CFA Society United Kingdom

Spring 2017 | www.cfauk.org

Professional Investor

Diversity

The Official Journal of the CFA Society of the UK
SUPPORTING ASIP, CFA & IMC PROFESSIONALS

"We had a clear strategy about what we were trying to do, and that was to focus on building the skills of the women in the organisation, so they could reach their potential and fulfil their career aspirations."

JULIET BULLICK, CHAIR CFA UK GENDER DIVERSITY COMMITTEE

CFA Society United Kingdom

Editor Maha Khan Phillips
CFA UK editor Fiona Edwards
Cover photography Andy Lane
Photography Abi Hardwick, Abi Imaging

Professional Investor is published by CFA Society of the UK

Registered office
4th floor, Minster House,
42 Mincing Lane, London EC3R 7AE

Tel: 020 7648 6200 Fax: 020 7648 6222
Email: info@cfauk.org
Website: www.cfauk.org

Chief executive
Will Goodhart

CFA UK members and other practitioner readers are invited to submit articles for possible inclusion. Please email the society on professionalinvestor@cfauk.org. Contributed articles will be reviewed for possible inclusion by the Marketing and Communications Committee.

Original design
Barker Brooks Communications Ltd

Printed by Wyndeham Grange

The CFA Society of the UK represents the interests of more than 11,700 leading members of the investment profession. The society, which was founded in 1955, is a leading member society of CFA Institute and is committed to the development of the investment industry through the promotion of the highest ethical standards and through the provision of education, professional development, advocacy, information and career support on behalf of its members. CFA UK supports the CFA, ASIP and IMC designations.

Volume 27, Number 1.
ISSN 0958-2541. ©2017 CFAUK
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Chairman's comment

You've got your charter. So what? There is a common misperception that passing the CFA exams leads to *receiving* a charter – a credential. But that's not the end of it. Passing the exams mean you can *become* a charterholder. The difference is critically important and lasts a lifetime.

For most people, becoming a charterholder means you are part of the *profession* of investment management. This makes the CFA Society of the United Kingdom more than just a society of members. It is a professional body by every measure. We have a credential for entry, we self-regulate and advocate with a code of conduct and we expect continuous professional development. It is no coincidence that our magazine is called *Professional Investor*.

Behavioural economics and finance have become key areas of continuing professional development for all of us and this issue goes into depth on one aspect – diversity in the investment profession.

Interestingly, this issue of *Professional Investor* reveals just how multi-faceted diversity itself can be. Morningstar's statistics on female fund managers makes it clear that there is still much to be done to achieve gender equality in our industry. Other contributors, however, are far more optimistic. A case study from Mercer, describing its own approach to diversity, shows how the issue is being tackled in practice. A variety of other contributions and reports cover cognitive diversity, diversity of thought, and the myriad of initiatives within CFA UK and beyond to improve these issues. These topics are fascinating, illuminating and practically useful for all of us striving to improve ourselves and our profession.

As always, *Professional Investor* also contains many regular features. In particular, I recommend to you the member profile pages. I have firmly believed for a long time that raising the standards of our investment profession is best achieved through active and enthusiastic effort from all its members. You will see great examples of those already doing so and some of the successes this brings them individually and our profession more broadly.

Gerry Fowler, CFA
Chairman, CFA Society of the UK

Contributors

Clare Armstrong is principal in Mercer's investment business.

Gay Collins is a founding steering committee member of the 30% Club, and founder of Montfort Communications.

Pavita Cooper is a founder and director of More Difference, a talent and career insight business.

Julia Dawson is the lead author of the CS Gender 3000 diversity research series.

Sarah Dudney is a client partner at The Buy-Side Club.

Tim Hodgson, ASIP, is head of the Thinking Ahead Group at Willis Towers Watson.

Con Keating is an investment professional who has also served as trustee of several pension schemes.

Michael Kinney, CFA, is a senior researcher within Mercer's equity boutique.

Emily Lawson is the deputy chair of the 30% Club.

Laura Lutton is a director in the manager research practice at Morningstar.

Karis Stander is managing director of Investment2020.

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"With all the publicity and discussion we've had in the last few years, I think the business case for diversity has been accepted."

JULIET BULLICK, IMC

Member profile

Juliet Bullick, IMC

Global head of consultant relations, Fidelity International

INTERVIEW BY MAHA KHAN PHILLIPS, PHOTOGRAPHY BY ANDY LANE

Investment firms no longer need to be convinced that there is a business case to be made for running diverse institutions, believes Juliet Bullick, IMC, global head of consultant relations at Fidelity International. "With all the publicity and discussion we've had in the last few years, I think the business case for diversity has been accepted," she says.

Bullick is an industry veteran who has been involved in diversity initiatives throughout her career. She joined Latin American Securities, a joint venture with Foreign & Colonial, in 1992. It was a great place to learn, she says. "It was a small firm, and really dynamic." She moved to Mercury Asset Management, the firm which was later subsumed by Merrill Lynch Investment Managers (MLIM), as an account manager for UK pension funds in 1996. "I looked after the relationship we had with pension funds, liaising with trustees, and reporting back on how we managed their assets. Then I started running teams of account managers doing similar roles," she explains.

> "We take a strategic approach, and it's exciting for me leading a global team as my coverage has been across the UK up until now."

When MLIM was sold to BlackRock in 2009, Bullick took on responsibility for running the UK institutional business. "We had about 1500 clients overall, and $330 billion of assets under management. So it was like managing a large asset manager focused on UK pension clients. It was a really interesting time."

MLIM's Women's Network had been an offshoot of parent company Merrill Lynch, and BlackRock did not have a network in the EMEA region. Bullick stepped up, and helped to launch a network, as part of a global initiative. "I co-chaired the EMEA branch of the Women's Network for many years. We had a clear strategy about what we were trying to do, and that was to focus on building the skills of the women in the organisation, so they could reach their potential and fulfil their career aspirations. Several men were members of the committee as well, as we were very clear that the men of BlackRock were front and centre part of the solution for progressing women in the organisation," she explains.

In 2012, Bullick decided she wanted to change direction. "I moved out of a client facing role into the newly created inclusion and diversity position, covering EMEA. This was all about taking a strategic approach and coming up with business-focused action plans to improve the firm's diversity. It was important to have clear ownership, with demonstrable goals, and move beyond having a conversation to actually making tangible progress. It was interesting because initially there was a need to reinforce the business case, which I found quite surprising. But that went away quite quickly, not least because Larry Fink, who is the chief executive and chairman, was very committed."

As a result of these firm-wide efforts, the promotion rates of women to managing director, and the hiring of senior women within the organisation, increased. The firm also ran several other networks, for the LGBT community, veterans, and families, among others. "The intention was to broaden out beyond gender. We were an incredibly diverse organisation," she explains.

Last year Bullick moved to Fidelity International, to take on responsibility for consultant relations. "My role is to bring together our regional teams, responsible for consultant relations, so we mirror how a number of the global investment consultants work. We take a strategic approach, and it's exciting for me leading a global team as my coverage has been across the UK up until now."

In her spare time, she is involved in spearheading the CFA UK Gender and Diversity Network. "Our strategy is very clear. It's bottom up in that we support members by organising events to enhance their skills. We like to think we support members, right from the start as a CFA candidate, all the way to becoming a chief executive. We are also keen to work top down, to support firms individually, to showcase and implement practical strategies to improve diversity."

This will be delivered through the launch of the CFA UK's Gender Diversity Partner Programme which looks to bring together strong leadership to aid practical implementation across the industry. "We're looking to establish a Diversity Council, made up from our partners, and really help them showcase best practice. We are ambitious, and there are other diversity aspects beyond gender that the partner programme will look to broaden over the coming years."

When she's not working or campaigning for diversity, Bullick enjoys spending time with her family, and going to the theatre. "We're also big foodies in our house. We do a lot of cooking, and everything is organic." ■

Member profile

Hilary Wakefield, ASIP

Head of UK investments at EFG Asset Management

INTERVIEW BY MAHA KHAN PHILLIPS

Hilary Wakefield, ASIP, began his career as an international banker at Lloyd's Bank International over thirty-five years ago, initially based in Geneva. "I remember sitting with a private client who needed US exposure, and being told to go and find out from the investment managers downstairs what to invest in. The asset manager said 'just go and buy some Coca-Cola, IBM and General Electric and you'll be fine'. There was no explanation. That started my interest in asset management," he explains.

After spending time in Paris on the private client side of the business, Wakefield told Lloyds he wanted to work in asset management. "They told me it wouldn't happen any time soon, and so I moved to Schroder's. This was 1987, just before the crash," he explains.

Wakefield began as a junior European equities analyst. After two years, he was recruited by Flemings, to work on the institutional side of the business. In 1993 he joined Old Mutual Asset Managers as a global fund manager; where he went on to initially oversee the global equity unit trusts, UK balanced pension funds and UK managed fund clients. He also latterly served as head of emerging markets.

"We were a small series of teams, and we were asset rich. I took on responsibility for our global equity funds. My job was to link with each of the regional specialists. I also took on the global multi-asset funds for the life company and pension schemes. Curiously enough I also ended up with global emerging markets on my plate. This was the time when Old Mutual was starting to come out of the shadows and transfer very substantial funds out of South Africa, and we were the natural recipients. We were a team of ten people and suddenly we were managing billions of pounds. So we developed a structured quantitative investment process," he explains.

In 1999, he moved to EFG Asset Management (EFGAM). Wakefield was one of the early portfolio managers at EFGAM, and developed the firm's stock picking programme, which was then broadened to develop its asset allocation process. He also developed the Global Alpha Strategy, a multi-asset class targeted returns approach.

"There were essentially three of us in 2002, but we built up the process and the strategies and we started to recruit and gain traction in the market. We went from about £460 million in total, of which £60 million was actively managed by us on a discretionary basis, to £2.8 billion today."

The firm is now 170-strong globally managing £17 billion, following parent company EFG Bank's purchase of Swiss

> "We were a small series of teams, and we were asset rich. I took on responsibility for our global equity funds."

Bank BSI last year. 70% of EFGAM's assets come from the new combined EFG Bank. The remaining 30% come from the growing unit trust business, New Capital, and from the institutional business. Some 25% of AUMs are allocated to EFG's targeted returns programme. "This fits nicely with our balanced mandates, because it's not correlated, but we have been achieving returns just short of the balanced mandates but with only 1/3 of the volatility. The market is too focused on the mainstream debt and equity arenas, and have never really explored outside of these areas."

In a post Trump and post Brexit world, Wakefield believes that risks have gone up. "The great difficulty for us is trying to work out what is real and what is not. The level of uncertainty continues to ramp up. It will be interesting to see how the French and the rest of the European elections go, let alone how President Trump develops in the White House" he says. ■

Natalia Bucci, CFA

Convertible bonds fund manager, JP Morgan Asset Management

INTERVIEW BY MAHA KHAN PHILLIPS

After completing a masters in finance degree from Princeton University in 2003, Natalia Bucci, CFA, began her investment career in private wealth management at Goldman Sachs in New York. Bucci, who is Italian, loved accounting and economics even in high school. The two years she spent on Goldman Sachs' analyst programme was a really valuable experience, she says.

"For a first job, it was a great opportunity. It had a bit of everything that I was looking for, from a research component, to some quant, to having an application in the real world."

> "We needed to put what the firm already had in place – in terms of monitoring equities, fixed income, and currencies – together, so they could function in terms of multi-asset products."

Bucci moved to London in 2005, where she joined the global multi-asset team at JP Morgan Asset Management. "Much as I liked the States, I had never gone with the intention of staying there long, and I decided to look for a new role in Europe. I felt that I had learnt everything there was to learn in that role, and I needed a bigger challenge," she explains.

> "My interest always lay in the more quantitative background, and convertible bonds can be a very technical product. So I naturally gravitated towards them."

At the time, JP Morgan had a small team building up multi-asset capabilities. "I became an assistant to the portfolio manager, to help with setting up risk control functions within our team, in terms of monitoring the risk exposure that we had on our multi-asset funds. We needed to put what the firm already had in place – in terms of monitoring equities, fixed income, and currencies – together, so they could function in terms of multi-asset products," she explains.

Convertible bonds were well positioned within the multi-asset proposition, and Bucci found herself spending more and more time on them. "Being a hybrid product, we thought they would sit well within the multi-asset team. My interest always lay in the more quantitative background, and convertible bonds can be a very technical product. So I naturally gravitated towards them." She was named portfolio manager in 2010.

Bucci began the CFA Program when she started her career at Goldman Sachs and completed it while at JP Morgan. "Both companies were very keen for everyone in the team to have the CFA designation. They wanted their employees to be challenged. For me, it was definitely a way to continue learning. It was a way to refresh what I already knew, but also to apply that learning to the real world. People generally prepare for the CFA examination while working, and there's a big difference between studying at school, and studying when you can put what you're learning to practice every day. So I would encourage people to study the CFA Program while they are working," she says.

In her free time, Bucci is a keen sailor. She is also a self-confessed 'fashion addict'. "Apart from liking clothes, it is an interesting world for me, in terms of how the business side of the industry has developed over time" she says. ■

Member profile

Mansur Akbutin, CFA
Director, Deutsche Bank

INTERVIEW BY MAHA KHAN PHILLIPS

Timing has been everything in the career of Mansur Akbutin, CFA. He was born in the Soviet Union, and finished high school two months before it collapsed. "I ended up in Uzbekistan, and in my country, the traditional professions are aircraft construction or traditional types of engineering. I never dreamt I could have a career in the financial profession," he explains.

Like many of his contemporaries, Akbutin studied aircraft construction at Tashkent State Technical University in 1992. But he went on to complete a bachelors degree in business management at the university.

"The USSR collapsed and the world wasn't the same again. We saw an influx of foreign companies. A Malaysian business school established a faculty of business management at my university. At the time, I was twenty and I didn't speak English, and the lessons were completed entirely in English. After three years I graduated with full ambitions and aspirations to have an international career," he says.

Akbutin was then awarded a scholarship to the International University of Japan, where he moved with his wife and one year-old son. "It was a true culture shock. Coming from a Soviet background to Japan was a complete game changer. Nobody spoke English outside the campus, so we all had to learn Japanese," he says.

After graduating, he began his career as an associate at JP Morgan Chase in Tokyo, in the business alighted technology team supporting credit derivatives desks. "I joined one month before 9/11 happened, which was a very tragic time. From a job point of view, we had a lot of challenges, given that all the IT infrastructure was mainly in the New York office. But we did learn a lot."

During the period, he also studied the CFA Program, as well as receiving the Financial Risk Manager (FRM) designation. In 2003, he moved to Merrill Lynch, where he was a vice president and head of product control and the middle office for the Asia Pacific credit trading business. "By this time, we had products such as collateral debt obligations which are very complex products and require a great deal of understanding. It was extremely interesting intellectually, but challenging because in 2007 we saw the credit crisis unfolding."

In 2008, Akbutin was offered a job with Deutsche Bank in London as head of product control for the credit hybrids desk. "We've seen the evolution of product control to a world class CFO function. It is a combination of several professions. You need to be a little bit of a trader, to know financial products inside and out, and you need to be a scientist to evaluate the products and models. You need to be an accountant in order to reflect those transactions properly in statements, and you need to be a lawyer, to read texts like the Basel III regulations, especially now that more regulation is coming in pertaining to leverage and risk-weighted assets. You also need to be a strong character and have great communication skills, in order to be able to advise the front office about their business performance and at the same time challenge their decisions. The challenge part is quite important. Stakeholders and shareholders rely completely on control functions to ensure that conflicts of interests are properly managed," he says.

Since 2014, Akbutin has been focused on portfolio risk management. "I worked closely with the portfolio risk management team and they invited me to join their team, initially looking at holistic financial resource management in emerging markets debt. It was a natural move." He now looks at liquidity and funding on a wider level across global markets as a whole.

In his free time, he is a big fan of travelling. "We travel all over the world with our two kids. I'm a selfie man; I'm constantly taking selfies, because memories are very important!" ■

Charles Benett, CFA

Partner and head of quantitative analysis, River and Mercantile Asset Management

INTERVIEW BY MAHA KHAN PHILLIPS

Charles Benett, CFA, began his career in the Royal Navy in 1989, after completing a bachelors degree in philosophy, psychology, and physiology from Balliol College, Oxford. He saw active service in the first Gulf War and left the navy five years later as a lieutenant. Because of a long interest in finance, he decided to study for an MBA from Columbia University in 1994.

> "There were three fund managers and myself, and I started by setting up our in-house quantitative screening system, called Moneypenny."

Benett began his financial career as a sell-side equity research analyst at Toronto Dominion Securities (TD) in New York. "It was a great experience. I was there for over two years. This was back in 1996, and I started looking at this new-fangled thing called the internet. Obviously, this was a time when it was all very new. The first companies were going public, and Yahoo! was a start-up. It was great fun. I was learning about how things actually worked, because, frankly nobody in those days knew the technical and the networking side, as well as the applications of the internet to media and e-commerce. I remember going to Amazon, and having my first tour of their warehouse in Seattle. The whole idea of having a warehouse where you could supply people from was a radical departure," he says.

> "For me, it's always interesting that while there are big themes or factors at work that drive large sections of the market, within that, there are individual stocks that don't behave in line with the broader trend."

Having 'got the internet bug', Benett joined Micromuse, a network software company, as a technical product manager. He completed an MSc in Computing Science from Imperial College London in 2002, and joined Advanced Portfolio Technologies (APT), the risk software vendor, as a quantitative developer in 2003 before managing their risk consulting group.

Benett joined River and Mercantile in 2006, when the firm was a boutique start-up (it now has £2.9 billion in assets under management) "There were three fund managers and myself, and I started by setting up our in-house quantitative screening system, called Moneypenny," he explains. The firm has developed a proprietary investment philosophy, called PVT, a three factor approach focusing on investment potential, valuation, and timing. "Our approach is systematic fundamental investment". Benett now assists with the portfolio management of the global equity portfolios, carries out fundamental research and directs the running of Moneypenny.

"For me, it's always interesting that while there are big themes or factors at work that drive large sections of the market, within that, there are individual stocks that don't behave in line with the broader trend. Those are the really interesting ones, the ones which people describe as providing idiosyncratic returns. You needed to be aware of what the macro trends are, but because we are very active, for us the key is those individual stocks, the ones that do not go with the flow," he says.

He began the CFA Program when he was at TD Securities. "It is the industry standard of professional qualifications, and it helps you understand a broad spectrum of investment approaches and asset classes, which is important."

Benett is married and has two school age children. "That, in practice, takes up any spare time that I have," he jokes. ■

Roundtable:
Gender diversity in the spotlight

The 30% Club was founded in 2010 to increase the representation of women on the Boards of the UK's largest companies. Since then, it has spread to chapters around the world and broadened its focus to include developing the pipeline for senior women. Four of the women behind the campaign, and other diversity initiatives, talk to *Professional Investor* Magazine about why the spotlight still needs to be shined on gender diversity.

PI: Why, in 2017, do we still find ourselves having to talk about gender diversity and representation of women in senior roles?

GAY COLLINS: Addressing this issue head on is a critical aspect of making companies fit for the future. Whilst there's been progress over the last five years, much has been achieved through non-executive directors joining hitherto male-only boards. This has to flow down into more senior executive roles for women, because achieving that changes the feel of a company dramatically. It also reverses the waste of productivity and investment that occurs if women leave the workplace and don't return. Quite why it's taken so long for companies to wake up to the fact that progressive companies are ones that embrace and encourage diversity baffles me, but I do feel that finally it's no longer about why, but how.

PI: What are some of the benefits of having diversity within organisations? We've seen reports that suggest that having diversity of gender within an organisation improves performance. Where does that performance come from? Does it come from diversity in thinking, or approach?

JULIA DAWSON: What you see at the board level of all sorts of companies is that they are homogenous. They suffer from 'group think', and having someone who is different, whether it is ethnically, or because of gender or sexuality, breaks that group think. Each group has a different priority. Women for example tend to be much more focused on managing risk, rather than optimising returns. They are much more mindful of the downside, and they approach strategy in a very different way. None of us are perfect, and we often miss something. When you are managing big companies, it is absolutely critical to have a diverse group around you. It may take longer to make decisions but you make more informed decisions.

EMILY LAWSON: There have been multiple reports that have shown similar results over the last ten years, since the first *Women Matter* report came out in 2007. We know that if you look at a big enough sample size, that in terms of financial performance, there is a return on diversity. We've found that when a company has three or more women on the top team – not just one – it made the most difference. When it's just one person, it's hard to be heard by the prevailing majority.

PI: So how do we get more senior women in the pipeline? Is it about succession planning?

PAVITA COOPER: As you'd expect, it's about a bit of everything. Many organisations say they have cracked it and have good succession plans in place. But appointments often do not reflect the reality of who is on those on the succession plans. Organisations invest heavily in building sophisticated talent processes however if senior leadership doesn't engage in those processes, then that can trip organisations up. What is the diversity mix of the succession pool? Regarding the women on the succession plan are they being given sufficient stretch experiences to get them "role-ready"? There's also the case sometimes that there's no women left to choose from, because they've all left. The 30% Club did some research three years ago entitled *Cracking the Code*, and one of the themes emerging that had the biggest impact on whether a woman stayed – was her relationship with her line manager, and whether management engaged with the challenges, whether its childcare or something else. Many women don't want to be seen to be working part-time, and say it's a kiss of death if they are in a part-time HR process. They would prefer to have a really informal system in place, but to do it in a way that allows them to meet their short-term obligations. They are more likely to stay in the workforce if they have a boss that engages with them around their career development.

COLLINS: It is clearly important for the initiative to come from the top, and whilst focus has to be on the Board, chief executives and the executive team need to take a look at all levels within their companies. Do they have the kind of company where women want to remain? But it's not just about women. It is also about a changing culture. Millennials for example, want a

different way of working, and won't prioritise companies which don't have the right working culture. There have to be some really tough decisions and discussions amongst the executive management teams to work out what needs to change. They have to address the way they look at promotion and also recruitment. It's important to think about how you evaluate candidates, review how advertisements are worded, and set up your interview process in a way that will either attract or appeal to enough women.

PI: So how do you change the working culture?

LAWSON: When you want to change a culture, one of the first things you need to recognise is that it is going to take time, and it's going to be quite painful. You need to be committed upfront that it's the right thing to do, and there's a good business rationale for it. That means everyone should have a business case, but also a personal case. Why does it matter to you personally that culture changes? Some things you need to embed are going to take a long time to be successful. You need a mix of the things that are worthwhile over the long term, and things that you can do quite quickly that will have an immediate effect. Finding small things you can do to keep the conversation going are very important. When we compiled the *Women Matter* Report in 2012, we tried to look at specific initiatives which pay off to develop culture. We learn that 100% of chief executives said they were committed to culture, but only 50% of middle management thought the chief executives were. So everyone plays lip service. It's critical to get to those middle managers, to start the system and make sure you are take the bias out of systems.

COOPER: In order for culture to be truly embedded, every single person has to be accountable. A good example of this is organisations that push back on professional services firms that field all male teams for pitches. It's about helping leaders understand what their responsibilities are, particularly at middle management level where we see the most resistance. Unless people connect with the business case on an emotional level, they don't get it because it seems like it is something that doesn't matter – there is no desire to change the status quo.

PI: What about shareholder pressure?

COLLINS: I think there has been significant and increased pressure over the last four years since the 30% Club group was formed, but the pressure can be more obvious with certain companies and less direct on others. The 30% Club's goal is to help create more consistent and joined up engagement with companies. We had a roundtable seminar at the London Stock Exchange in November last year, and I think the goal of what needs to be achieved on Boards is very clear, but how to achieve it differs from company to company, and also between the asset managers and the pension schemes. So I would say Boards feel

the pressure, whether it is from the media or from the 30% Club or from other initiatives like the Hampton Alexander Report. Some feel it from investors and from analysts. But this is all still a work in progress.

PI: Do we need to push for gender equality across all sectors? Should we accept greater diversity will tend to concentrate in shared services in some sectors?

DAWSON: It's the old argument that you don't get women in mining and in industrials, and we're continuing to see that divide in the data we have in 2016. But it seems to us that many of the skills required in those types of industries are very transferable. All companies need many different types of skills. They need to have their eyes open to attracting female talent in those shared services. You're not going to get 25% women in a mining company, but you certainly can get some.

COOPER: I agree. At the 30% Club we really enforce Science, Technology, Engineering and Mathematics (STEM) in education. Many of us are involved with Speakers for Schools; we engage with young women on the importance of continuing to stay engaged with STEM subjects. We hope that by supporting women in science, we may not get there in one or two years, but we may in ten or fifteen years, and we'll see a positive output from there.

LAWSON: I think the industries which have the lowest representation of women are often the ones who are doing the most about it. My advice to individual companies is to understand your particular problem. For some industries, like mining, it's that there aren't enough women graduating. Ten years ago the oil industry didn't have a gender problem, they had a skills problem, and so this forced them to become really creative and work with universities and sponsor people. I think it's about identifying your particular problem, and making a commitment to work on it. Nobody finds this easy or quick. You can make small changes that have an impact, but in some places you are really going to have to slog away over ten years to get to where you need to be.

PI: So what do you all think about the future? Are you optimistic that women will be well represented in senior roles?

COOPER: I do feel optimistic, yes. I no longer get asked about the business case, and why it's important for women to be in

senior roles. If I had a dream for the future, it would be that this becomes about broader issues. I do see a lot of issues around race, for example. I think businesses need to be more open and curious, and then we'd have better culture.

LAWSON: I'm also optimistic, but in order to solve these multi-complex issues, we have got to be able to see the shades of grey. We have to find ways to have opposing points of view in any discussion. We've seen this in Brexit and the US election. You're not all right, and you're not all wrong. We all need to work to understand our own biases, so that we can hear other biases.

DAWSON: I would echo that. It's about moving away from just diversity of the issues, to diversity in self. It throws up a lot of issues about how you create optimal teams. I'm slightly more reserved at the moment, because we've had some momentum behind this argument, and I'm slightly feeling that this has stalled. Getting diversity in senior management is critical for diversity to foster down an organisation. When you get diversity in both the boardrooms and the management teams, you see much less volatile returns, and having diversity in both layers is a critical component.

COLLINS: From my perspective, I've been really encouraged by the progress we've seen, but there's just so much more we need to achieve. We've got to keep the pressure up. The good thing about targets is that you have them, but the bad thing is that once we've achieved the target in one area, people think it's time to go off and focus on something else. What is important is not just what the FTSE 100 looks like; it's what corporates globally look like. It's not just about Boards, it's about the pipeline. There is so much change that is yet to come. ■

Biographies

Gay Collins. With 26 years' experience of advising many of the most progressive companies in the financial services space, Gay Collin's specialty is in working with large and small asset managers, unlisted or listed, and helping them to grow and navigate change. With a track record of setting up and running PR businesses, prior to setting up Montfort Communications, Collins co-founded Ludgate, then Penrose Financial. She is also a founding steering committee member of the 30% Club, a board member of CRUK's "Women of Influence" and a non-executive director of the JP Morgan Global Growth & Income Investment Trust.

Pavita Cooper is founder and director of More Difference, a talent and career insight business that works with organisations and individuals to accelerate talent. She is a diversity expert, with over 25 years' experience across a range of multi-sector global blue-chip organisations. She has acted as an advisor to chief executives, executive teams and business leaders. Cooper is a passionate advocate of greater diversity in senior leadership roles, and committed to accelerating the progression of "hidden" talent: women, ethnic minorities and leaders from less traditional backgrounds. She is a steering committee member of the 30% Club, and sits on the advisory board of Business 3.0, as well as chairing the CMI BAME Research Advisory Board. She also serves as a trustee of Kids Out.

Julia Dawson was until recently a managing director at Credit Suisse in the global markets division. She was responsible for equity research covering ESG issues, and for thematic research. She was the also lead author on the CS Gender 3000 diversity research series, which measured the correlation between gender diversity and corporate performance. Previously, Dawson was head of international equity sales at Alfa Bank; she also worked at Deutsche Bank, where she was a managing director and head of emerging European equity sales. She began her career at Barings Securities in equity research, serving as head of Russian research. She received her BSc degree in economics and Russian studies from the London School of Economics and her MBA from INSEAD.

Emily Lawson is the deputy chair of the 30% Club. She was previously the chief people officer at Kingfisher, the group human resources director at Wm Morrison Supermarkets and a partner at McKinsey & Co where she held various roles including leading the human capital practice. Her work on diversity started with the *Women Matter* Report while at McKinsey, continued into the Women in Professional Service Firms work with the 30% Club, and has continued into her practices as an HR director. Lawson holds degrees from the Universities of Cambridge and Oxford, and a PhD from the John Innes Institute.

A cognitive take on diversity

Tim Hodgon, ASIP, draws on the research of a number of academics to look at three different cognititive styles, and how they can be of benefit to the investment industry in its approach to diversity.

The subject of diversity is attracting attention at all levels of society, with a particular emphasis on the participation of women in the workforce. While there is growing evidence of the benefits diversity brings, what do we actually mean by 'diversity'? A simple definition would be differences along an attribute. The attribute, and therefore the diversity, could be 'surface level' (observable) such as gender, age, ethnicity etc. Or the diversity could be 'deep level' reflecting different values, beliefs, experiences etc. In this article I will argue that the investment industry should focus far more on the need to build greater cognitive diversity – so greater difference along the attribute of cognition, or the way we think. I draw on research presented at Thinking Ahead Institute seminars by a number of academics, whose work considers three different cognititive styles. While the formal underpin is important, I suggest a looser definition – that we need to build investment teams comprising of people who think about the world in different ways.

We start with a working hypothesis that greater cognitive diversity would help improve investment decision-making, leading to better outcomes for investors. We will discover that gender is a reasonable proxy for cognitive diversity, so we will start there.

Executive summary

- Focusing on cognititive diversity will help build investment teams comprising of people who think about the world in different ways.
- There is a 'sweet spot' for maximum benefit, and adding more cognitive diversity beyond that point sees a drop off in team performance.
- The industry is already in a position to make practical changes to the way it builds and manages teams with a view to more effective performance.

GENDER-BASED BEHAVIOURAL BIAS IN FINANCE

In studies of investment behaviour by individuals, Professor Terrance Odean of the University of California, has isolated overconfidence as having a significant detriment to performance. This manifested mainly through over-trading and overweighting risky positions, giving rise to high transaction costs and a lack of diversification. Several characteristics were identified as generalised indicators for overconfidence.

Gender: There is strong empirical evidence (Barber and Odean, 2001) that men trade more frequently than women. The difference is most pronounced when comparing single men with single women. While the data suggest that married men trade less than single men, a plausible explanation for the increase in trading activity by women after marriage is that husbands take over trading on their wives' accounts.

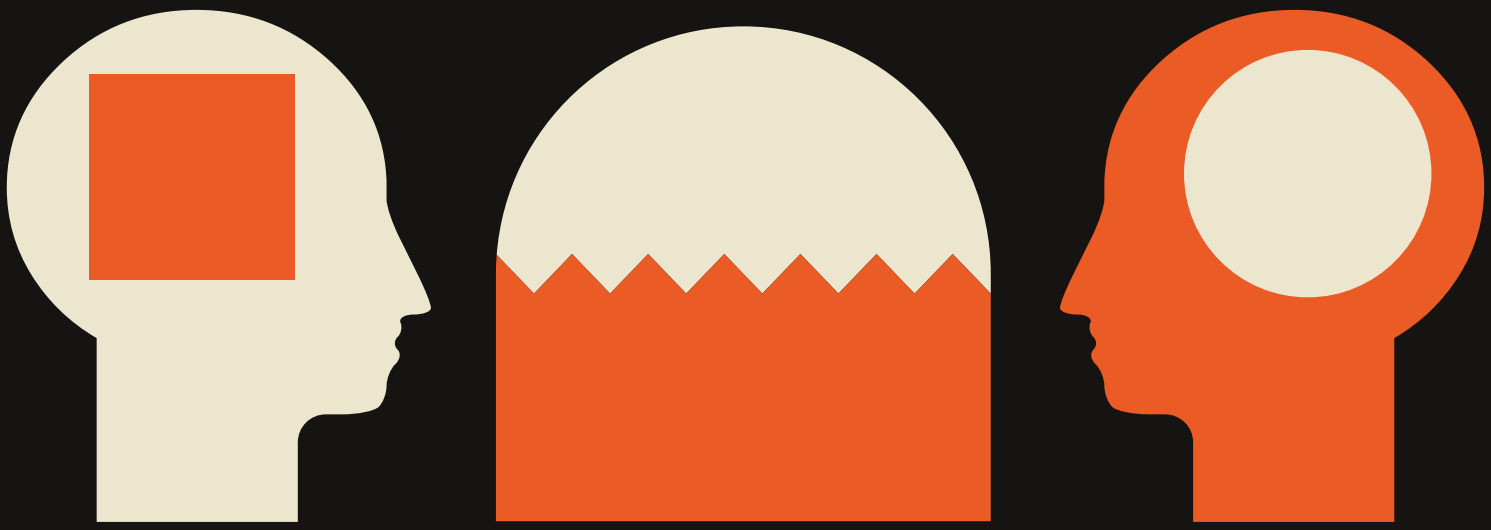
White males in particular were found to have higher risk tolerance than any other demographic group – female, non-white male and non-white female (Slovic 2000). The fundamental drivers of white-male risk taking are open to debate. Aside from overconfidence, excessive trading has also been ascribed to the need for entertainment and for control. An example of this effect is how trading on the local stock exchange fell by 25% in the year after a national lottery was introduced in Taiwan.

However, there may also be an element of white males needing to project their ability to handle risks that they might not take on if societal pressures were absent. Similarly, risky behaviour may represent little more than a weak grasp of the probabilities of adverse outcomes.

Faccio, Marchica and Mura (2015) found evidence that firms run by female CEOs have lower leverage, less volatile earnings and a higher chance of survival than otherwise similar firms run by male CEOs. Additionally, transitions from male to female CEOs are associated with economically and statistically significant reductions in corporate risk taking.

The other issues that affect overconfidence include:

- *Age:* age is inversely related to overconfidence – the young are more brazen and tend to hold portfolios with higher volatility and trade more
- *Cohort effect and life experience:* childhood life experiences can have an impact on investment decision making in later life: people who have experience of severe economic hardship are more likely to be risk averse
- *Emotions:* financial decisions can also be affected by one's emotions at the time. People tend to make risker decisions when they are happy and excited; less so when they are tired and serious



- *Anchoring:* people are more likely to weigh up financial decisions based on the expected gain or loss, not relative to their overall wealth
- *Societal structures:* in western societies, which tend to be patrilineal, men show an affinity for, and tend to excel in, competitive tasks, relative to women. Women are more likely to compete in gender-neutral tasks or female tasks (Günther, Ekinci, Schwieren, and Strobel, 2010). However, in matrilineal societies, women are much more competitive than men, and much more competitive than women in patrilineal societies.

ARE SOME TEAMS SMARTER?

The general intelligence factor (g) for individuals was first described by Charles Spearman in 1904, and is measured via intelligence quotient (IQ) tests. Until more recently, no similar factor had been identified to gauge and predict the ability of teams. Instead, individual ability has conventionally been used as a basis for composing teams – often by combining talented individuals with similar, task-appropriate skills. Anita Woolley, associate professor at Tepper School of Business, Carnegie Mellon University, described the origin of her search for a *collective intelligence factor (the c factor)* as the 9/11 terrorist attacks, when it became apparent that US intelligence teams were struggling to work together to identify threats to national security. A 2008 study of team performance (Woolley, Gerbasi, Chabris, Kosslyn, and Hackman 2008) found that low diversity groups delivered average performance, both before and after undergoing an integration exercise. Diverse groups, however, responded well to proper integration, delivering significantly above average results.

These findings led to further investigations into the factors driving team performance, culminating in the classification of *the c factor*. Her studies showed teams that performed well in one kind of cognitive task tended to perform well in other cognitive tasks. This raised questions around how *the c factor* might be measured and improved. Results indicated that neither maximum individual IQ within the team, nor average IQ of the team are significantly correlated with *the c factor*.

Instead, the following three criteria correlated significantly to a team's collective intelligence (Woolley, Chabris, Pentland, Hashmi and Malone 2010):

- the average social sensitivity of group members
- the equality in distribution of conversational turn taking
- and the proportion of females in the group (Woolley and Malone 2011).

This clearly brings us back to gender as the research shows that a higher proportion of women make teams smarter. In fact, because social sensitivity is also a skill that women generally possess in greater abundance than men, the smartest teams have a very high proportion of women. One study, and male readers may wish to look away at this point, found that the very smartest teams had only a single male complementing the female members.

On a practical level, even if we can't immediately change the gender composition of our teams, we can aim for more equal contributions by all team members to the team conversation by, for example, supressing any dominant voices. This thought leads naturally to considering other ways in which we can make teams more effective.

COGNITIVE DIVERSITY

Ishani Aggarwal was a PhD student under Anita Woolley and has been a research collaborator and co-author over several years. Her interests include the issue of cognitive diversity and how that might relate to collective intelligence. Cognitive diversity brings various issues to a team. On the positive side, it brings information-processing advantages, and greater cognitive resources (skills, perspectives, knowledge, information) but it also brings conflict and a lack of consensus. So does it help? The answer, of course, is 'it depends'. Specifically, it depends on the task context or what the team is trying to achieve. If the task relates to exploitation and implementation, say processing trades or administering a pension fund, then the team priorities will be efficiency, convergent thinking and execution. In this case, almost the last thing the team needs is cognitive diversity. Conversely, if the task is about exploration and innovation, say improving a portfolio, then the team priorities will be experimentation, divergent thinking and problem solving so cognitive diversity will be essential.

The question in this latter case is whether more cognitive diversity is always better. So far, the research says 'no'. There is a sweet spot for maximum benefit, and adding more cognitive diversity beyond that point sees a drop off in team performance as the dysfunctions kick in. A future research interest of Aggarwal is to explore whether better team integration will allow that sweet spot to be pushed out further.

COGNITIVE STYLES

A person's cognitive style is defined as a psychological dimension that represents consistencies in how an individual acquires and processes information (Thinking Ahead Institute, Working Paper). The academic literature seems to have settled on three different cognitive styles (Kozhevnikov, Hegarty, and Mayer, 2002) emanating from different parts of the brain, namely:

- *Spatial visualisation* – the ability to recognise shapes in different orientations
- *Verbal reasoning* – the ability to explain complex concepts in words
- *Object visualisation* – the ability to recognise small changes.

From this it is unsurprising to learn that architects tend to be spatial visualisers, lawyers tend to be verbal reasoners, and des igners or radiographers tend to be object visualisers. I therefore hold a hypothesis that people tend to self select for their careers. At some unconscious level they realise that they are, say, a verbal reasoner and so choose school subjects, universty degrees and ultimately careers that better suit their cognitive style. If there is any truth to this hypothesis, then individuals will be self-

selecting the investment industry and our industry is likely to be undiversified in terms of cognitive style. As a reality check, consider the range of courses and even range of universities represented by your current graduate intake. Is this better or worse than 20 or 30 years ago?

TOWARDS PRACTICAL APPLICATION

My argument so far is that we can improve the performance of our teams through improved gender balance and through greater cognitive diversity. The research we have considered has thrown off some practical ideas along the way: the need to control overconfidence and excessive trading, work hard on equalising the verbal and non-verbal contribution of everybody in the room, and use the task context to guide the composition of the team. This latter point can be expanded. First, the research suggests that making the task clear, specific and challenging will improve the c-factor in a team. Second, there is a nuance in terms of whether the goals are ends – or means-specified, leading to teams being respectively outcome-focused or process-focused. Whereas process-focused teams tend to make fewer errors, outcome-focused teams tend to perform better in creative tasks. Therefore, again, it is necessary to take task type into consideration when setting goals for a team.

As well as aiming for evenness of conversational turn taking, team collaboration is enhanced by good integration. Highly diverse teams, without the benefit of good integration, generally perform worse than homogenous groups, so diversity factors can become counter productive if not integrated well. Evidence suggests that patterns of working together within a team are set early on, and good integration can be fostered by introducing appropriate behavioural checklists. Collaboration was typically hardest to achieve at a senior level, possibly as a result of resistance to the learning element of integration. Incentive and compensation structures have also been shown to have an impact on team collaboration.

DIVERSITY IN INVESTMENT COMMITTEES

Our own work has sought to apply the above insights to investment committees. All asset owners have an investment committee, or a body that operates as such; the internal teams of very large asset owners generally have one; and the majority of asset managers have one. So we can observe the big impacts of investment committees and, more importantly, their latent effects which often lurk below the surface. Our research produced with three big takeaways:

- *Role:* there are key governance calls on who does exactly what, particularly in the mix of the strategic agenda (where investment committees are critical) and the operational agenda (where they need to delegate)
- *Selection and development:* good selection obviously matters but isn't always possible, and all members can respond to development. Investment committee training and particularly the training of the chair should be much more wide-spread in the industry
- *Collective effectiveness:* this is about the coming together of process (or tricks of the trade) and culture (how things get done).

Our view is that the selection criteria for investment committee members favours representation too heavily and as a result often produces a lay structure. This will limit the investment competency as a result. That said, there are increasing numbers of funds that have advanced their model with expert investment committee members who operate in high functioning ways: they accept assessment and accountability; they play their part in cognitive and decision-making diversity; and last but not least they 'read the room'.

This last point is critical for the chair of the investment committee as the impacts of their facilitation activities feed heavily off their read of each committee members' potential. With effective chairing we believe there is the biggest pay off from the diversity effect.

CONCLUSIONS

We fully support the efforts pushing gender equality, and have outlined above some of the compelling research behind the benefits on offer from such a shift. We also believe more attention should be given to deeper-level diversity, including cognitive diversity. I have touched on the necessity for good integration because diversity is harder than a PLU (People Like Us) team and I suspect much more works needs to be done on this point. Nevertheless we are already in a position to make practical changes to the way we build and manage teams with a view to more effective performance – if that is what we want. ■

Biography

Tim Hodgson, ASIP, is head of the Thinking Ahead Group, and founder of the Thinking Ahead Institute at Willis Towers Watson (WTW). He joined WTW in 1998 in a general consulting and manager research role. His role became increasingly specialised, concentrating on high performance specialist managers and hedge funds, and running portfolios of managers for clients. It evolved further to focus on new investment ideas and 'thinking ahead'. He was formerly a senior investment consultant with Sedgwick Noble Lowndes, and before that a director at Stamford Associates, a specialist investment consulting firm. He was sponsored through university by Midland Bank, and after graduating, he joined Midland's Electronic Banking department. He holds an MA in Economics from the University of Cambridge.

How financial regulation suppresses diversity in investment thought

Financial regulation suppresses ideas that question dominant schools of thought, believes **Con Keating.**

The proposition advanced in this article is that financial regulation suppresses the development, broad dissemination and acceptance of narratives that compete with, or complement dominant paradigms. This has undesirable consequences for sustainability, innovation and growth. UK defined benefit (DB) pension regulation is used to illustrate the issues.

The power of a narrative in the design of research and promulgation of findings is well known to analysts. The focus here is wider: a narrative is defined as a spoken or written account of connected events, which includes the theories, paradigms and concepts of financial analysis. Knowledge narratives are those accounts commonly taught by professional bodies and in universities. This is hardly new territory; as Keynes observed: "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

In both natural and social sciences, innovation and progress are best served when there is a multiplicity of narratives, and cross-fertilisation among them. These narratives may even be mutually incompatible; wave-particle duality in physics illustrates this point. A single knowledge narrative, which defines a particular point of view, and excludes alternatives, is to be avoided. As David Bohm noted: "One may indeed compare a theory to a particular point of view of some object. Each view gives an appearance of the object in some aspect. The whole object is not perceived in any one view but, rather it is grasped only implicitly as that single reality which is shown in all these views."

Of course, all models and theories are simplifications of reality, but nonetheless carry with them background assumptions, auxiliary hypotheses, which make the testing of narratives in isolation difficult or even impossible to achieve. It is important that there is true variety among narrative models; viewpoints which are minor relaxations of assumptions or stance will not suffice. The various funding levels required to be reported in triennial pension valuations, technical provision, buy-out and Section 179 values, do not satisfy this diversity test; they are just variations in the amount of liabilities covered or discount rate utilised.

Theories deployed hegemonically, when embedded in regulation, block or discourage other approaches, restricting analysis of other aspects of reality. Regulation imposes its own particular worldview. The 2005 Scheme Funding regulations provide a prime example, imposing a solvency approach and prescribing the manner in which discount rates may be derived. Alternate approaches to valuation, such as future value or cash flow projection, are excluded.

Prior to the 1995 introduction of the minimum funding requirement, the principal actuarial valuation technique involved the projection of liabilities and comparison to projections of the values and flows of the asset portfolio. The current standard mandates valuation of accumulated benefits (ABO). It operates as a present value current solvency regime; compressing time and possible scheme management actions. It is mixed attribute; market values (for assets) and discounted present values (for liabilities) mean that these are not consistently measured, either currently or over time. This introduces bias and volatility to the results.

One useful stress testing adjunct, the projected benefits basis (PBO), with its consideration of awards as yet unmade, has fallen into disuse; it is now confined, in very limited form, to the analysis of deficit repair contribution schedules. Cash flow modelling has similarly atrophied; as recently as five years ago, surveys of trustees showed that less than one in ten then considered the income yield of their assets. With schemes closed and pension outflows often now exceeding investment income,

Executive summary

- In both natural and social sciences, innovation and progress are best served when there is a multiplicity of narratives, and cross-fertilisation among them. A single knowledge narrative, which defines a particular point of view, and excludes alternatives, is to be avoided.
- Theories deployed hegemonically, when embedded in regulation, block or discourage other approaches, restricting analysis of other aspects of reality.
- The case for a plurality of approaches is overwhelming. It is the presence of both competing and complementary narratives that fosters understanding, innovation and development.

this is changing. These cash flow and future value methods do not need to rely upon current solvency estimation; they are materially different viewpoints. Newer liability valuation methods, such as the use of the contractual accrual rate, have also been proposed.

Pension regulations state that "it is for trustees… to determine which method and assumptions are to be used…", only to immediately follow this with "The method used…must be…" The prescriptions do not end there. The fifty-page Code of Practice issued by the Pension Regulator, though appealing to principles, contains prescriptions covering almost all aspects of DB pension funding. It ascribes only a single purpose to the pension fund, when there are actually many possible. While consigning administrative and compliance matters to appendices, this code contains prescriptions covering the employer covenant, investment strategy, funding, recovery plans and extending to "an integrated approach to risk management".

COPING WITH DIVERSE NARRATIVES

In general, regulation struggles to cope with the indeterminacies of open systems; prescriptive approaches are an attempt to resolve these issues by closing the system. This involves transposition from the real world of uncertainty to the more limited, but apparently manageable, domain of risk. Principles-based regulation is preferable to prescriptive in this regard; with some thought and careful application, it may accommodate indeterminacy.

Regulations may and usually do have pronounced effects on the regulated community; they influence and alter behaviour. To quote Edward Fullbrook (2016): *"Closed narrative communities typically live in open hostility toward 'alien' narratives. … Advocates of closed knowledge narratives often publicly embrace an extreme and primitive form of philosophical idealism, whereby they declare that their conceptual framework rather than offering a point of view on a domain, determines the extent of that domain."* The zealotry exhibited by market-consistency advocates demonstrates exactly this; it has attained the principal trait of an ideology, the refusal to consider other conceptual views.

> "What we observe is not nature itself, but nature exposed to our method of questioning."

Paraphrasing Fullbrook: As socially, economically, geopolitically and historically situated individuals, every community of practitioners brings to the narrative enterprise various inclinations and sensibilities, as well as overt purposes, all of which help determine which aspects of the domain the narrative includes, emphasises and ignores. Herding and imitation play a significant role in this bonding and group self-identification, with memes prominent.

The statutory objectives of the Pension Regulator, as well as their subsequent changes, reveal the preferences and sensibilities of the politician legislators when creating them. These objectives begin with the requirement to protect member benefits, the overt purpose, but include the more strangely worded: "to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund". It was only

much later that a further objective was added: "To minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of TPR's functions under Part 3 of the Pensions Act 2004 only)". The much-qualified, convoluted drafting of this latter objective renders it meaningless, unverifiable and unenforceable. It might serve to justify anything or nothing.

A knowledge narrative may become invert, meaning that instead of being used mainly as an instrument for explaining reality, its focus becomes itself. Turning away from the empirical phenomena that inspired it, it becomes transfixed with its own existence.

The Regulator's view of risk now dominates, and is far from natural. It has had one major perverse consequence; scheme members may now be more secure but few, if any, companies remain willing to provide DB pensions for their employees. The collective community-wide obsessions with scheme deficits, liability-driven investment and de-risking are additional illustrations.

> "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

A further caution is necessary: "a social-science conceptual system can alter the objects of its enquiry by becoming part of the conceptual and belief apparatus, through which humans define themselves, perceive others and make choices." In the sphere of pensions, closure to new members and future accrual lead directly to higher pension costs and ultimately cash flow deficiencies, reinforcing the view that DB pensions are unaffordable, as does the pursuit of scheme self-sufficiency or buy-out. The ultimate example must be the over-priced cash equivalent transfers of recent times.

The authorities openly and actively recruit disciples and acolytes to their dogma. The transmission dynamics of this induced narrative differ from the contagious and infectious dynamics of epidemics and memes, where chance and susceptibility are important. David Taylor, the general counsel of the Pension Protection Fund, was recently quoted as saying: "We encourage schemes to act …, putting in place risk reduction measures. This can improve security for members and help to reduce bills by limiting the risk to the PPF – something we are keen to encourage." There is no concern recognised here that risk to the scheme and sponsor is a very different animal from (contingent) risk to the PPF.

When incorporated in regulation, narratives cease to be solely descriptions of the world and become increasingly performative, shaping behaviour by design and intent. The extent of this influence may be judged from the magnitude of the pension sector's net liability to derivatives hedging discount rates – by 2015, some £300 billion, over 20% of all estimated liabilities.

The case for a plurality of approaches is overwhelming. It is the presence of both competing and complementary narratives that fosters understanding, innovation and development. It is a necessary condition for the ongoing provision of occupational DB pensions, which regulation, with all of its prescriptions and 'guidance', has suffocated.

Werner Heisenberg offered a caution that is directly relevant for those who claim that current methods, and only current methods, provide a true, fair, accurate or useful view: "What we observe is not nature itself, but nature exposed to our method of questioning."

The regulatory narrative for DB pension funding is not the only possible view, many others exist; it is not even the best single view. When a diversity of views is considered, the currently overwhelming narrative of deficits and crisis may be seen as misleading; the trunk or the tail of the elephant, but not the whole picture of an elephant.

All of this said, the prospect for imminent change is limited. As Max Planck noted: "A new scientific truth does not triumph by convincing its opponents and making them see the light, but rather because its opponents eventually die, and a new generation grows up that is familiar with it". Whether there will be any occupational DB pension schemes still existing then is an open question. ■

Biography

Con Keating

After a long professional career, Con Keating has been a board member of a number of educational and charitable foundations, and served as a trustee of several pension schemes. He has published widely in academic and professional circles, and currently sits on the steering committees of several academic research centres, such as the Systemic Research Centre at the London School of Economics and the Financial Econometrics Research Centre. He is a member of the Société Universitaire Européene de Recherches Financières, and chairman of the Bond Commission of the European Federation of Financial Analysts Societies. He serves currently as an advisor on pensions, insurance and capital markets to a number of official institutions, including the ADB, OECD and ASEAN+3.

Gender diversity in fund management is about to come of age

Sarah Dudney interviews women across the fund management industry about their experiences and the initiatives that are being undertaken by their organisations, and reaches the conclusion that progress is being made.

It has never been a better time to be a woman in fund management. A range of proactive industry-wide and company-specific diversity initiatives are empowering women to aspire to leadership. Trends such as a move away from star managers to teams, and more openness to flexible working, are changing the culture to enable women to thrive.

Yet clearly, the industry is still predominantly male. "I've been in the industry since 1998 and I haven't personally experienced any advantages or disadvantages to being a female, but clearly the numbers are still below what you would expect or hope," says Tineke Frikkee, CFA, lead fund manager of the Smith & Williamson UK Equity Income Fund.

"Diversity is improving," believes Marilyn Watson, head of the Global Fundamental Bond Product Strategy Team at BlackRock, but "it is changing because we're trying to force change rather than it drifting along." Watson's team includes four women besides herself, and two men. "I think we have a lot of diversity of thought and it really helps the team. Everyone has their strengths and weaknesses and things they do well, which are complementary," she notes.

Building diversity in teams also creates a leadership challenge to ensure that different views are heard and a clear conclusion is made from a wide chorus of opinion.

Asset managers are keen to get a granular detail of diversity at their own firms and in the wider market, not just for gender but also analysing ethnicity and social mobility levels in the talent pool. Achieving this now is important to measure future progress.

Executive summary

- Diversity is improving because of the efforts being made by fund managers to bring the problem to the fore.
- One way to get the message across about the importance of diversity is to link team leaders and division heads' pay to diversity initiatives.
- To create a broader talent pool, asset managers are trying to resolve unconscious bias and cast the net wider in recruitment, as well as taking proactive steps to advance more junior women.

RESOLVING UNCONSCIOUS BIAS

To create a broader talent pool, asset managers are trying to resolve unconscious bias and cast the net wider in recruitment, as well as taking proactive steps to advance more junior women. "There are a number of levers we pull to accelerate their development through our organisation," says Lynne Connolly, head of diversity for Standard Life. Women are aligned to a development coach and encouraged to take on a voluntary role to develop business skills. Women comprise 43% of Standard Life's talent pipeline – a feeder pool to senior management.

Research has shown that men put themselves forward for an opportunity if they meet 70% of the criteria, but women feel they have to meet 100%. Recruitment professionals often have to act as undercover activists to encourage women to step forward for stretch assignments. Connolly, who mentors several women, said: "I have a lot of conversations with women about why wouldn't you put yourself forward?" Lesley Martin, head of diversity and inclusion at Legal & General, agrees: "We've realised that we need to go and tap women on the shoulder and that's what we do now." She is also encouraging business heads to look at succession planning and ensure that talented women are prompted to apply for promotions.

Having a quorum of female leaders provides role models and also makes working life more comfortable for senior women themselves. "The more of you there are, the more it's an accepted norm. You're not the only senior woman, always pointed out as 'our senior woman over there'," says Emma Douglas, head of defined contribution at Legal & General Investment Management (LGIM). "It really is refreshing to be here as a group of senior women." The firm is aiming for a 50/50 gender split by 2020. This has far-reaching positive implications for the employer brand for LGIM and others who promote this type of diversity target.

Making flexible or part-time working more widely available is a key component to retaining women, especially those with young children. "The belief that part-time working is part-time commitment" is still a challenge, says Sally Bridgeland, founder of Executive Shift, although the move away from star fund

managers towards teams where flexibility can more easily be accommodated is helping.

FLEXIBILITY

Having children need not slow the pace of women's careers, despite the oft-felt frustration that taking maternity leave has a time lapse effect on the career trajectory. Several senior women have come back to bigger jobs at L&G after going on maternity leave. "You don't have to take your foot off the gas. We are the kind of organisation where you can have that balance," Martin notes. "We do things for dads too. Research shows that more fathers want [flexible working] but are afraid to say so."

Shared paternity leave legislation was only introduced two years ago, and asset managers are already seeing a modest yet encouraging amount of take-up. It is easy to forget how much progress has been made on this front.

Ultimately, diversity needs to be embraced throughout all levels of seniority, in an industry that is still predominantly male. The Diversity Project is campaigning for precisely this. Established last year, it consists of a 14-strong chief executive officer Advisory Board and a 20-member Steering Committee. It is a genuine way to bring practical collaboration between different asset managers and within firms.

"At board level people feel they have to do something. At lower levels, that urgency isn't felt," Frikkee observes. "It takes time and a constant repetition until it gets memorised that it's good for a firm and not a side show. If we can actually either make more money or reduce our risk by having more diversity then both of these are sensible objectives."

The catalyst to this urgency will come from asset owners and investment consultants. US pension funds have been asking managers about diversity statistics for years but that isn't done widely in Europe yet. Cultural differences also explain the difference between US and Europe, where the US has a strong history of self-identification.

Willis Towers Watson is planning to ask asset managers to provide data about gender diversity, and might also look at flexible working arrangements. "Consultants want to see more diversity. I've noticed that in the past couple of years," says Katy Forbes, CFA, fixed income director at Standard Life Investments. "There have been meetings where the sales person on our side has requested that I do it, because they want to see more diversity."

A crucial question is whether diverse teams deliver better investment performance. While several studies have shown that companies with women in leadership perform better, and that diverse teams make better decisions generally, there is insufficient analysis of how mixed gender investment teams perform. An obvious statistical problem is the still-small data set.

There is a growing consensus among market participants that diversity should theoretically lead to better investment outcomes. For a 2016 paper on gender diversity in investment management, the CFA Institute asked investors and CFA members if they believed that mixed gender teams perform better because of more diverse viewpoints. Seven in ten (65.9%) female CFA members and 42.5% of male CFA members agreed. A majority of those CFA members (55%) who disagreed would still prefer to work for a firm whose corporate culture is supportive of gender diversity. (However, 45–46% respectively of the retail and institutional investors polled said gender diversity does not matter for managing investments.)

Asset management "is constantly evolving and it's also more global, so diversity within the investment field is a benefit," notes Jose Gerardo Morales, a global equity portfolio manager. "You have to analyse so many different variables, and the more diversity in perspectives, the better you can do your job."

A lack of diversity could even be detrimental to investment returns. Certainly, that is a view held in the post mortem of the financial crisis. "The echo-chamber effect, risk of group think and tunnel vision are serious risks for decision making," believes Jane Davies, senior portfolio manager, UK multi-asset at HSBC Asset Management. "There's a wealth of empirical evidence that people are more aware of now, that diversity leads to better decisions and better results."

The Women in Finance Charter, which had 93 signatories by 8 November 2016, stipulates that an executive team's remuneration should be linked to gender diversity targets. Ideally, asset managers would go even further. If team leaders and division heads' pay could be linked to diversity, that would bring home the message – supported by a wide body of evidence – that diversity is good for business, capital allocation and client returns. ■

Biography

Sarah Dudney is a client partner at The Buy-Side Club. She has over 15 years' experience in global asset management recruitment and contributes to the CFA UK Committee on Careers and Professional Development. She also supports The Access Project and is a founding member of the Diversity Project's steering committee. She is passionate about driving the change towards a more inclusive culture in the investment industry and is proactively involved with integrating diversity into her clients' businesses.

Case Study: Investment2020

Investment2020 is an initiative designed to bring change to the grassroots of the investment industry. **Karis Stander** highlights the work being done to attract young people with varied backgrounds to the investment profession.

Diversity is the talk of the town. Over the course of the decade, the importance of embracing diversity has come into sharper focus. Diversity of ideas and ways of thinking from people with a wide variety of backgrounds leads to better decisions, less groupthink and more innovation; and ultimately is also likely to mean a healthier bottom line which is of course an important driver. Firms take different approaches to reaching their goals of greater diversity, so how uniformly we get there and with what speed is open to question, but change is on the cards.

The investment industry should be an easy champion of diversity. Diversification underpins investment theory as one of its most basic strategies. The industry as a whole represents the interests of a hugely diverse client pool managing billions of their pounds. To understand and respond to their needs requires a correspondingly diverse set of perspectives.

Investment2020 was launched four years ago to offer a practical, but inherently dynamic way, to help kickstart this needed culture change at the grassroots of the investment industry. Andrew Formica, Henderson chief executive, and Nichola Pease, former chief executive of J O Hambro, were the initial inspiration behind the project. They could see across the industry that the whole entry selection process had become very narrow. It fixated on top grades in maths based subjects from the top flight universities. The result was a flow of very bright but homogenous graduates with similar backgrounds, outlooks and experiences, and that was worrying for an industry which relies on innovation and creative thinking for its success. Investment2020 was set up to create alternative entry points with the aim of embracing a quite different and diverse range of young people and therefore broaden the whole talent pool of the industry's youthful intake.

Investment2020 offers a 12-month paid training programme for both school leavers and graduates and they are selected more on the basis of aptitude and attitude than past exam successes. Trainees take on a fixed role in a department within a firm as well as a training mentor, and as part of the Investment2020 scheme receive an additional raft of industry networking and insight opportunities. A key attraction for firms is the flexibility built in which allows them to integrate and adapt the model within their own entry schemes, and additionally there is no obligation to employ the trainees after the year, although more than 70% choose to. Some firms offer their bespoke slightly longer apprenticeship schemes within the Investment2020 programme, another for example has piloted the training contract into a university sandwich placement. Firms recruit on the basis of demand, from all departments, so it is a natural form of recruitment rather than in response to a set quota imposed from above.

Executive summary

- The investment industry should be an easy champion of diversity. Diversification underpins investment theory as one of its most basic strategies.
- Investment2020 was set up to create alternative entry points with the aim of embracing a quite different and diverse range of young people and therefore broaden the whole talent pool of the industry's youthful intake.
- Trainees are selected on future potential rather than past success and the students come from diverse backgrounds. 50% are school leavers, 37% are female, and 43% are from black, Asian and other minority ethnic backgrounds.

From the trainees' perspective, they gain access to an industry notoriously difficult to break into. They also become part of an instant support network which provides extra training and mentoring. The trainees all highlight our insight and social events as particularly valuable opportunities to meet their peer group in other companies and also to meet and listen to inspirational leaders from the industry.

We can chart how far we have progressed in the four years since launch. We are drawing in a whole new cohort of ambitious, interested youngsters who are perhaps even more driven and grateful for the opportunity as it often isn't a career they would ever have considered. Nearly 1,000 trainees have already found success through our trainee scheme. 98% are from state schools, 50% having joined straight from school. This cohort is naturally diverse, with 43% of our trainees coming from black, Asian and minority ethnic backgrounds.

Effective marketing is key to us unlocking the huge potential of this market. We promote Investment2020 through direct e-campaigns to all of our 3,000 network education partners, engage actively through our social media outlets and run a whole programme of career insight events held in schools and

also hosted by the firms themselves. Targeted school and college recruitment is also often supported by our current and past trainees acting as ambassadors to inspire prospective trainees with their first hand experiences of the scheme. We have established some key partnerships within the investment as well as the education community to enhance and deepen our reach.

Investment2020 is a small team so we are able to respond very directly to the needs of our firms and of our trainees and the challenges that we face as we evolve. In an effort to increase interest and participation in IT careers within the industry, we have just introduced a specially designed technology insight day which a number of firms are hosting for us. The taster sessions are designed as a short and light but first-hand experience venturing inside a firm, giving a valuable first understanding of the possibilities available. We have also launched a series of popular technology trainee videos through our YouTube channel and on our website which offer an insight into their roles, with some compelling content from the female up and coming IT specialists. Alongside these specific campaigns we are also increasing the focus on basic messages about the investment industry and its key role in society as these are in general so poorly understood.

We have a way to go. We have our own target of reaching 2020 trainees by the year 2020. This year we should reach the half-way point, which is a credit to the 29 firms who are our partners in the scheme. Hidden behind these numbers though we need to see more applicants for each place, particularly in the burgeoning technology sector where numbers applying tend to be lower. We would also like to see a larger proportion of women among the trainee cohort which last year was slightly down at 37%. Interestingly, for the school leaver cohort, which is about half of the intake, the figure rises to 41% so it seems that early on in the process women are being put off course and not identifying with the opportunities. A negative understanding of the industry as a male-dominated world and also perhaps the misperception that numeracy is the prized skill may be getting in the way for some. Inspiring students about the positive social and economic value of the industry is one of our most powerful tools. Getting this right will by default attract a broader audience, and this will also include a more balanced gender split.

While we are focused on growing the numbers of quality trainees entering the industry and furnishing them with a secure footing, the real proof in the pudding will be to see how many of them end up in senior management in the coming years. Diversity will only have truly worked if it is takes root from the bottom up and vice versa. ■

Biography

Karis Stander joined Investment2020 as managing director in 2014, having spent six years managing business development at the Financial & Legal Skills Partnership for its financial services Talent and Careers Service. She also spent five years at the Financial Services Authority in the Learning & Development and the Industry Training teams, and before that managed investment qualifications for the Chartered Institute of Insurance and Investments (CISI). She moved to London in 2000 from her native South Africa.

Case Study: How diversity impacts Mercer's manager ratings

Mercer's manager research team has embedded diversity considerations into its research process. **Clare Armstrong** and **Michael Kinney, CFA,** provide a case study on how those considerations are applied.

Mercer believes the debate around the benefits of diversity has ended. The world is moving on. The body of evidence-based research demonstrating the value of diversity continues to grow, and the question is no longer "why diversity?'" but "how do we improve diversity, and how can we use it?"

Diversity comes in many forms but can be broadly grouped into two types:

- Cognitive diversity, which is when teams comprise individuals who think – and approach problem solving – in different ways
- Identity diversity, which is how people identify themselves, such as by gender, sexuality, nationality, age, ethnicity and so forth

The two are connected – because people of different identities will often have different backgrounds and experiences, which can lead them to approach problem-solving in different ways – but are not necessarily the same. We refer to both types collectively as "diversity" in this paper. Figure 1 shows some of the benefits of diversity.

There are many benefits to having diverse teams, but fundamental among these is that diverse teams can create better solutions. This is true across all industries and service sectors, including the investment management industry. Collectively, diverse teams have a better, and broader, understanding of the marketplace, and the combination of different cognitive styles is more likely to produce innovative and creative solutions – particularly to the complex problems such as those found in financial markets. Diverse teams are also better able to probe and challenge each other's ideas and, hence, provide the checks and balances needed to ensure robust solutions. Expressed another way, diverse teams are less likely to fall into the trap of "groupthink," the phenomenon whereby the desire for group consensus overrides an individual's underlying preference to present alternatives, critique a position or express an unpopular opinion.

To be effective, however, diversity needs to be managed. Taken to extremes, different points of view can lead to conflict and a failure to cooperate. To function efficiently (and relatively harmoniously), diverse teams should comprise individuals with shared, common values around their objectives. Diversity can be a great asset, but individuals need to be aligned on the same page in terms of the team's ultimate goals. This requires skillful management and a recruitment process that considers and understands the compatibility of candidates' values.

We can sum this up by stating one of our core beliefs in manager research, which is that diverse teams with shared values are more likely to outperform. If ever there was a free lunch in investing, we think it's very likely that the secret sauce in this dish would be diversity.

Our professional role in Mercer's manager research team is to assess investment strategies. Clearly, if we believe – as we do – that diverse teams are more likely to outperform, then it's only logical that we consider an investment team's diversity as part of our appraisal. Indeed, a consideration of diversity has long been an important part of our research process, as illustrated in the four-factor framework used for assessing a strategy in Figure 2.

Executive summary

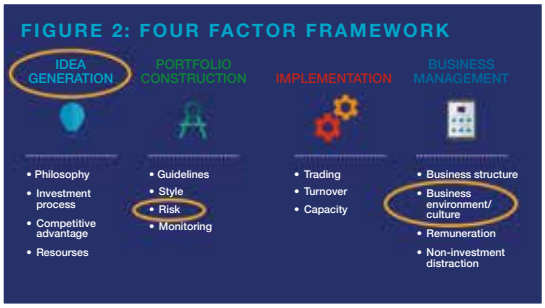
- To be effective, diversity needs to be managed. Taken to extremes, different points of view can lead to conflict and a failure to cooperate.
- An experienced and insightful manager researcher will also be able to assess more complex dimensions of diversity, such as cognitive thinking styles, team dynamics and personality styles.
- The consideration of diversity is embedded through a framework at Mercer, focusing on idea generation, portfolio construction, and business management.

"Diversity can be a great asset, but individuals need to be aligned on the same page in terms of the team's ultimate goals."

Figure 1
Driving better solutions

Source: Mercer

Figure 2
Four-factor framework



Source: Mercer

The consideration of diversity is embedded throughout this framework, and we highlight three areas:

- *Idea generation* is where we assess a team's ability to generate value-adding investment ideas. What could be more valuable to an idea generation process than having a team that thinks of creative and imaginative ideas in today's complex financial markets? A team's diversity can have a significant impact on our assessment of this factor.
- *Portfolio construction* covers the ability of a team to translate value-adding investment ideas into an effective portfolio. An important part of this is risk control. And what's the number one enemy of effective risk control procedures? Groupthink. Effective risk control requires colleagues to be able to push back, to challenge and to provide a different perspective. At times, it even requires them to blow the whistle and say "no." Cognitive diversity can only improve the effectiveness of risk control.
- *Business management* is where we assess how well a business and its people are managed. Culture is a key component within this. Is the culture conducive to getting the best out of staff? Are team members – at all levels – positively engaged with the business? Is the business able to attract the best staff from the broadest talent pool by avoiding the limitations of only seeking people who look and think like the existing team?

We have seen that diversity is an important factor when rating a manager, but not all diversity is immediately apparent. Like an iceberg, much of what makes us all different lies beneath the surface and cannot be seen. For example, identity features such as sexual orientation, personal values/beliefs, family status, religion, politics and heritage are not aspects of diversity that we can, or would, consider.

However, there are many other diversity aspects that are visible and relevant; for example, gender, age range, prior working experience, ethnicity, professional qualifications, nationality and level of education. The presence or lack of visible diversity along these lines will clearly be evident to us when we review a manager. If we come across a team that, for example, solely comprises white, middle-aged men of a similar educational background, we will not necessarily always conclude that the team lacks cognitive diversity. But it will definitely cause us to consider the question, and the answer could be that it does not. Conversely, we come across teams with abundant visible diversity, and we often (but not always) find that these are vibrant teams with strong idea generation skills without the restraints of groupthink.

"If we come across a team that, for example, solely comprises white, middle-aged men of a similar educational background, we will not necessarily always conclude that the team lacks cognitive diversity."

An experienced and insightful manager researcher will also be able to assess more complex dimensions of diversity, such as cognitive thinking styles, team dynamics and personality styles. Particularly when explored over successive meetings and interviews, a researcher can get a thorough understanding of the extent of diversity (both cognitive and identity) within a team.

To do this, the researcher will consider a number of questions. Does the team have a dominant leader, or is there a low level of challenge within the group, regardless of any surface-level diversity? When a team is under pressure from poor performance or from client outflows, is it more vulnerable to groupthink? How does the team reach decisions, and how does it manage any mistakes it has made? What is the team leader's attitude to diversity? Is there an illusion of unanimity where, in reality, team members are hesitant or reluctant to disagree? How does a team work through dissenting views? Does any recent staff turnover tell us anything about

team dynamics and the value placed on diversity? Does the remuneration structure (team versus individual bonus) have any implications for how a team reacts to challenge or debate or the way the team manages dissenting views?

Our ability to assess diversity doesn't stop at the makeup of a team. We also discuss policies with a manager. Does the manager have a formal diversity and inclusion policy? Does the firm have mandatory unconscious bias training for staff? Does the manager have a staff referral bonus system and, if so, does this help or hinder diversity? What are the firm's recruitment practices? Does the manager conduct open market searches for staff using a head hunter, or does the firm just call in people they already know to interview? Which of these approaches is more likely to result in a diverse team? How does the firm avoid unconscious bias during the interview process?

Successful investment teams can come in many shapes and sizes. But because we firmly believe a diverse team with shared values is more likely to outperform their less-diverse peers, diversity has long been embedded within Mercer's manager rating process. ■

Biography

Michael Kinney, CFA, is a senior researcher within Mercer's equity boutique. Based in London, he is responsible for researching global factor exposure (smart beta) products, Japan equity, Asian equity and some industry sector equity strategies managed in Europe. Michael works with a range of clients, advising on monitoring and selecting managers. He is a fellow of the Institute and Faculty of Actuaries. He was educated at Oxford University, where he obtained an honors degree in mathematics, and at the Royal Military Academy, Sandhurst.

Clare Armstrong is a principal in Mercer's Investments business within the manager research team, where her research responsibilities include Australian large and small cap equity and selected global and Asian equity strategies. She leads the equity specialist team in Australia and is co-lead researcher for the Australian equity universe. She is also a voting member of the Australian Ratings Review Committee for fixed income and property. Based in Melbourne, she holds a bachelor of commerce degree from the University of Melbourne and a graduate diploma in applied finance and investment from the Securities Institute of Australia. She is a member of the Institute of Chartered Accountants Australia.

Women are still underrepresented in fund management

Morningstar's latest look at fund managers by gender paints a discouraging picture overall for the industry's women, writes **Laura Lutton**.

Across 56 countries, just one in five fund managers is a woman, and the percentage of women fund managers has declined since the 2008 financial crisis, according to a research study conducted by Morningstar last year. We have additionally not observed an improvement in leadership opportunities for women in the fund industry during this time period. Furthermore, in countries that have long-established financial centres, such as the UK and the US, women have even worse prospects when it comes to fund management.

The study revealed, however, that there are a few areas of opportunity, especially for women CFA charterholders and employees of large asset-management companies. Female equity and fixed-income fund managers are more likely to have earned the CFA designation; and larger firms–particularly the largest by equity fund assets under management–have better odds of having women fund managers than smaller firms.

> "For instance, women are best represented in percentage terms in smaller markets for the traditional mutual fund industry, including Singapore, Portugal, Spain, Hong Kong, and France."

To study women fund managers, we considered more than 26,000 managers of funds registered in 56 countries, all of which are included in Morningstar's global database. Morningstar indicated the gender of 16,000 of those managers primarily through information supplied by those managers' employers. For the remaining 10,000 or so managers, we identified each manager's gender by examining his or her first name. We ran those first names through an algorithm that assigns the probability of being a woman based on local census data. When the algorithm assigned more than 50% probability that the first name is female, we assumed the manager is a woman.

Our study looked initially at where women are managing funds by geography. We found that women have been more successful at winning fund manager roles in some countries rather than others. Countries with more women fund managers generally have less-mature and faster-growing fund industries–even after controlling for growth. For instance, women are best represented in percentage terms in smaller markets for the traditional mutual fund industry, including Singapore, Portugal, Spain, Hong Kong, and France. In larger markets, such as Australia/New Zealand, Canada, Luxembourg, the Netherlands, and the United Kingdom, the percentage of female fund managers ranges from 11% to 14%. The US and Germany have the worst inclusion rates among larger markets, where women make up 10% and 9% of fund managers, respectively. Furthermore, their rates are down from 2008 when, respectively, 11% and 12% of fund managers were women. This is a downward trend we see generally across larger markets. In nearly all cases where data is available, the rate of female fund managers is below that of other professions that require similar levels of education, including doctors.

In the UK, for example, just 13% of fund managers are women, while 47% of doctors are women. To be sure, a fund manager role is a senior position in a firm that one typically is promoted to over time, whereas a physician can earn her title after completing school, training, professional testing and licensing. Even so, women appear to be making greater gains in medicine than they are in money management.

Executive summary

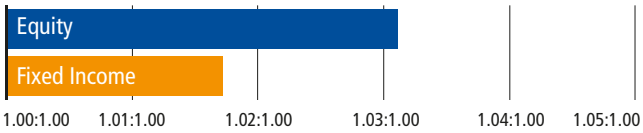
- Countries with more women fund managers generally have less-mature and faster-growing fund industries.
- The US and Germany have the worst inclusion rates among larger markets, where women make up 10% and 9% of fund managers, respectively
- Women appear to be making greater gains in other professions, such as medicine, than they are in money management.

LEADERSHIP OPPORTUNITIES

Our study's findings support the hypothesis that professional women have had limited leadership opportunities in the fund

Table 1
CFA's effect on odds of a woman fund manager

CFA	% Change in Odds	Odds
Equity	–38.8	1.07
Fixed Income	–48.7	1.04



Source: Morningstar, Inc. Data as of Dec. 31, 2015

industry, and the opportunities have improved industry-wide since the 2008 financial crisis. Where women do manage funds, they're more likely to share that authority or implement an investment strategy that's more-widely adopted, such as an indexing methodology shared across funds at a firm.

Women have made gains in some areas, however. One of the most statistically significant findings of our study is that a woman is more likely to manage a fund that closely tracks an index than manage a fund that is actively managed. Furthermore, women are more likely to be chosen to run a fund of funds than a fund that buys and sells individual securities. Women also are more likely to share management responsibilities with others, and female managers individually oversee a lower number of funds.

A team-management assignment may seem less appealing on the surface, but academic research suggests that women may prefer to work in teams. Healy and Pate (2011) found that generally "women prefer to compete in teams, whereas men prefer to compete as individuals." They suggested that the formation of teams may help reduce representative gender gaps. Their analysis specifically looked at the role of teams within competitive environments. Given the fund industry's unchanging emphasis on performance relative to peers, it is reasonable to expect that women may prefer to work on team-managed funds over the long term.

We found that in cases where a woman manages one fund, her odds of managing a second fund are lower. Her odds get lower still with each additional fund. Specifically, after the first management assignment, a woman's odds of a second assignment go down to 0.94:1, 0.60:1, and 0.99:1, for equity, fixed-income, and allocation funds, respectively. Regardless of asset class, we saw this trend hold up. Women are named on fewer funds than men. This finding may suggest that women are less likely to be investment-policy leaders or viewed by their firm as star managers who can attract assets to offerings based on their reputations.

Out of all the factors examined in our model, turnover ratio is one that has been written about extensively in the media, often through a lens of overconfidence. For example, there have been several popular articles arguing women may be better fund managers than men because they do not suffer from overconfidence. Such articles cite the Barber and Odean (2001) brokerage data study that found men trade 45% more than women, indicating that women tend to hold on to their investment positions longer. Our study supports Barber & Odean's finding. We found that women fund managers hold their investment positions longer than men fund managers, and this trend is significant and persistent for all three asset classes. The most meaningful effects are among equity and fixed-income funds.

BUILDING THE PIPELINE

For women to increasingly be named to fund manager roles, the industry needs a strong pipeline of candidates, and the percentage of women CFAs is one measure of potentially eligible candidates. In the UK, 20% of CFA charterholders are women–a higher rate than the percentage of women fund managers. CFA charterholders aren't guaranteed to be top analysts or portfolio managers, but the professional designation suggests experience and expertise in the field.

One positive for women CFA charterholders is the higher frequency of the designation among women managers of equity and fixed-income funds. Morningstar's data showed that the odds that a woman fund manager holds a CFA charter relative to a man is 1.07:1 for equity funds and 1.04:1 for fixed-income funds. If it is more likely for women fund managers to be CFA charterholders than men, women are demonstrating a basic qualification for the role more often than men.

A darker interpretation of the data, however, suggests that women need to be more credentialed than men to win a fund-management role, reflecting a potential hiring bias. The CFA designation may be an objective measure that helps women overcome employers' implicit stereotypes about gender and analytical ability. For example, one 2014 academic study (Reuben, Sapienza, & Zingales) studied discrimination by gender during the hiring process. They found that "men are more likely to boast about their performance, whereas women tend to underestimate it," which makes it tougher for women to win leadership roles. The CFA designation, however, may provide tangible proof of a woman's readiness for the job--regardless of how she markets those skills to her employer.

There are a few counterarguments. In recent years, the CFA charter has risen in importance as a credential for fund managers, so that might explain the higher rate of CFA charters among women. We did, however, control for manager age in our study, and the effect still holds. A second criticism is this effect does not hold for the average allocation fund manager: A woman allocation fund manager has lower odds of having her CFA charter relative to a man by 0.76:1. This suggests there is a different hiring standard for allocation fund managers relative to equity or fixed-income fund-management roles. Because allocation funds focus more on asset allocation and manager selection rather than individual security selection, those portfolio management roles may require different skills and implicit biases. As with the findings on women portfolio managers' lower turnover ratios, allocation fund managers display diverging traits relative to equity and fixed-income managers. The industry would benefit from additional research on the different skill sets and hiring biases for funds by asset class.

Women CFAs are more common among fund managers, and women also have relatively more opportunity at larger firms. Women had better odds of being an equity fund manager at a large firm rather than a small firm, and we found that larger is better. Among funds at one of the top ten largest firms by global equity assets under management, a woman's odds of being named an equity fund manager are 1.83:1 relative to earning the same role at a smaller firm.

Intuitively, this makes sense: The larger the firm, the larger the number of funds, the larger the number of people managing funds, the more opportunities for a woman to be named to a management team. There may be more jobs available to women at large firms, but it is worth noting that incremental change at a small firm increases a woman's odds of management considerably. Let us say a firm offers ten equity funds. If just one of those funds has women portfolio managers, the firm's rate of women managers already meets the global average, and if a second woman gets a fund-management role, the firm has doubled the global average.

The fund industry has much room to diversify, and a strong case to do so. Active fund managers are increasingly losing assets to passively run funds, a trend driven by cost and performance. As the industry looks for ways to improve its performance, it may benefit from a broader diversity of backgrounds and, thus, ideas among its managers. Morningstar has found some evidence that diverse management teams produce better returns, a concept we'll explore in future studies. ■

> "The larger the firm, the larger the number of funds, the larger the number of people managing funds, the more opportunities for a woman to be named to a management team."

Biography

Laura Lutton is director at the Manager Research Practice at Morningstar. Prior to assuming her current role in 2016, she was director of manager research for equity strategies. She is a founding member of Morningstar's Women's Initiative and co-chairs the group's professional development committee. She joined Morningstar in 1999 as an equity analyst and moved to the fund research team in 2001. Before joining Morningstar, Lutton was the Chicago bureau chief for *American Banker*. She holds a bachelor's degree in government and international studies from Colby College and a master's degree from Northwestern University's Medill School of Journalism.

The Financial Reporting and Analysis Committee (FRAC) update

FRAC is continuing its work to actively engage with standard setters to steer decisions towards the best interests of investors. Over the course of the year, we will particularly work with the International Financial Reporting Standards (IFRS) in their overarching effort looking at adjusting the content of primary financial statements. On a more granular level, we will also be working on more specific accounting initiatives put forward by local and European bodies.

We will also be building on the success of last year's conference by further exploring the most debated accounting standards, whilst also discussing some of the latest developments in finance and their impact on members' careers.

FRAC is always looking to add volunteers who have a strong interest in understanding and helping standard setters to address the needs of investors as much as possible.

Cranfield University win UK Final of 2017 Research Challenge: The 'Investment Olympics'

CFA UK are delighted to announce that Cranfield School of Management, Cranfield University has won the UK competition of the CFA Institute Research Challenge and now advances to EMEA Regional Final. The Research Challenge was introduced to a global audience in 2006 and is considered to be the 'Investment Olympics' for university students

The winning Cranfield University team was made up of:

- XiangYing Zhu (Shine)
- Yuan-Yi Ou Yang (Dustin)
- Edward Khoo
- Nestor Mikhaylivskiy
- Christian Propst

The following universities competed with Cranfield University at the UK final.

> University of Exeter Business School, University of Exeter
> King's College School of Management & Business, King's College London
> Sterling Management School, University of Sterling

Each university sent a team of three to five students to participate in the local challenge. The students from Cranfield University will now travel to the EMEA Regional Final where they will match their wits, analytical skills and presentation abilities against student teams from around the world.

The EMEA Regional Final and the Global Final will take place the week of 26–28 April 2017 in Prague, Czech Republic.

The students presented their analysis and buy/sell/hold recommendations on G4S – an LSE listed, FTSE 250, global integrated security company – to a panel of expert judges. Their presentation at the UK final was the culmination of months of research; interviews with company management, competitors, and clients; and presentation training.

A UNIQUE OPPORTUNITY FOR STUDENTS WORLDWIDE

The Research Challenge gathers students, investment industry professionals, publicly traded companies and corporate sponsors together locally, regionally and globally for a real world competition. In order to promote best practice in equity research and company analysis, students from business schools across the globe, research, analyse and report on a company from the perspective of independent research analysts. Additionally, all participants are introduced to and adhere to the standard of the CFA Institute Code of Ethics and Standards of Professional Conduct.

The challenge statistics:

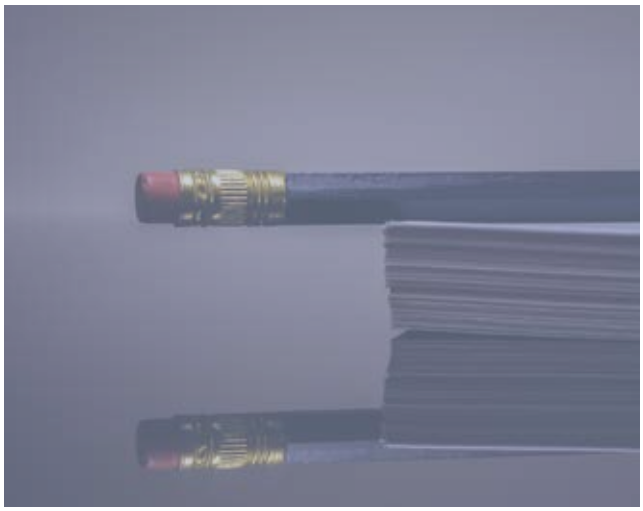
- 4,000+ Students
- 2,500+ Industry volunteers
- 865 Universities
- 137 CFA societies
- 99 Local level challenges
- 70 Countries

Introducing the concept of CPD Output

CFA Institute and CFA UK have, to date, encouraged members to pursue an hours-based continuing professional development (CPD) journey, through attending courses, events or watching webcasts and logging time spent on compliance training. What would CPD be like if hours became irrelevant and the focus shifted to the output of the learning undertaken if you were asked, **what can you do now that you couldn't before you undertook your learning activity?**

For professions which have signed up to the output model, CPD is no longer seen as an obligation, but as proof of professionalism. Individuals are proud of being at the forefront of their industry. The output model has enabled this, because reflecting on the effect learning has had on one's abilities directly evidences career progression, whilst claiming one hour of learning from attending a talk which may have barely challenged one's thinking may not.

Spending time thinking about whether learning has had an impact on your ability to do your job, or on the advice you provide to your clients, without worrying about hitting an hours target, will improve the quality of the learning you plan to undertake. Consider the scenario below – which option do you think would better demonstrate self-development to your employer, your client and most importantly, you?



INPUT MODEL

A voluntary or mandatory CPD scheme which measures learning by hours or units e.g **David earned 1 hour of CPD for attending a conference. 30 hours a year proves he is competent to do his job.**

OUTPUT MODEL

A voluntary or mandatory CPD scheme which allows the learner to decide how much CPD they want to do based on their needs. It asks the learner to reflect, act and assess the impact of their learning, eg **what are my knowledge gaps? After learning activity x, what can I do now that I could not do before? How have I applied my knowledge to my role? What do I need to do next to improve further?**

Reflection and planning are the tools that enable an individual to truly claim CPD. Effective learning through an output led model has a direct impact on an investment professional's **career**:

- Enhances reputation
- Provides role security
- Generates proof for appraisals and job interviews
- Improves employability
- Maintains competitive edge
- Provides credibility
- Ensures an individual has the right skills at the right time
- Grows networks

And **professionalism**:

- Protects the public
- Enhances industry reputation
- Keeps a professional up-to-date, enabling them to provide the best advice to clients
- Contends with disruption
- Gives social purpose
- Earns the professional the skills to attain membership with a professional body
- Achieves competence

Storing and Scoring: Does collecting CPD hours reflect true learning?

Alan Livsey, CFA, takes a look at merits of continued learning approaches in a professional environment and what difference it can make to your career.

One of the more attractive aspects of the investment industry is that every day tends to bring something new. Not only do securities and foreign exchange prices fluctuate, the factors that influence prices themselves morph from week to week.

We could call what sticks in our minds about how and why markets change simply our investment "experience". But as any true investment professional knows they need more than that to do their job well. Building up our collective investment knowledge requires more than storing and sourcing our memory about which particular strategy or tactic has worked or failed. Learning on the fly and patiently educating yourself are two different matters altogether. A conscientious investment professional should want as much of the latter as possible, even if she does not always have all the time to merit a patient approach.

This is where continuing professional development makes a difference. An organised approach, complete with structured assessments may seem a chore at times. But it need not be if it is integrated with your work week. The aim should be to learn not separately, as a stand-alone task, but to apply at work what you have learned from any coursework, books and articles.

A simple paradigm might start with the following: identify what skills you might lack to move your career further forward. That may be a quantitative skill that requires further depth, perhaps financial modelling of cash flows. Or perhaps you might learn something in a lecture or seminar that spurs your imagination, changing your approach to certain tasks at work.

As an example, a talk by Oxford evolutionary psychologist and anthropologist Robin Dunbar enabled me to look at how companies organise themselves in a different light. His theories on the limits of how many friends a person can have – Dunbar's number – shed light on how companies (famously, Gore-Tex) manage expansion. His ideas also made me rethink the reach of social networks; most of us cannot manage more than 150 connections on tools such as LinkedIn.

Next, don't just fill any gaps with reading or as necessary course work. It is important to ensure that you retain anything learned by evaluation or testing. Then aim to apply the relevant material you have learned in your work. Where required you may wish to get some assistance either from work colleagues, or other practitioners via online forums. This is another part of the learning process.

On the CFA UK's Structured Learning Committee we aim to ensure that any educational content available in the online CFA UK Knowledge Centre is divided into structured and unstructured formats to cater for those seeking to meet RDR requirements.

However, the most important component of all learning is the reflection stage. Some professions argue that collecting hours or points is not CPD and that learning counts only when it makes a difference to you, your role or your clients.

A good way to see how far you have progressed on any trip is to occasionally have a glance behind you. Think of logging and reflecting on any CPD as this type of evaluation. Rather than an act of form-filling to meet a minimum standard, maintaining your log should provide a road map of where you have been some insight into where you could move next.

After this should begin another cycle of setting learning objectives, absorbing relevant content, using same and then recording your efforts. Ideally, this is the best way to develop yourself as a professional in any field, especially one as fast-changing as investment.

Alan Livsey, CFA is Lex Writer at the Financial Times, CFA UK Board member and CFA UK Structured Learning Committee (SLC) member

CFA UK Gender and Diversity Network 2015–2016 Update

Sarah Maynard, ASIP, looks back at some of the developments and initiatives taken by the CFA UK Gender and Diversity Network in the last year.

In the last year, we have made considerable progress on our agreed goals for the next stage of the Network's development, reflecting the evolution of our network of members, the committee and our aspirations.

We have changed our name to reflect our widened orbit of operation – from CFA UK Women's Network (WN) to the Gender and Diversity Network (GDN). We have retained the focus on women – hence gender – but included diversity to ensure members are aware that we are working for a more diverse investment profession in the widest sense. We know that ethnic minority members are not well represented and that social inclusion is another area which needs improvement. We have worked hard on our branding, which we have synthesised into our top down/bottom up concept. It starts with the pipeline and works to include engagement at the top. At the core of our mission is the understanding that cognitive diversity delivers better investment results for the ultimate client and that clients themselves expect a profession which can comprehend their varied backgrounds, ethnicities and goals.

STRATEGIC SUMMARY

That is the strategic summary of the work behind the scenes which has occupied the committee in the last year – and the committee itself has changed its composition. We welcomed a new chair, Juliet Bullick, IMC (see cover interview), at the start of 2017 and have had a few changes to the committee. Like any group we recognise that after the initial stages a committee's needs change; we are all volunteers and have to give time to other projects, including our own careers! We also realise that the skills to start a new endeavour may be different from those best employed in the next stage of development, but we are very keen to keep former committee members connected as they can become great champions for our work and some may well return in the future. We have agreed to host four events per year to be supported by CFA UK's events' team with the flexibility to have additional events resourced through partner firms or with network members helping as volunteers where appropriate. The work we have done as a committee has built upon the solid work we delivered in previous years. In planning our events, we recognised that some needed to be regular features. Therefore, we ran an event on contract negotiation, an area where women tend to be less confident than men, and where employers are unlikely to provide support. We worked with two women partners from the employment law firm Slater & Gordon to offer practical advice about what to look for in your employment contract and how to negotiate the best deal for your circumstances and ambitions. Returning to work after a career break is another area of considerable interest to women members of CFA UK. We ran a very popular event with a panel including the founder of an organisation bringing together returners and firms, a maternity leave coach and a man from the shipping industry who spoke about how it could work for men who wanted to spend more time with their families while sustaining their careers. This format will be back by popular demand in 2017.

PRACTICAL ADVICE

Last autumn some of our network attended an event organised by Bloomberg on Women in Finance, which had an impressive panel of leading women who shared practical advice, experiences and strategies that helped them get ahead in the finance industry. Topics discussed included leadership, engaging men, unconscious bias, as well as why diversity and inclusion are essential to innovation and success in a global economy. The panel comprised of Helena Morrissey, FSIP, chief executive officer, Newton Investment Management, and founder of the 30% Club, Virginie Maisonneuve, CFA, formerly chief investment officer, global equities, PIMCO, Sanaz Zaimi, Global Co-Head of FICC Sales, Bank of America Merrill Lynch and Erika Irish Brown, head of diversity and inclusion, Bloomberg. It was a fascinating evening and we are grateful to Bloomberg for enabling us to join their event.

> "It was a fascinating evening and we are grateful to Bloomberg for enabling us to join their event."

DEVELOPING THE PIPELINE

One of our major concerns as we think about how the profession is developing is the pipeline. Since the financial crisis there is increasing evidence that the reputational hit to investment bankers has tainted the societal view of the investment profession – an impression sensationalist media commentary only inflates. Since many millennials put social values – usefulness and ethics particularly – high on the list of career priorities, this is feeding through into young people selecting the profession – and it particularly affects young women. We considered this issue as a committee and decided to explore how we could both bring a message about the relevance of the investment profession to young women and hear their views so we could understand better their reservations. To this end we designed an event for girls still in school. We approached a range of schools, both state and independent, to see if they would bring some girls to debate the issue: "Finance: it is for girls!" We identified schools which had debating societies so they could engage with the idea of a debate, even if they weren't attracted by financial services careers. The event generated many useful insights from the girls and the best evidence of its success was the reluctance of the girls to leave at the end of the evening and the young converts we made to the fascination of investment.

Other successful events in the last year included a brilliant session featuring a panel discussion on angel investing. The event explored this area not only as an avenue for supporting the next generation of entrepreneurs, but also as a powerful emerging new asset class in the investment world. Speakers were from a range of early stage investing, including: The Micro-Loan Foundation which aims to lift communities in the poorest parts of the world out of poverty by helping women set up their own self sustainable businesses; Go Beyond, a leading European and US angel platform which focuses on direct investments in young fast growing companies and BGF Ventures, a UK venture capital firm looking for innovative IT entrepreneurs with disruptive products. The event was hosted by Barclays' accelerator program and speakers included Elizabeth Corley whose distinguished and influential career is a great model for our membership.

We also held a lively and thought-provoking panel event debating how to increase "Women in the investment profession" with Columbia Threadneedle, who became the first fund company to voluntarily disclose the gender breakdown of its workforce, as they "decided to disclose our gender data in a call to improve gender balance in the asset management industry and in recognising that disclosure is a first step towards improvement". The session took an in-depth look at gender diverse leadership, focusing on the investment case that inspired the Barclays Women in Leadership ETF with an impressive array of speakers from McKinsey, Jupiter and Vanguard and

was moderated by Fabien Labouret, global head of investment strategy, Barclays.

Our annual event, hosted by Credit Suisse, Moving forward: Inspiration for your career ambitions; had as keynote the amazing rower Roz Savage, who rowed alone across the Atlantic, the Pacific and the Indian Oceans. She was a wonderfully down to earth, yet captivating speaker. The event also featured Karoline Vinsrygg, executive search consultant, Egon Zehnder, on realising your full potential and David Royston Lee, leadership coach and branding expert, on managing your personal brand who offered practical advice for the investment professional.

> "Debating evidence and providing robust analysis is our preferred means of engagement and we find it effective with members of CFA UK."

UNINTENTIONAL BARRIER

Research into diversity has broadened and deepened in the last year. The GDN committee welcome the contribution CFA Institute has made in this field. We are keen to ensure that we debate the valuable papers produced in the last year with members, especially drawing in the senior management level which can form an unintentional barrier for women wishing to progress in their careers in investment. Debating evidence and providing robust analysis is our preferred means of engagement and we find it effective with members of CFA UK. We are also developing our proposition for collaborating with firms who would like a closer relationship to support their work to improve diversity in the profession. One of our other constant priorities is to ensure that CFA UK does not field all male panels and committees: we turn to our members whenever we can to address this issue. The staff arranging events and looking for new committee members utilise our membership, recognising their value as a pool of talented and motivated women. We hope that the recognition and encouragement women will draw from being approached and other investment professionals will gain from working with CFA UK women will become a virtuous and growing circle. 2015–2016 has been very busy, productive and enjoyable.

CONTINUED SUPPORT

Please do contact us if you have any questions about our work. We are delighted to share what we have learned and are very pleased to hear any suggestions you may have for us in the UK. We have been supporting the early stage work of the Diversity Project in the UK as we are keen to share our resources with like-minded groups. One of the members of our committee kindly recorded a video explaining the work of the project from the perspective of a new recruit – an essential voice if we are to establish the professions credibility with young women. With still only 15% of executive committee roles in European asset management firms and while only 8% of fund managers are women, we have a long way still to go. Sarah Maynard, ASIP, is editor in chief at Majadie Asset Management

www.cfauk.org/diversity ■

CFA Institute Report
News

Tackling Gender Diversity in Investment Management: State Street and CFA Institute

The CFA Institute and State Street report, *Discovering Phi: Motivation as the Hidden Variable of Performance*, was presented at the State Street Women's Executive Dinner in London.

The research report was based on 18 months of research, through in-depth interviews with more than 200 global industry leaders, and set out to answer one fundamental question: How can we leverage motivation to achieve better financial outcomes? The report found a previously hidden variable with a statistically significant relationship to long-term organisational performance, client satisfaction and employee engagement. This hidden variable of performance was referred to as "phi".

CFA Institute was pleased to be a part of the State Street event, as gender diversity in the investment management industry is a key priority of the organisation. CFA Institute believes that it is time to end the woeful underrepresentation of women within the investment management industry. As the industry's only global standard setter in ethics and best practices, CFA Institute is asking all members and industry partners to assist in addressing the chronic issue of gender disparity in the investment management industry.

In September, CFA Institute completed the largest survey of investment management professionals on the subject of gender diversity to date. The study found that while women continue to make progress within the industry, much more needs to be done to ease the global bottleneck that is preventing their full and equitable advancement within the profession.

It is known that diverse teams are better equipped to creatively and innovatively meet investor needs. Companies with the most women board directors outperform those with the least women regarding return on invested capital by 26%, and studies show that mixed-gender teams bring much-needed diversity of thinking to the investment process and improve investment outcomes. Once a critical mass is reached-about one-third women-team outcomes improve.

The CFA Institute Women in Investment Management initiative includes the recently launched CFA Program scholarship, which is a scholarship specifically for women interested in earning the CFA charter, and the Women in Investment Management conference, which will next take place in Toronto in September.

Whether it's motivation (in the form of phi), or gender diversity, the industry has a responsibility to deliver the best for clients by putting investors first for the greater good of the community.

As well developing the phi diagnostic, CFA Institute and State Street are collaborating on other initiatives including ethics and professional excellence.

New-Look CFA Institute *Financial Analysts Journal*

CFA Institute has launched a revitalised *Financial Analysts Journal*, our flagship publication. The first quarter issue is now available in print and online and reflects our new brand guidelines. The print version has a more modern design, with colour-themed sections and refreshed fonts and layout to make the content easier to read. It also includes *In Practice* articles, the new series of practitioner-focused content, written in a journalistic style, that provide an easy way for members to understand the relevance and importance of the research published in the issue.

CFA Institute Report
News

European Outreach in Brussels

On 9 February 2017, the European members of the Systemic Risk Council (SRC) gathered for an all-day meeting in the Brussels office and had the opportunity to exchange views with key European regulators, such as Olivier Guersent (director general of DG FISMA at the European Commission), Steven Maijoor (European Securities and Markets Authority chairman), Stefan Ingves (chairman of the Basel Committee on Banking Supervision), Svein Andresen (secretary general of the FSB) and Andrea Enria (chairperson EBA).

The meeting was followed by a joint event organised by CFA Institute and CFA Society Belgium at the National Bank of Belgium, for which over 400 people registered to attend, including CFA Institute members, policymakers, and industry stakeholders. The event featured Sir Paul Tucker, former deputy governor of the Bank of England and SRC chair, and Jean-Claude Trichet, former president of the European Central Bank and senior advisor to the council who examined the state of the Systemic Risk Reforms.

NEED SOME INSPIRATION FOR BUILDING YOUR CPD HOURS UP?

Here are the most popular learning activities your fellow investment professionals have been completing at the CFA UK knowledge centre:

1. Valuing Equity using the HOLT Methodology – Greg Collett
2. Brexit – How are Major Financial Decisions Made? Gulnur Muradoglu
3. Fundamentals of Efficient Factor Investing – Harindra de Silva
4. How to Present Yourself with Impact and Charisma – Seth Wainwright
5. The Myths of Fund Management – Jason MacQueen
6. The Politics of Rage – Marvin Barth
7. We Know the Cast, but what will '2017: The Movie' Look Like? Alberto Gallo
8. Generating Big Alpha from Big Data – Muzo Kayacan
9. Investor Compliance and Operational Due Diligence – Nick Illsley
10. The Dark Side of Financial Statement Analysis – Joel Litman
11. Behavioural Finance from Biases to Bubbles – Paul Craven

Go to http://learning.cfauk.org to explore over 100 hours of innovative CPD content – selected by investment professionals, for investment professionals.

CFA Institute Report
News

How to address Growth in Non-GAAP Measures

Concerns about the sometimes misleading nature of the voluntary, company-reported, non-GAAP financial measures (NGFMs) have long existed but these concerns have recently resurfaced. This is mainly due to the increasingly pervasive reporting, reduced comparability and sometimes greater prominence accorded to these alternative measures relative to the standardized reporting requirements (ie country specific GAAP and International Financial Reporting Standards (IFRS). Different studies have shown that more than 80% of firms in the FTSE 100 and S&P 500 use NGFMs.

To inform the on-going consideration among regulators and accounting standard setters on whether to prohibit NGFMs or alternatively enhance the quality of NGFM reporting, CFA Institute recently conducted a comprehensive member survey to provide investor perspectives on the issue. Vincent Papa, CFA, used the survey feedback to help shape commentary on NGFMs presented in two reports: *Investor Uses, Expectations and Concerns on Non-GAAP Financial Measures* and *Bridging the Gap: Ensuring Effective Non-GAAP and Performance Reporting.*

Key findings from the survey of 550 members include:

INVESTOR DEMAND FOR NGFMS

- Investors extensively use NGFMs (63.6% of respondents always or often use these measures) albeit to a lesser degree than GAAP/IFRS-based measures (71.5% always or often use these measures).
- Investors don't just apply company reported NGFMs, rather many make adjustments to these measures by reversing line item adjustments made by companies when calculating NGFMs. Our survey results show that 60% of respondents make further adjustments to reported NGFMs.
- There are a range of reasons for investors and analysts to apply these measures, including as performance analysis and valuation inputs or an accounting quality indicator as well as to conform to industry norms, such as consensus earnings reporting requirements.

COMMUNICATION AND TRANSPARENCY OF NGFMS

The quality of communication and transparency in the reporting of NGFMs remains an area in which there is scope for on-going improvement.

- *Comparability:* There is a general challenge of comparing NGFMs across firms because of the lack of standardised definitions for these measures. It is challenging and misleading to compare these adjusted measures (eg adjusted net profit, adjusted operating profit, EBITDA) across companies even among those that employ a similar business model. The comparability challenge is compounded by the tendency of some companies to vary the line item adjustments made when calculating NGFMs across different time periods.
- *Reconciliation and disclosures:* Securities regulators' guidance requires companies that report NGFMs to present a reconciliation to the most directly comparable GAAP/IFRS line items as well to provide contextualizing disclosures that explain the line item adjustments. We found that there is scope for improvement in the reporting of these reconciliations and disclosures.

BRIDGING THE GAP: ENHANCING THE QUALITY OF NGFMS

NGFMs are most likely here to stay because many investors find them to be useful. We also consider current and potentially strengthened regulatory imposed restraints on misleading NGFMs to be necessary but not sufficient for ensuring that only the highest quality performance, liquidity, and financial condition measures are communicated by companies. Our survey results reveal investors are mostly supportive of different regulatory guidelines and they expect more effective oversight on NGFM reporting.

In our reports, we recommend a multi-pronged approach involving regulators, auditors, audit committees, and investors to ensure the effective reporting of these measures and the strengthening of the overall quality of NGFMs (ie, informative and reliable NGFMs). The survey results reveal particularly strong support (80.3%) for some form of assurance to be provided for these measures.

Finally, concerns about misleading NGFM reporting should serve as a catalyst for the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) to enhance their primary financial statements' presentation and classification requirements, including defining key subtotals. The member survey results show that most investors expect and are supportive of standard setters providing guidance on the presentation of NGFMs in financial statements as well as on the improvement of the structure of both the income statement and the cash flow statement.

For more information, visit: www.cfapubs.org

CFA UK new members
Spring 2017

The society welcomes new members who have joined from 1 November 2016 to 31 January 2017. To find out how to join, please visit www.cfauk.org

Sarah Abid, CFA
Alexandra Addison-Scott, CFA
Femi Adeoye
Mohammad Asim Ahmad, CFA
Junaid Ahmed
Mohammed Ajani
Emmy Al-Ghabra, CFA, **Partners Group**
Leslie-Anne Alba, CFA
Henry Allen, IMC, **Octopus Investments**
Jaclyn Anderson, IMC, **Old Mutual Asset Management**
Stephanie Anthony
Alena Antonava

Gary Ashe, IMC, **SS&C Financial Services**
Gary is an account manager at SS&C Financial Services. He previously worked for Astellon Capital Partners and HSBC Securities Services and has experience in fund accounting and hedge fund operations. Gary has a bachelor's in economics and politics from University College Dublin.

Lisa Augustin, **Moody's Investors Service**
Lisa is a VP/senior analyst at Moody's Investors Service. She previously worked for Merrill Lynch and has a more than 15 years experience covering structured products and securitisation analysis, focusing particularly on credit risk. Lisa completed her BSc in economics from the London School of Economics.

Holly Auty, CFA
Usmaan Aziz, IMC, **Barclays Wealth**
Biola Sarah Babawale, CFA
Sini Baggott-Ek, IMC, **Northlander Commodity Advisors**
Jonathan Bale, IMC, **Investec Asset Management**
Frederick Barker
Neil Bashforth, IMC, **Baillie Gifford**
Luca Basilico
Davinder Bedi

Alexander Beecraft, CFA, **Lincoln Pensions**
Alex is pensions credit risk analyst specialising in helping trustees and sponsors of UK defined benefit pension schemes understand and react to investment and funding risks. He currently works at Lincoln Pensions, having been in Pricewaterhouse Cooper's team for four years (including six months on secondment at the UK Pensions Regulator). He qualified as a chartered accountant in 2009 and studied philosophy, politics and economics at the University of Oxford.

Marat Bekmetov, IMC, **Transdata International**
Marat is a contract business analyst/project manager. He previously worked for Barclays WIM and RBS and has experience in process re-engineering, regulatory change, business transitions and project/portfolio planning.

Makella Benjamin
Daniel Benzimra, CFA
Sanjay Bhagwani, CFA
James Bilson, CFA
Ward Bleus, CFA
Samuel Bomsztyk
John Boreham, CFA, **UBS**
Michael Bretherick, IMC, **Gibbs Denley Insurance Services**
Nicholas Browne, CFA
Kacper Brzezniak, CFA
Juliet Bullick, IMC, **Fidelity International**
Christian Burgin, CFA
Thomas Burne, IMC, **Cazenove Capital Management**
Freddie Caldecott, CFA
Nicholas Calnan, CFA
Anna Carden
Chiara Cargnel
Luther Carter, CFA

Monica Castro Zamudio
Monica completed a degree in economics at Pontificia Universidad Catolica del Peru and is a financial risk and investment management professional with over seven years of experience in the Peruvian financial services industry. She is currently studying an MBA at Alliance Manchester Business School and is also a CFA level II Candidate.

Max Cawthorn, CFA
Federica Cazzaniga, CFA
Chandramouli Chadalawada, CFA
Tanya Chadha, CFA
Maiuran Chandrakumaran, CFA
Wei Chen, CFA

Arthur Chevalier, **HSBC Global Asset Management**
After completing a master's degree at NEOMA Business School, Arthur started working for Aviva Investors before joining HSBC Global Asset Management as a product manager. He has passed level III of the CFA Program and is currently gaining experience to become a full charterholder.

Adeline Pei Ling Chong, CFA
Sohil Chotai, CFA
Joseph Christopherson
Erika Coakley, IMC, **Charles Schwab**
Richard Cochinos

Cecily Cocks, IMC, **Insight Investment**
Cecily works in business development at Insight Investment. She has previously worked for Candriam and Thomson Reuters. Cecily graduated from the University of Kent with a degree in philosophy and french.

Emma Cory, CFA, **Partners Capital**
Emma is a senior investment associate at Partners Capital, the global outsourced private investment office. Emma studied engineering at Trinity College, University of Cambridge.

Victor Cossec
Christopher Coyle, IMC, **JP Morgan Asset Management**
Radley Cunliffe, IMC, **TIAA Henderson Real Estate**
Ekaterina Daminova
Joseph Davis, CFA
Michele Del Vicario, **Ontarioa Airports Investments**
Rohit Ratnakar Deshpande, CFA
Paul Desoisa, CFA
Hao Ding
Rasmus Ditlevsen
James Donald, CFA
Yuanpeng Dong
Thomas Doran, IMC
Kate Drulia
Alena Dudová
Thomas Eble, CFA
Rosanagh Eden, CFA, **Aberdeen Asset Management**
Tayfur Eken, CFA
Yousef El Gammal
Thomas Elliott, IMC, **Gemelli Solutions**
Caspar Erskine, CFA
Hayley Fallon Bond, CFA
Reda Farran, CFA
Matthew Faulkner, CFA
Fan Feng
Paul Finnan
Marco Flaccavento, CFA
Rupert Fleming
Daniel Freeman, IMC, **Credit Suisse First Boston**
Samuel Friel
David Fussell
Kathleen Gallagher

Jayna Gandhi, CFA
Jayna is an investment analyst at Bartholomew Hawkins Asset Management, and has key responsibilities within investment research/analysis, investment selection and portfolio implementation. She previously worked for Quantum Advisory, an employee benefits consultancy, and has four years of investment experience within pensions. Jayna has a BSc mathematics degree from the University of Glamorgan.

Oliver Ganguly
Krishanu Ghosh, CFA, **Aberdeen Asset Management**
Matthew Gill
Ruby Goel, CFA
James Goodman
Karan Grewal
Elina Grinchenko, CFA, **Mondrian Investment Partners**
Edward Grissell, CFA
Yuan Gu
Bastien Guilleminot-Simon, CFA
Alistair Gunn, IMC
Daniel Hales, CFA
Christopher Hancock, CFA
Darpan Harar, CFA
Maurice Gabriel Harari, IMC, **SYZ Asset Management**

Philip Hardingham, CFA
After completing a degree in economics at the University of Cambridge, Philip started working for the Government Actuary's Department as a trainee actuary. He now works for Deloitte as a senior consultant in its investment services team.

Henry Havelock-Allan, IMC
Samantha Haworth, IMC, **State Street**
Michael Hegarty
David Henderson, IMC, **Aviva Investors**
Christine Hofmeister, CFA
Eirik Hogner, CFA
Robert Holl, CFA, **The Wellcome Trust**
Timothy Holland, CFA
Niall Holleran, CFA
Richard Holroyd, CFA
Chengyu Hong

Lancelot Hudspith, IMC, **Hudspiths Trading**
Lance is a trader and derivatives trainer at Hudspiths Training. He previously worked as a proprietary trader and has experience in trading CFD's equities and bonds and in hedging for a large British manufacturer.

Charles Huggins, CFA
Natasha Hussein, CFA
Halldora Ingileifsdóttir
Tomoya Iwata
Bradley James
Rafael Gustavo Jara Padilla
Mikhail Johaadien, IMC, **Aviva Investors**
Emma Jones
Praveen Joseph
Oliver Keil, CFA
Ian Kemp, IMC
Nitin Kewalramani Kewalramani

CFA UK new members

Arifur Khan, **South Breeze Housing**
Arifur is an executive director at South Breeze Housing. He previously worked as vice president at Bank of America Merrill Lynch and has experience in risk and regulatory capital. He is also experienced in audit and assurance services, having previously worked for Chantrey Vellacott DFK's (presently known as Moore Stephens) Capital Markets Group. He holds a degree in accounting and finance from University of Manchester.

Devanshini Khatau, CFA
Hussein Khattab, CFA
Varun Khullar
Yuni Kim
Tae Yoon Kim Chang, CFA
Robin Kinchin, CFA, **Pricewaterhouse Coopers**
Robert Kittler
Ville Konsala
David Larcombe
Trang Le Dao Quynh
Tom Leck
Michael Leclerc, CFA
Yick Ming Lee
Sally Lee, CFA, **BlackRock**
Timothy Lewis, CFA
Dixie Liang, CFA

Matthew Lilley, IMC, **JLL**
Matthew is an associate director in strategic asset management at JLL and has experience in commercial real estate investment management. Matthew has a degree in architecture from Nottingham University, a masters degree in property valuation and law from Cass Business School and is MRICS accredited.

Susanne Linhardt, CFA
Roberto Lino

Elisa Liste
Elisa Gabriela Liste is a senior manager with a background in corporate finance, strategy and management consulting. She has worked internationally and has held leadership positions at Gaffney Cline & Associates/Baker Hughes, Wood Mackenzie, Level 3 Communications and Shell. She has also worked in academia at UCEMA. Elisa has a masters degree in finance. She is involved in promoting diversity and inclusion initiatives and in mentoring entrepreneurs.

Aneesha Loyalka
Yaoguo Lun, CFA, **FTI Consulting**
Victoria MacLean, CFA, **Aberdeen Asset Management**
Andrew Madigan, IMC
Stefan Magier, CFA, **Royal Bank of Scotland**
Cheryl Maher, CFA
Simon Malone, IMC
Adam Maltz, CFA
Hermann Marshall
Andrew Massie
William May, CFA
Antony May
Christopher Maynard, CFA
Peter McCallum, IMC, **Rathbones**
Charlotte McCormack, IMC
Nathan McDonald, IMC, **Prudential**
John Arthur McDougall, CFA, **Rathbones**
Neal McGuffie
Calum McLellan, IMC
Ciaren McShane
Yasmin Meissner, CFA
Ruth Melches
Thembani Mkwananzi
Steven Montgomery, CFA
Carl Moreira, CFA
Milosz Morgut, CFA, **Orbis Portfolio Management**
Zarina Morris
Cyndi Mosquera Gutierrez
Timothy Mott, CFA, **CIBC World Markets**

Diana Mukasa
Laura Muller
Sasan Munro
Alexandra Neto

Henry Neville, CFA
Henry is an investment analyst at Man GLG. He previously worked for Walter Scott & Partners, as well as C Hoare & Co, and has experience in hedge funds, long only asset management and private wealth solutions. Henry has a history degree from St Andrews University.

Victoria Norris, IMC, **Camwell Management**

William Nott
After completing a degree in economics at the University of Cambridge, William undertook an internship at M&G Investments, after previous internships at RBS and Bank of America Merrill Lynch. He now works for Allianz Global Investors as an investment analyst on the Global Graduate Programme and is currently studying the CFA.

Tosin Olaoye
Olga Oliinyk
Filipp Orlik
Sion Owen, CFA
Derrick Parker
William Parry
Bijal Patel, IMC
Niroshan Pathmajothy
Graham Patterson, CFA
Jakob Payne, IMC, **Bradbury Hamilton**
Mariana Pereira de Sousa Marques, CFA
Robert Perrone, CFA, **Orbis Investment Advisory**
Jenny Pham
Charles Pringle, CFA
Jin Qian, CFA

Lang Qin
Lang completed an MSc in investment management at ICMA Centre, University of Reading, and is particularly interested in structured products. Lang is preparing for the CFA level II exam.

Ebenezer Quarm
Hamza Qureshi
Thitipapa Rattanakun
Hassan Raza
Samuel Rees, IMC
Katharine Rettie
Romain Mathieu Richemont, CFA
Robert Richter, CFA
Emanuele Rigamonti
Alec Robb, CFA

Mario Rui Rodrigues Carvalho Pena, **DWPF**
Mário is a financial advisor at DWPF working with infrastructure funds and developers in delivering project finance solutions in the Renewables sector. Prior to joining DWPF, Mário was part of the project finance teams at Ernst & Young and KPMG in Portugal. He is currently studying for the CFA Level III exam in June 2017.

Mark Rooney, IMC, **First Trust Bank**
Alexander Ross
Daniel Sabiston, CFA
Sandro Santoro, CFA
Azhar Sathar, CFA
Vincent Scarfe, **Pramerica Investment Management**

Thomas Schandlong, CFA, **Swiss Re Asset Management**
Thomas is a junior fixed income portfolio manager at Swiss Re Asset Management in London, focusing on G10 interest rate markets. Over the last five years, he has worked for Swiss Re Asset Management in Zurich in the chief investment office as an investment & quant analyst. Thomas holds an engineering degree from the Ecole Centrale Nantes (France) and a master's in financial engineering from the Ecole Polytechnique Fédérale de Lausanne (Switzerland).

Hajo Christian Schmitt, CFA
Peter Sen, CFA
Khuram Sharih, IMC
Donato Silvestri, CFA
Goran Simic
Liam Singh, CFA
Jabulani Sithole
Andrew Skipper
Lachlan Smith

William Smyth, IMC
Bill is a financial translator at Bill Smyth & Associates and specialises in translating financial copy into English for leading German and Swiss financial institutions. He previously worked for Henderson Investors and has experience in investment writing. Bill has a masters degree from Cambridge University, and is currently studying for CFA Level I in June.

Sean Stewart, CFA
Alexander Stewart
Francois-Rene Stoessel
Marcel Stotzel, CFA
Hannah Street
Russell Stuart, CFA, **Fidelity Investments**
Rannon Stuive, CFA
Konrad Swiecicki, CFA
Anastasia Swirski, CFA
Pratama Kito Tabalujan
Koray Tahir, CFA

Li Tan, CFA, **JP Morgan Asset Management**
Li is an equity research analyst at JP Morgan Asset Management, covering GEM banks with focus on ASEAN, China and Poland. Li has a master's degree in management and strategy from the London School of Economics.

Syed Sohaib Tanvir, CFA

Fabian Taylor, IMC, **Nelsons Solicitors**
After completing a joint honours degree in Spanish and contemporary Chinese studies from the University of Nottingham, Fabian started working for Mattioli Woods as a CRM and investment specialist. He now works for Nelsons Solicitors in the East Midlands as an independent financial adviser sitting on the Nelsons' investment committee.

Janan Thompson, IMC, **Abbey National**
Andrew Tierney, CFA
Richard Tipton
Radoslav Todorov, CFA
Khrystyna Tymoshchuk
Julian Ulyett, CFA
Josefine Urban, CFA, **Legal & General Investment Management**
Neil Uttridge, CFA
Eleonora Vaccari
Pablo Valcarce Gutierrez, CFA
Eddie Veale, CFA, **Triple Point**
Pritesh Vekaria, CFA
Maria Verbaite
Jasdeep Virdee
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Ka Yan Wong, CFA
Iain Woolley
Samuel Worthy, IMC
Ying Wu, CFA
Chenchen Xi, CFA
Chenchen Yang, CFA

David Zaudy, Cove Investment Partners

David is a partner and financial analyst at Cove Investment Partners. He is a Swedish national with over a decade's experience of financial research and investment banking, primarily in Scandinavia and the U.K. Previously he was employed by Pareto Securities as a financial analyst and associate in corporate finance. David studied business administration at the Lund University School of Economics and Management. David is a 2017 Level III CFA candidate.

Diana Zemite, CFA

Diana is an ABS analyst at HSBC Global Asset Management. She previously worked for HSBC in its global banking division and has experience in various banking roles. Diana has a bachelors degree in European economy and business from Rigas Stradina University (Latvia).

Chunbin Zheng
Jiarui Zhou
Wanpin Zhuang, CFA
Dunmore Zungu
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