Why diversity drives better investor outcomes

Gender diversity in investment teams leads to better performance through the integration of diverse viewpoints

Investors are bracing for a bear market sometime in the future. And when it comes, it will be more critical than ever for firms to embrace diversity on their investment teams and in their senior ranks if they want to deliver better outcomes for clients.

That's the reality and the challenge that Margaret "Marg" Franklin, CFA, president and CEO of CFA Institute – a global association for investment management professionals – highlighted in her address to the Financial News 100 Most Influential Women in European Finance 2019 Awards ceremony late last year.

Because the truth is, during times of adversity, we tend to rely on those who look just like us precisely when having diverse perspectives is most crucial.

"Inevitably, there will be a serious market correction that will test senior leaders' commitment to diversity," Ms Franklin said.

"When a crisis comes, leadership relies not on stats and data, but rather on judgment and trust. Even though you probably need diversity more at the moment that you have a crisis, it's in fact the moment that you turn to people who are just like you, people you can trust. "And there aren't enough of us who look like them."

So, Ms Franklin called on the investment industry to not only deliver alpha but also to drive positive change.

This cognitive trap that she illuminated doesn't bode well if we believe that incorporating diverse perspectives into the investment decision-making process will drive better outcomes for investors.

As it is, the ranks of women and other historically underrepresented populations are woefully low in the investment management industry.

Ms Franklin said the challenges facing the investment management profession are "unparalleled" and that senior leaders have to negotiate a trio of key but competing priorities:

- Delivering the returns our clients need amid a low-rate, low-return environment.
- Navigating rising and increasingly complex risk.
- Generating enough profit to reinvest in the firm so it can survive and thrive over the long term – but not so much profit that it contributes to unsustainable inequality.

Ms Franklin reminded the audience that the CFA Institute mission is "to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society" and that she was on the Board of Governors when the final six words – "for the ultimate benefit of society" – were added.

Those six words are especially important at the current moment.

"We face all of these challenges during a time of massive consolidation and compression in each and every part of our industry," she said. "We are also charged with more deeply understanding and addressing the consequences of our businesses. We are in the early but critical days of ESG (environmental, social, and governance) investing, and the time imperative is pressing.

"Our business has historically been managed on two dimensions – risk and return. There is a third dimension which must be considered, which is impact."

One way to address these challenges is through diversity, Ms Franklin said. In a 2017 CFA Institute survey of institutional investors, she noted, most respondents said they believe that gender diversity in investment teams leads to better performance through the integration of diverse viewpoints.

Ms Franklin challenged the room to think about how to effectively bring about the "necessary changes to be a meaningful player in a better world, delivering both alpha and positive impact in the communities where capitalism can be a force for good."

She proposed three strategies to bring about greater diversity in the investment industry:

- Be visible: Your accomplishments change minds. We have a saying that visibility is validity. If I can see it, I can imagine it.
- Actively seek out, retain, and promote women.
- "Claim your seat: You are all so ready to lead more, better, and with distinction. More of us at the table normalises gender."
- "You are in a position to make change," she said. "There is much we can collectively do."

Margaret Franklin, CFA, is the new CEO and President of CFA Institute, the first woman to hold the position in its 73-year history. She assumed the role on Sept 2, 2019, taking over from Paul Smith, CFA. Marg Franklin has been a leader in the investment management industry for 28 years. She is a founding member of the CFA Institute Women in Investment Initiative, a past recipient of its Alfred C. Morley Distinguished Service Award in 2014, and a member of its Future of Finance Content Council.

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