

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

December 9, 2021

## Memorandum

**To:** Members, Committee on Financial Services  
**From:** FSC Majority Staff  
**Subject:** December 9, 2021, Diversity and Inclusion Subcommittee Hearing entitled, “A Review of Diversity and Inclusion at America’s Large Investment Firms”

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The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “A Review of Diversity and Inclusion at America’s Large Investment Firms” at 10 am on Thursday, December 9, 2021, in room 2128 of the Rayburn House Office Building. The witnesses for this one-panel hearing are:

- **Michelle Gadsden-Williams**, Managing Director, Human Resources, Global Head of Diversity, Equity and Inclusion, BlackRock
- **Eric Pan**, President and CEO, Investment Company Institute
- **Ron Parker**, President and CEO, National Association of Securities Professionals (NASP)
- **Cyrus Taraporevala**, President and CEO, State Street Global Advisors
- **Michael Clements**, Director, Financial Markets and Community Investment, Government Accountability Office

### Background

This hearing will review the findings and recommendations of a report prepared by the Majority staff of the Committee on Financial Services entitled, “Diversity and Inclusion: Holding America’s Largest Investment Firms Accountable.” Investment firms provide a wide array of services, and among them is the management of assets. Investment managers collectively handle trillions in assets, including the investment savings of nearly half of all U.S. households.<sup>1</sup> People saving for retirement, education, or to buy a home often rely on the professional services of asset managers for advice and guidance to help secure their financial future or meet their investing goals. In 2021, the global asset management industry managed over \$100 trillion in assets.<sup>2</sup>

Despite the increasing diversity of the U.S. population, studies have shown that investment firms are among the least diverse within the financial services industry, which generally struggles with diversity.<sup>3</sup> According to the 2020 Census, the United States is now 38.4% people of color and 61.6% White;<sup>4</sup> and women account for 50.8% of the population.<sup>5</sup> Research suggests that by 2045, the United States will be majority people of color.<sup>6</sup> Comparatively, an analysis performed by the Knight Foundation found that White men managed a stunning 98.7% of the assets in the U.S. investment

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<sup>1</sup> [Capital Markets: Asset Management and Related Policy Issues](#), Congressional Research Service (Oct. 2019).

<sup>2</sup> [The \\$100 Trillion Machine: Global Asset Management 2021](#), Boston Consulting Group (July 8, 2021).

<sup>3</sup> See [Investment management is overwhelmingly dominated by white men—and it’s costing you money](#), *Fortune* (July 19, 2020). See also, [SEC Urged to Help Diversify Asset-Management Industry](#), *The Wall Street Journal*, (July 16, 2020) (noting that less than 1.5% of assets are managed by women or people of color).

<sup>4</sup> [Race and Ethnicity in the United States: 2010 Census and 2020 Census](#), U.S. Census Bureau (Aug. 12, 2021).

<sup>5</sup> [Quick Facts: United States](#), U.S. Census Bureau (July 2019).

<sup>6</sup> [The US will become ‘minority white’ in 2045, Census projects](#), Brookings Institute (Mar. 14, 2018).

management sector (i.e., hedge funds, mutual funds, real estate funds, and private equity funds) in 2019.<sup>7</sup>

## **Committee Staff Report on Asset Management**

To provide a deeper understanding of the diversity issues within the investment management industry, Chairwoman Waters, and Diversity and Inclusion Subcommittee Chair Joyce Beatty sent a letter to America's 31 largest investment managers, which are those with \$400 billion in assets under management (AUM) or greater.<sup>8</sup> Twenty-eight of the firms that received this letter responded. Among those who responded, some did not fully respond to each question posed.<sup>9</sup> The letter requested diversity data for five years, from CY 2016 to 2020, including demographic data on its board, staff, and executive leadership. The letter also requested information on procurement, internal policies, and practices meant to support greater diversity and inclusion and challenges in pursuing diversity and inclusion in this industry. Topics included in the request included the following:

1. Workforce diversity
2. Board diversity
3. Procurement/supplier diversity
4. Asset management diversity
5. Underwriting diversity
6. Data reliability
7. Institution's diversity policies and practices

## **Report Findings**

The key findings from Committee Staff are as follows:

### *1. Workforce Diversity*

- Different racial and ethnic groups experience different levels of representation. Across all employees who are people of color, Black and Latinx employees were highly represented in administrative support roles or other non-professional level roles but were less likely to be represented in executive/senior level or mid-level manager roles. Meanwhile, Asian Americans were most represented in technician, professional, and first/mid-level manager role, compared to support roles and senior level roles.
- Women are underrepresented in executive level management (27.5%).
- People of color are underrepresented in executive level management (17.3%).
- Of the firms that made 2020 racial justice commitments, five firms committed to diversifying their work force.
- The Chief Executive Officers (CEOs) of the 31 firms included in this report are overwhelmingly White and male. Of the firms profiled, only one has a person of color as the CEO and three firms have White women as their CEOs.

### *2. Board Diversity*

- Women are underrepresented on investment firm boards (28%).

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<sup>7</sup> [Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry](#), Knight Foundation (Jan. 28, 2019).

<sup>8</sup> See Appendix 1 for table with participating firms and their assets under management.

<sup>9</sup> Legg Mason, Inc., Eaton Vance Corp., and Geode Capital Management, LLC did not respond. As of October 10, 2021, a review of Geode Capital Management's [website](#), revealed no person of color sits on their business management team or business development team, and only two people of color are part of the investment leadership group. Legg Mason did not complete the data request, [after being acquired by Franklin Templeton](#) on July 31, 2020. Eaton Vance did not complete the data request, [after being acquired by Morgan Stanley](#) on March 1, 2021.

- People of color are underrepresented on investment firm boards (17.5%).
- Of the firms that made 2020 racial justice commitments, only one committed to increasing board diversity.

### 3. *Procurement Diversity*

- While almost two-thirds of firms reported having policies to support diverse suppliers, few reported spending with women-owned or minority-owned firms. Of firms that responded to the request, all reported spending 4% or less of asset manager spending with women-owned or minority-owned firms.
- Only 14 of the 28 firms (50%) that responded to this request provided at least some information on women-owned businesses and minority-owned businesses with which they are doing business. The average percent spent with women-owned firms ranged from 11.63% for non-professional spending to 0.30% for underwriting. The average percent spent with minority-owned firms ranged from 17.13% for human resources to 0.50% for asset management subcontracting.
- Only three firms made a commitment around procurement among their 2020 commitments to racial justice.

### 4. *Asset Management Diversity*

- Only 9 of the 28 firms (32%) that responded to this request provided information on women-owned asset managers with which they are doing business. Of these firms, they spent on average 0.57% of total asset management services spend with women-owned businesses.
- Only 9 of the 28 firms (32%) that responded to this request provided information on minority-owned asset managers with which they are doing business. Of these firms, they spent on average 3.96% of total asset management services spend with minority asset managers.

### 5. *Underwriting Procurement Diversity*

- Only 6 of the 28 firms (21%) that responded to this request provided information on women-owned and minority-owned underwriters with which they are doing business. Of these firms, they spent on average 0.30% of total underwriting services spend with women-owned businesses and 9.47% with minority asset managers.

### 6. *Data Reliability*

- Twenty-one firms (75%) indicated that the data they provided were actual numbers rather than estimates when providing information about their workforce, board, and procurement, including asset management and underwriting. Four firms (14%) indicated that the data that they provided were a mixture of actual numbers and estimates. Three firms (11%) did not provide information about whether they used actual numbers or estimates.

### 7. *Policies and Practices*

- Most firms reported that they have policies and positions related directly to diversity and inclusion and that they engaged in efforts to recruit and hire diverse employees. 100% of firms acknowledged the importance of connecting to the diverse communities they serve.
- Despite most firms being headquartered in racially diverse cities, many of the investment firms indicated that geographic region was a barrier to recruiting diverse talent. Five firms that are in majority people of color cities, including Newark, NJ; Baltimore, MD; and New York City, New York said that their geography was a limitation in diversifying their staff.

## ***Report Recommendations***

The following recommendations are grouped by themes explored in this report:

### *1. Workforce Diversity*

- Investment firms should collect disaggregated data regularly on workforce, executive and board diversity, as well as conduct regular audits on pay and racial equity.
- Investment firms should partner with historically Black colleges and universities, minority serving institutions and community colleges to build talent pipelines into these organizations.

### *2. Board and Executive Leadership Diversity*

- Investment firms should consider at least one diverse candidate for all executive positions and board positions when there are openings.

### *3. Overall Procurement Diversity*

- Investment firms should consider diverse suppliers whenever a procurement takes place, especially when contracting for asset managers.
- Investment firms should develop pipeline programs for diverse asset managers to manage increasingly larger portfolios.

## **Legislation**

- **H.R.2123, Diversity and Inclusion Data Accountability and Transparency Act (Beatty)**  
This bill makes reporting requirements under Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandatory. Under the draft bill, regulated entities, including investment firms, would be required to disclose their diversity policies and practices to their respective regulators.<sup>10</sup>
- **H.R. \_\_\_\_\_, a draft bill to amend the Securities Exchange Act of 1934 to require issuers to report information relating to gender and racial pay equity, and for other purposes.**  
This draft bill would require issuers, including investment firms, to file with the Securities and Exchange Commission to conduct an audit on gender and racial pay equity with respect to the compensation of the employees every two years and disclose the results every two years on their Form 10-K.<sup>11</sup>
- **H.R. \_\_\_\_\_, a draft bill to amend the Dodd-Frank Wall Street Reform and Consumer Protection Act to require certain pay equity audits, and for other purposes.** This draft bill would require the Offices of Minority and Women Inclusion at the federal financial regulatory agencies to conduct internal pay racial and gender equity audits every two years and to report those findings to Congress.<sup>12</sup>
- **H.R. \_\_\_\_\_, Diverse Investment Advisers Act (Beatty).** This draft bill would require companies that register and are registered with SEC to consider at least one diverse asset manager when contracting out for asset management services and report to the SEC on the extent to which they use diverse asset managers.<sup>13</sup>
- **H.R. 1277, Improving Corporate Governance Through Diversity Act of 2021 (Meeks).**  
This bill would require public companies to annually disclose the voluntarily, self-identified

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<sup>10</sup> [H.R.2123](#)

<sup>11</sup> This discussion draft was considered at a subcommittee on Diversity and Inclusion hearing entitled "[Closing the Racial and Gender Wealth Gap Through Compensation Equity](#)" on Apr. 29, 2021.

<sup>12</sup> *Ibid.*

<sup>13</sup> This discussion draft was considered at a subcommittee on Diversity and Inclusion hearing entitled "[By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion](#)" on Mar. 18, 2021.

gender, race, ethnicity and veteran status of their board directors, nominees, and senior executive officers. Among other requirements, the SEC OMWI would publish best practices for compliance with diversity disclosures.<sup>14</sup>

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<sup>14</sup> [H.R. 1277](#)