Doctor Heal Thyself:
How intentional investing will drive a gender revolution in asset management
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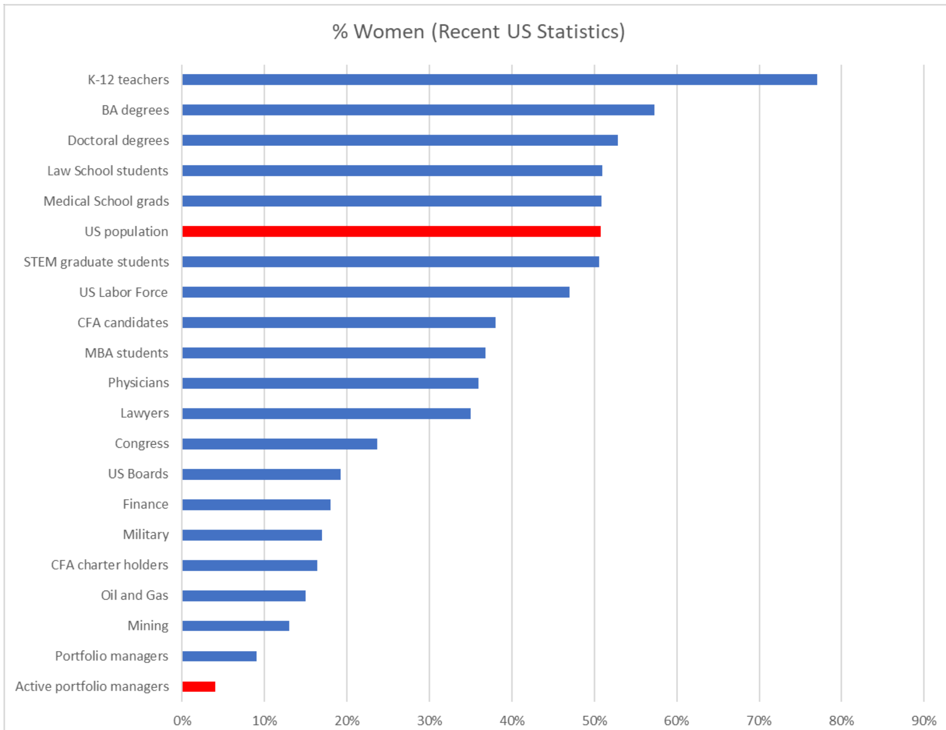

Let's start with what we know: as the chart above shows, asset management may have the worst gender diversity profile of almost any industry in the world. Women account for only 4% of active investment managers, and control only 1%-3.5% of assets. Only 2% of mutual funds are managed exclusively by female portfolio managers.

Are women so bad at managing money that the Darwinian nature of the business excludes them over time? A recent Knight Foundation study determined that there was no statistically significant difference of performance of funds managed by women or at firms with over 25% female ownership. Other research shows that gender-balanced senior investment teams have generated investment returns 10% to 20% higher than non-diverse teams. A UK study showed that men are more impulsive investors and trade almost 50% more than women, thereby frittering away up to 2.5% in annual performance. In a field that is supposed to be ALL about performance, the dearth of women is clearly NOT about performance.

The financial performance case for gender diversity

Let's take a step back to examine the case for gender diversity. There is ample research that supports a positive impact, so much so, that diversity is becoming a performance-enhancing factor for security selection in portfolios. Here are just a few notable research summaries:

- MSCI's 2015 report *The Tipping Point: Women on Boards and Financial Performance* shows that having three women on a corporate board represents a "tipping point in terms of influence, which is reflected in financial performance" and that companies with strong female leadership outperform those without it; an updated analysis in 2016 provided further evidence.
- McKinsey's 2015 report *Why Diversity Matters* found that companies in the top quartile for gender diversity are 15 percent more likely to have financial returns above their respective national industry medians.
- The International Monetary Fund's 2016 working paper *Gender Diversity in Senior Positions and Firm Performance* finds a positive association between corporate return on assets and the share of women in senior positions based on examining 2 million companies.

- A Credit Suisse 2016 report *The CS Gender 3000: The Reward for Change*, mapped 27,000 senior managers at over 3,000 companies globally and found that companies where women made up at least 15% of senior managers had more than 50% higher profitability than those where female representation was less than 10%.
- An analysis of a global survey of 21,980 firms from 91 countries conducted by the Peterson Institute in 2016 found that the presence of female executives is associated with “unusually strong firm performance as measured by both gross and net margins.”

WTF?! Where are The Females?!

The research shows that diversity contributes to performance in ALL INDUSTRIES and we know that women asset managers perform at least as well as their male peers and enhance performance when paired with male managers. So WTF? **W**here are **T**he **F**emales? Clearly gender bias is institutionalized in the asset management industry.
This may be a chicken and egg problem; women raise only 10%-30% of assets for comparable performance so perhaps, for this reason, are not promoted into portfolio management roles and are then pushed out. The common perception, even among women (!), seems to be that men manage money better. A recent Fidelity study found that only 9% of their women clients felt that women are better money managers than men.

Fear-driven preferences

In the recent book *Why Do So Many Incompetent Men Become Leaders ? (and How to Fix It)*, Colombia University’s Tomas Chamorro-Premuzic writes, “when it comes to leadership, the only advantage that men have over women is the fact that manifestations of hubris — often masked as charisma or charm — are commonly mistaken for leadership potential, and that these occur much more frequently in men than in women.” According to Chamorro-Premuzic, women are much less likely to express overconfidence than men, which in turn makes them much less likely to be selected as leaders, even though their collaborative management style is more effective. If we look closely at asset management, overconfidence seems to be a nearly universal character trait, and we can therefore posit that equating overconfidence with competence may be root cause of the gaping gender chasm.

Why the huge premium placed on confidence over performance? Fear of loss and lack of confidence in their own ability to manage their assets may be what leads clients to favor managers who project certainty. But there is no positive performance correlation with the arrogant, overconfident archetype in asset management. In fact, if we look at performance of active managers (95% male) over the past decade, it appears that the preference for overconfidence is correlated with poor relative returns. Perhaps this is because, in the past, overconfident managers at least had preferential access to information and were able to use it to deliver returns. But markets have evolved: information is now ubiquitous, and no longer a competitive advantage. This places a much greater premium on analysis, collaboration, and risk management over confidence, and should favor many more women managing your money. But how do we get from 5% to that magical critical mass figure of 30%?

Medicine as a model for change

The evolution of medicine serves as a useful analogy for how asset management might evolve. 45 years ago, my family moved to Amarillo, Texas, where my mom was the only female doctor in town. When she showed up in the doctor’s lounge on her first day on the job, she was confronted by a bunch of surprised guys in their underwear who sent her to the nurses’ lounge down the hall. At the time, the archetypal physician was a confident, all-knowing MALE doctor, who eased his patients’ fears by telling them they would be healed with his intervention. Patients often walked away healthy and sometimes they didn’t, but there was insufficient outcome data, so faulty practices were well-hidden beneath the cloak of reassuring confidence. Fast forward to the evidence-based medicine of today, where every MD carries a powerful diagnostic tool in their pocket—a smartphone. Care has evolved to one of doctor-patient partnership, where up-to-date treatments and statistical outcomes are shared and managed with the patient as an active participant. In this “patient-centered” model, empathy and collaboration have a premium over bravado, and this likely explains the dramatic increase in female MDs to 50% of new residents.

The intentional investing catalyst

As in Medicine, the focus of the investment industry is shifting from information gathering towards information management and analysis, and from making decisions for the client to bringing client preferences into investment decisions. All signs point to a need for a dramatic increase in gender diversity to align with this transition. Change can come through evolution or revolution. I believe that revolution is more likely, because of the megatrend of sustainability and intentional investing that is overwhelming asset management. Earlier in this piece, I discussed how gender diversity is being used as an investment factor. This is just one of many material sustainability factors that are being incorporated into investment decisions because they have been shown to have a positive impact on performance and risk. It is only a matter of time before the sustainability mirror is turned onto the asset management industry itself. Clients will rightly ask, "If sustainability factors and gender diversity are so important to your investment decisions, then why aren't you implementing them into your own business model?" The silence will be deafening at first, but investment teams will likely quickly focus on implementing gender diversity to avoid embarrassment and to gain a competitive edge over their less enlightened peers. Everyone stands to benefit from investing more in in women investors and the gender revolution is coming.

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