Retirement Estate Assets Protection Planning

When Will We See More Gender Equality in Investing?

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In many spheres, such as politics, media and entertainment, women have made considerable progress in reaching executive leadership positions, achieving higher pay, and building new enterprises. But this ascent hasn't been achieved everywhere. In my own industry, investing, progress has been painfully slow.

Aside from professional sports, the investment business — encompassing investment management, mutual, hedge, private equity, and venture capital funds — might have the lowest percentage of women at the top of the pyramid (at 4%). And women only control between 1% and 3.5% of assets under management, depending on specific class.

The lack of women leaders in investing is an issue that more firms should be worried about. Research shows that gender diversity at the top is connected to positive returns. And aside from financial performance, retaining and promoting more women in a field is the only way to ensure that promising talent isn't being lost or shuffled out of the industry.

There is little good data on how many women are entering investment firms at junior levels, as research analysts and associates. But in researching the subject, I've learned from colleagues at several large firms in the U.S. that women have accounted for about one-quarter to one-third of their first-year associates over the past fifteen 15 years.

However, as several senior executives in the industry explained to me, and as I have witnessed in my decades in the business, the ranks of women investors dwindle as you go up the career ladder.

Only 2% of mutual funds, for example, are managed exclusively by female portfolio managers, a sign that either firms lack confidence in their ability or that there are very few women to choose from by the time they would be ready for these jobs. Within the hedge fund universe, a mere 4% of the portfolio managers are women, but only 1.5% of the assets are under their control, suggesting that the size of their funds are smaller than those of men. Private equity is the only subsector in which the percent of female-controlled assets exceeds 3% (at 3.4%), which is still paltry.

Something obviously happens between the enthusiastic arrival into an MBA program or job acceptance at a major investment institution and when peers would be offered funds, partnerships, or even launch their own firms.

The reasons suggested most often are, of course, the familiar ones: an inhospitable "boys club culture," in which women feel excluded and their male superiors promote people who look and seem similar to themselves; and the structural inflexibility of investment firms, in which the hours, travel, and demands become prohibitively untenable for some women who have children and still shoulder the majority of the parenting and child-care responsibilities.

While these all contribute to the lack of gender diversity in the field, it's important to say what is *not* a reason for women opting out: poor performance. There's no evidence that investments and funds managed by women perform worse than those by men. For instance, a Knight Foundation study determined that for all asset classes, mutual, hedge, and private equity funds, there was no statistically significant difference between the performance of those funds managed at firms with over 25% female ownership and of funds at other non-diverse firms.

However, even for experienced women who launch their own firms and produce strong results, the odds seem stacked against them. Evidence shows an implicit bias by both male and female investors toward male managers when funding new investment vehicles — they add a higher percentage of assets to male-managed funds when they outperform, and they withdraw higher percentages from women-run funds when they comparably underperform. Asset gathering is critical to sustain a new fund, which must incur high regulatory, technology and legal expenses. Fewer investment firms founded by women survive because they cannot sustain profitability with limited assets to manage.

I surveyed 35 women investment managers, most of whom earned MBAs, as part of my research into this subject. These respondents, all high-ranking decision-making investors, manage firms with assets ranging from $200M to several billion. Their answers were highly consistent across the sample, with 87% agreeing that progress is more difficult for women than men in our industry.

Two-thirds of them said that clients judge women managers differently than their male peers. They reported that even with comparable credentials and performance history, women receive less initial funding and are subsequently rewarded less and penalized more for similar performance through additional client inflows and redemptions. 75% felt that decision-makers such as endowment investment committees or consultants were at least somewhat biased toward male managers, and not one respondent thought that either male or female asset gate-keepers had any bias toward women fund managers.

Almost all the women surveyed had children, and 22 indicated that being a mother had slowed their career trajectory, whether or not they took several years off. Considering the historic lack of flexibility in the industry about job sharing, hours, and job security— conditions that are hopefully now changing — this was not a surprising finding.

We need to make the investment field more appealing to talented young women. Firms that recruit and hire MBAs and CFA-targeting women are making a commitment to these candidates, so it is in their own interest to find strategies to have them succeed at the same level as their male peers. Clients and institutions also need to be aware of unconscious gender bias that might creep into their own decision-making.

What might help equalize the playing field?

Firms with capable young women should offer more flexibility through the years in which they need that option. Homogeneous voices in the investing process is not a prescription for outperformance. If women continue to defect from finance, the industry's reputation as unwelcoming and risky for women will persist, making it difficult to attract the next generation of women.

Because there are so few female role models available, firms need to invest in more mentoring programs for women. Such programs, when structured with the intention of empowering and developing talented women, can assist them in their upward career trajectory.

Institutions should play an active role too. By demanding more gender diversity among the partners and asset managers that they hire, they can push investment firms to pay more attention to retaining and developing female talent. Institutions should also be aware of unconscious gender bias when it comes to selecting asset managers — focusing on total consistency and objectivity in the interview process can help in this regard.

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