizations use investment services offered by women or minorities. Again, it should be noted that nearly two in ten respondents, seventeen percent (17%), said that that was not the case. Their organizations do not use investment services offered by women or minorities.

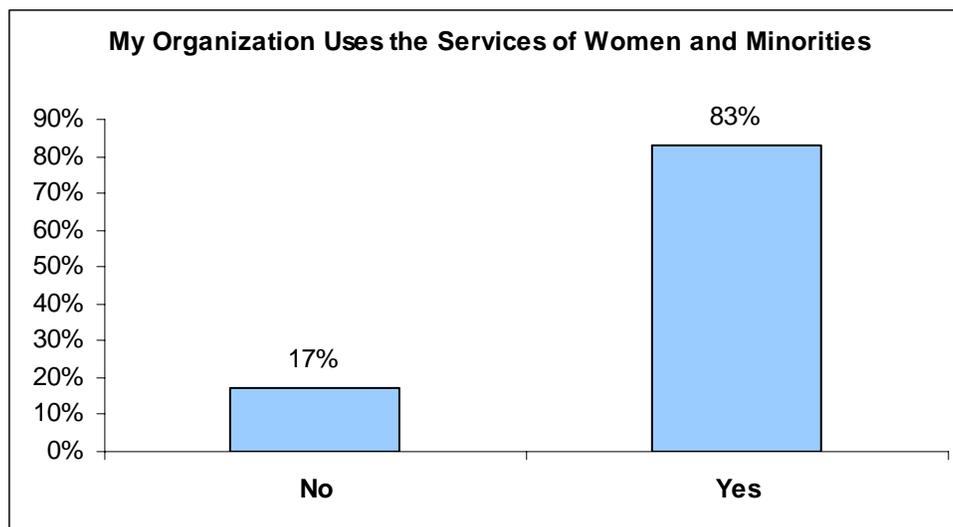


Figure 16 - Bias Still Exists

Of those saying their respective organizations use investment services provided by women and minorities, forty-nine percent (49%) work for money managers. Forty-three percent (43%) work for plan sponsors. In other words, again, the group of people who say their organizations work with women and minorities seems roughly equally split between those who work for plan sponsors and those who work for money managers.

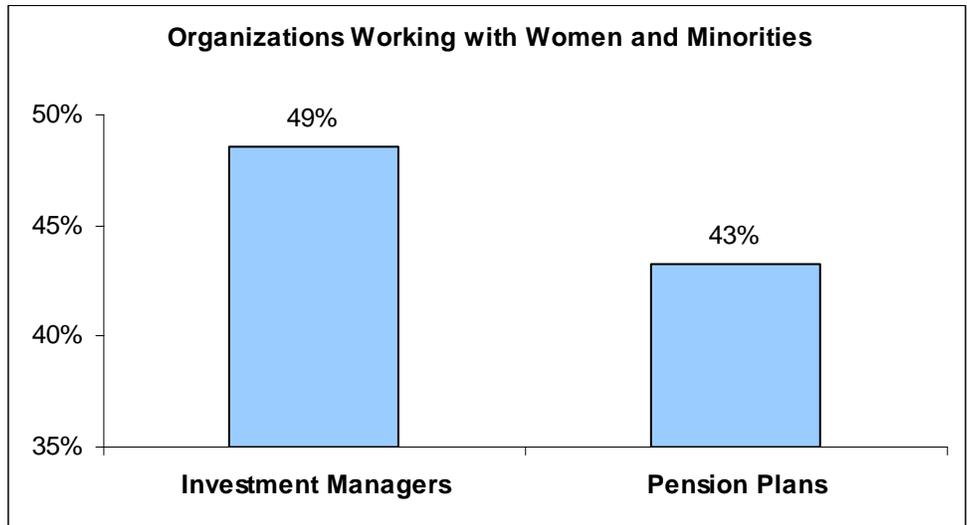


Figure 17 - Diversity on Both Sides of the Line

As shown in the chart below, employees of firms managing \$10 billion or more are the largest single group observing diversity at their workplaces. After that group, the experience seems roughly equally distributed, with the exception of those working at organizations managing between \$5 billion and \$10 billion.

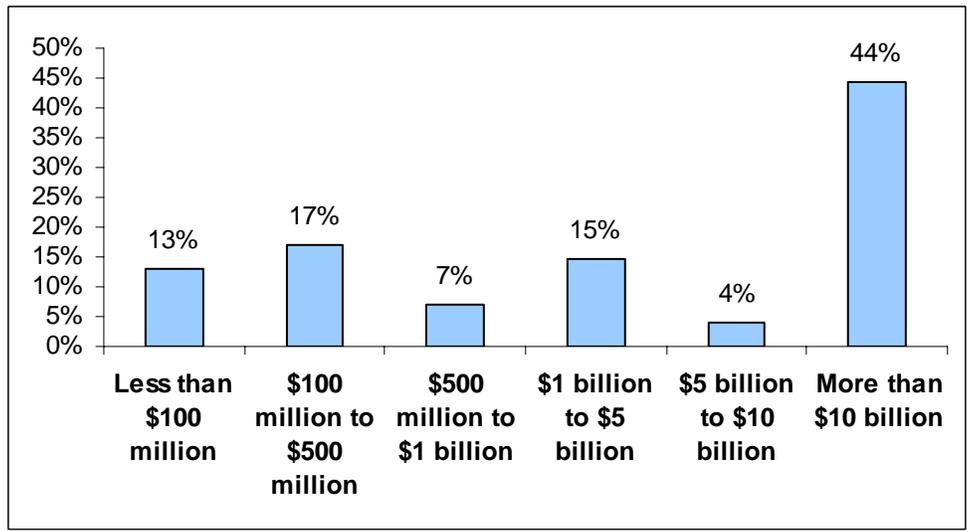


Figure 18 - Assets Managed by Firms Using Women and Minorities

Geographically, organizations using investment services offered by women and minorities seemed clustered in the Pacific region of the U.S. The chart below shows the geographic distribution of organizations whose employees reported use of investment services provided by women or minorities.

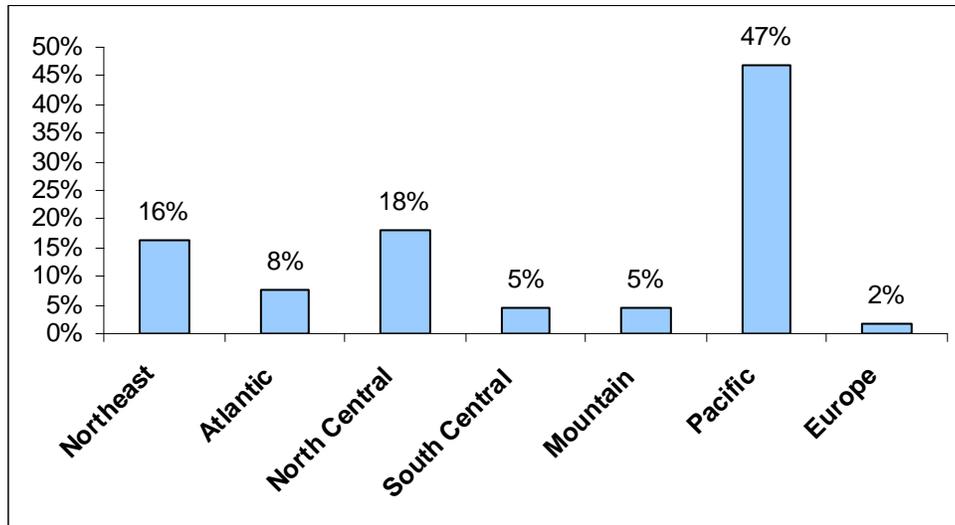


Figure 19 - Location of Firms Using Services Offered by Women and Minorities

Within the U.S., one can see from the chart above that employees of organizations located in the Atlantic⁴, South Central⁵ and Mountain⁶ regions seem less likely to see their organizations using investment services offered by women and minorities than those in the Pacific, Northeast, and North Central⁷ regions.

Another factor that we considered was the proportion of firms in specific regions reported by their employees to use investment services offered by women and minorities.

⁴ Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and West Virginia.

⁵ Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, and Texas.

⁶ Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming.

⁷ Illinois, Indiana, Iowa, Kansas, Michigan, Ohio, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin.

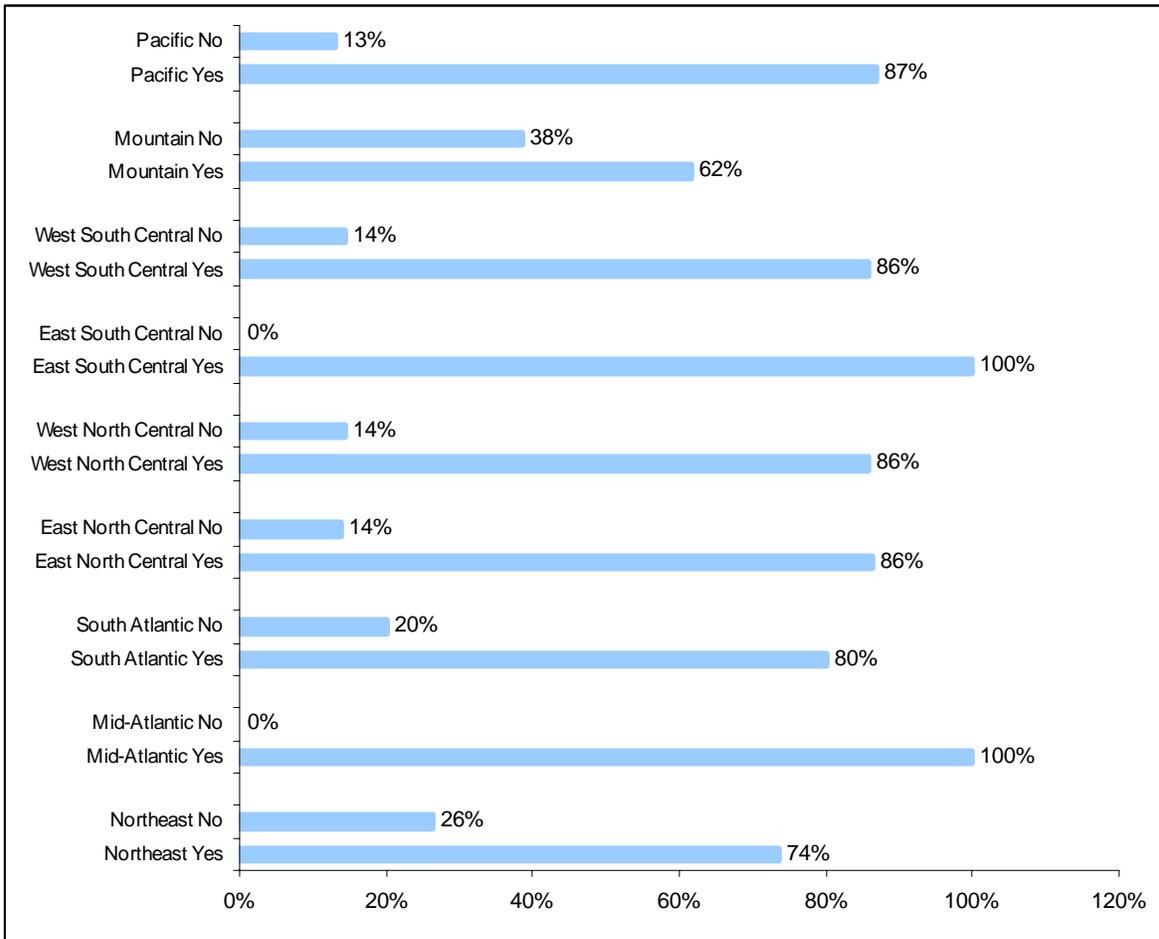


Figure 20 - Location of Firms Using Services Offered by Women and Minorities

As displayed above, one hundred percent (100%) of the respondents from organizations located in the East South Central⁸ and Mid-Atlantic⁹ regions worked where investment services offered by women and minorities are used.

Some portion of survey participants who worked in any other region of the U.S. reported that the organizations for which they worked did not use investment services offered by women or minorities.

Conclusions

At the end of the survey, even acknowledging the survey's shortcomings, several items are clearly suggested.

- i) Biases against women and minorities still exist.
- ii) Some portion of respondents to the survey report awareness of biases against women and minorities.
- iii) There are structural and cultural issues preventing a tighter embrace of diversity.
- iv) More study is required to identify trends regarding diversity, and whether or how efforts to expand diversity are working.

⁸ Alabama, Kentucky, Mississippi, and Tennessee.

⁹ Delaware, Maryland, and District of Columbia.

Anecdotally, we do note encouraging cases where, clearly, women and minorities, and, even, minority women, have been recognized, and promoted, based on competitively superior merit. In closing, not inconsistent with this observation, it still seems to remain appropriate in the context of our industry, to reflect on a quote by one of the survey participants.

“I feel that hiring of investment professionals should be based on ability, not race or gender.”