June 20, 2014

The Missing Women of Asset Management

Ninety percent of senior money managers are men. Why?

Jane—not her real name—works at a hedge fund.

“I think hedge fund investing is an ego game,” she says. “Others would disagree with me—‘You can’t have an ego; the market doesn’t care who you are,’ and all that. But across the many managers I’ve met, I see that setting out on your own, launching a fund, convincing strangers to give you tens of millions of dollars, and thinking you understand a company better than millions of other individuals absolutely requires substantial self-confidence—and probably a healthy degree of self-delusion and ego. It’s debatable whether men really bear this characteristic more than women, but my experience in life, from the school playground on, confirms this.”

She continues: “At the same time, investing requires a willingness to make mistakes and then move on. Generalizing grossly, high-achieving women have gotten to where they are by following the rules, avoiding mistakes, and being as perfect and reliable as possible. I aimed for a perfect score on the SAT and almost achieved it. Do you think I want to be wrong on a stock pick?”

While Jane believes that women’s relative lack of ego inhibits their ability to navigate the hedge fund boys club, she also thinks that larger cultural factors add to men’s advantage.

“It’s something I think about a lot,” she says. “For example, I mostly network with women. We have the most in common, and there are tons of fantastic, mid-level young women that want to build a community. I’m not generally networking with more senior—and mostly male—people, which is a mistake. I’m not accessing the learning and mentorship that could arise from seeking out people much more experienced than myself.”

Even more bothersome to Jane is the “pervasive belief that women in hedge funds are just the pretty girls in the corner who take notes. I hate this, but have heard it directly or seen it implied on the allocator side, the hedge fund side, from men, from women, from everywhere. It becomes a self-fulfilling prophecy. There are exceptions who are absolutely stand-out professionals and would never be mistaken for such a person, but many more examples conform to the stereotype.”

“The worst, most crazy, 1950s idea of all is that in the morning, my boyfriend gets up and works on a business plan—and I curl my hair.” The day is short, Jane says, and “if women spend 49 minutes more per day grooming, that's seven hours less a week pursuing clients, studying companies, strategizing how to get to the next level, and studying new regions and securities. I hate that I'm bringing this up, and now wish I hadn't, because it seems so superficial. But it's true."

Asset management has a problem: women. Or, more accurately, the lack of them.

This is the pink elephant in the room. Female underrepresentation is endemic among highly-paid professions, of course, but the business of managing money stands apart. Consider this: Half a century after Betty Friedan's *The Feminine Mystique*, one in three American physicians are now women. One in four science, technology, engineering, and math roles are held by women. One in five law firm partners are now women, and one in five members of Congress are women. While none of these ratios show parity, all top institutional asset management, where—at most—one in ten senior investment professionals are women.

Few firms want to acknowledge this 10% figure. That it's even known is largely due to one person: Margaret Stumpp, longtime CIO and now senior advisor at Prudential unit Quantitative Management Associates and author of a 2013 study on the prevalence of females in the asset management industry.

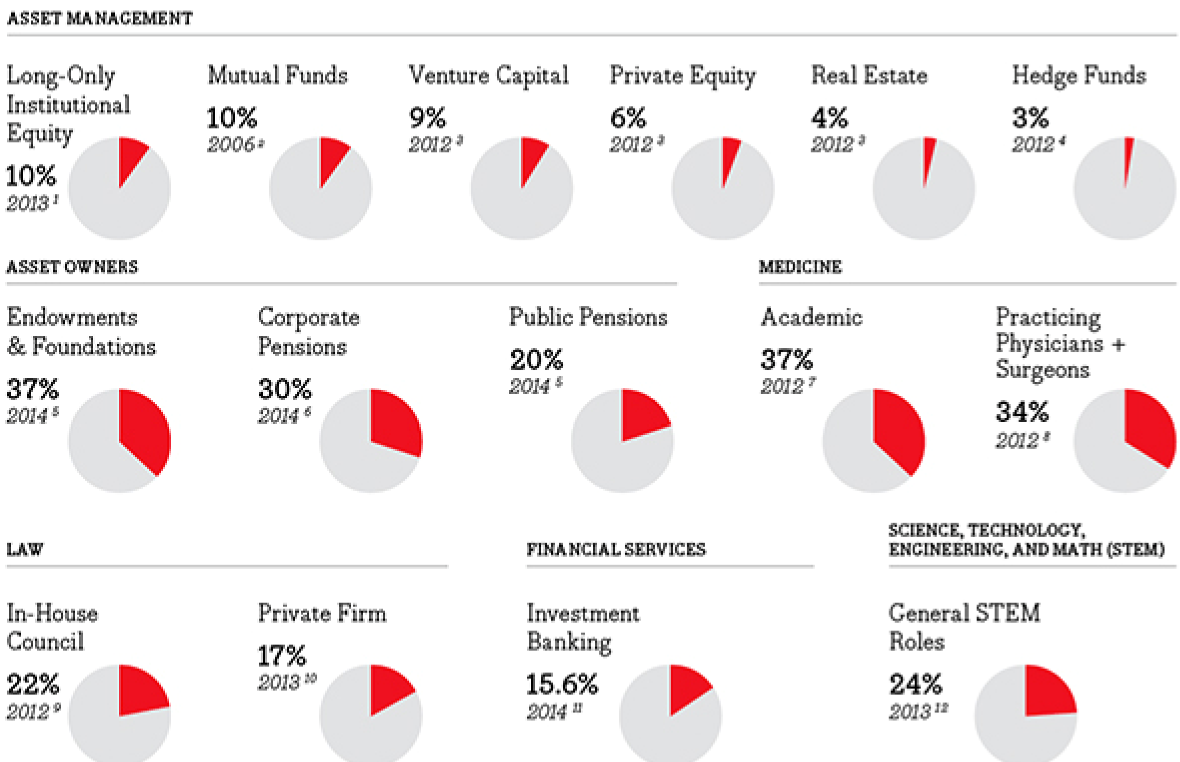
"I was often at industry conferences giving talks about quant stuff, and looking around the audience it would be less than 15% female," she recently said. "Generally, they were young and very often involved in client service—they weren't really senior investment professionals."

Her epiphany came at such a conference. "I was at one event, and they had a behavioral science person who was doing research on testosterone and men—whether they took more risky positions if they had more testosterone." The academic was taking testosterone measurements before putting the men through trading simulations, and found that those with higher levels of the hormone took riskier positions. Stumpp was interested, but saw the potential for a deeper investigation. "The difference in testosterone being measured was like an extra cup of coffee," she said. "I thought, 'Let's look at much larger differences in testosterone levels—by looking at women.'"

Stumpp favored statistics over the cheek swab, however, and focused on one sector of asset management: American institutional long-only equities. Digging through a popular industry database, she compiled a list of nearly 10,000 "key investment professionals." Of this group, women comprised just 14%—a figure, in fact, that hid an even more negative truth. When the authority of these individuals was taken into account—a screen meant to decipher those who were actually "key"versus those who, for whatever reason, were "key" in label only—only 9.9% were female.

And yet, long-only institutional equity (and perhaps indexed and core fixed-income investing, according to Stumpp) is actually the bright spot—for no profession in America seems to match the male-domination of hedge funds and other alternative asset classes.

Serial Underrepresentation:
The Percentage of Females in Senior Roles Across Professions



[1] Margaret Stumpp, Quantitative Management Associates. "Where the Boys Are—Gender, Risk Taking, and Authority in Institutional Equity Management"; [2] Alexandra Niessen & Stefan Ruenzi, Centre for Financial Research, Cologne. "Sex Matters: Gender and Mutual Funds"; [3] Nori Gerardo Lietz, Harvard Business School. "Cloistered in the Pink Ghetto: Women in Private Equity, Real Estate And Venture Capital"; [4] Susan Solovay, private data; [5] Chief Investment Officer proprietary research; [6] Committee for Investment of Employee Benefit Assets; [7] US Bureau of Labor Statistics; [8] Association of American Medical Colleges; [9] American Bar Association; [10] National Association of Women Lawyers; [11] US Equal Employment Opportunity Commission; [12] US Department of Commerce.

According to"Cloistered in the Pink Ghetto," a paper by Harvard Business School lecturer and real estate investor Nori Gerardo Lietz, just 9% of venture capital executives are women. In private equity, it's 6%. While no equivalent statistics are available for hedge funds, a 2008 calculation by fund-of-hedge-funds manager Susan Solovay put the total industry assets controlled by females at 3%. When asked recently whether that figure had improved, she hypothesized that the number is now "similar, if not worse,"thanks to a depressed post-crisis fundraising environment and the disproportionate job loss suffered by women in corporate America compared with men.

There is no way to spin these numbers positively. When an industry's gender breakdown makes *investment banking* look good—16% of senior executives in that business are women, according to the US Equal Employment Opportunity Commission—it has a problem.

"You just look at this and ask why," Stumpp said. "Why could this be?"

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"The answer is very complex—and I don't have it."

Lynn Blake sat in her corner office on the 28th floor of State Street's Boston headquarters, pondering Stumpp's statistics and the reasons behind them. She, like so many people, is continually perplexed by the problem. "I wish I had an answer. But the commonly held 'solution' that this will be fixed by simply making the base of the pyramid equal and letting the problem solve itself as time passes—I don't believe it. That was the argument 20 years ago, and it hasn't happened."

As the CIO of global equity beta at State Street Global Advisors (SSgA) and a 25-year veteran of the firm, Blake has witnessed first-hand the problem that Stumpp details. Yet there is a certain exasperation about her as she discusses the subject, as if she has heard every possible explanation—and has never been entirely satisfied.

The latest attempt to explain the persistence of female underrepresentation in the corporate world was inarguably sparked by Facebook executive Sheryl Sandberg. Whatever the industry, she asserts in her widely discussed book *Lean In*, women as a group are failing to reach equality in pay and rank not because of overt discrimination or lack of skill, but because they are holding themselves back. Women don't make one single mistake, Sandberg argues, but a series of smaller decisions—Do I take the next promotion if I intend to have children soon? Do I sit against the wall in meetings while men sit at the table?—that ultimately lead to fewer women, often making less, in the workplace.

"It rings true," Blake said of Sandberg's book. "You think, 'I've had that happen to me, and I've done some of that myself.'"

Others echo Blake's sentiment. Hilda Ochoa-Brillembourg, who founded investment outsourcer Strategic Investment Group—a firm with a nearly even gender breakdown—is particularly attuned to the idea, put forth by Sandberg, that "success and likeability are positively correlated for men and negatively for women. When a man is successful, he is liked by both men and women. When a woman is successful, people of both genders like her less."

"Some people say men don't support women—but for as long as I can remember, women don't always support other women, either," Ochoa-Brillembourg said. "They certainly won't support another women more than they support a man—their loyalties, and more importantly the merit of their arguments, would be questioned, which is not the case for men. Men are a lot more eager to 'follow-the-leader'."

As for the common idea, espoused by Sandberg, that women generally have a more balanced set of goals—as opposed to one overriding aim—Heather Davis, head of global private markets at TIAA-CREF, also agreed. “Their career is one of their goals,” she said. “Raising their children well, if they have them, is a very important goal. Somehow I get the impression that, for men, career climbing and ascension is more important than it is for women.”

Perhaps what frustrates women (and many men) most of all is the problem’s persistence. As Blake points out, more women in lower-level jobs has not led to equality at the top. As Ochoa-Brillembourg notes, ingrained perceptions of “aggressive women”at work remain intact. And as Davis adds, there seem to be fundamental differences between the sexes that have persisted for centuries, if not longer.

And yet for all its success at moving the conversation forward, *Lean In*fails to explain why asset management, more than any other profession in America, stands apart.

“Women are less impulsive. ‘Impulsive’ and ‘investing’ are not two words you want in the same sentence. You want an investor who is basing their decisions on facts, not emotions. That’s not always true for men. Men, I hate to say, have a tendency to look at the abyss—and then take a step forward. Women want to live another day.”

Maybe women just aren’t good at investing.

Let’s get that one out of the way first. According to a plethora of studies, this simply is not true. For individuals, Brad Barber and Terrance Odean showed in a 2001 paper (“Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment”) that females trade less and, net of trading costs, perform better than men. On an institutional level, Stumpp’s analysis showed that with long-only equity investing, “there is no evidence… that female investment professionals underperform men—especially when performance is adjusted for differences in risk-taking.”

But why, one could ask, are there consistently no women among the most highly compensated hedge fund managers?

Because, according to Stumpp, women gravitate towards more conservative strategies—often passive, index-based ones—where they “appear more benchmark-oriented, exhibit lower tracking error, and assume less idiosyncratic risk.” In doing so, she said, they are moving towards investment strategies that pay less than the“rock-’em-sock-’em hedge fund world. Risk tolerance is arrayed along a wide spectrum,” she added. “In fact, there are many women who are real risk-takers, rolling the dice in Vegas—and you’ll find some of them in the riskier areas. But on average there are way more men.” And when they are stacked up against men in similar strategies, Stumpp found that women perform no worse—and perhaps better—than their male counterparts.

This idea of female risk aversion permeates any discussion about gender ratios in this workplace. On one hand, it’s uncomfortable: any argument based upon sexual or racial differences, taken to an extreme, can have disastrous consequences. On the other, the idea that females take fewer risks than men is ubiquitous.

“Women are less impulsive,” Strategic Investment Group’s Ochoa-Brillembourg said. As an allocator who has repeatedly found investment talent before the larger market recognizes it, she is acutely aware of the differences between the sexes.“‘Impulsive’ and ‘investing’ are not two words you want in the same sentence. You want an investor who is basing their decisions on facts, not emotions. Women tend to have much better control of their impulses—in particular, greed. There will be very greedy women, but women are driven by multiple rewards, and greed isn’t the only one. That’s not always true for men. Men, I hate to say, have a tendency to look at the abyss—and then take a step forward. Women want to live another day.”

Maybe institutions refuse to allocate money to female managers because they’re more likely to leave the company, thus creating organizational instability.

High compensation requires significant assets under management. Perhaps, Margaret Stumpp hypothesized, the increased likelihood of women leaving the workplace stops asset allocators—the pensions, endowments, and sovereign wealth funds that value stability in management teams—from hiring female-heavy investment teams. Just as quickly as she raised it, however, Stumpp disproved it: Controlling for strategy, she found no evidence that the presence of females on the senior investment team inhibits asset gathering.

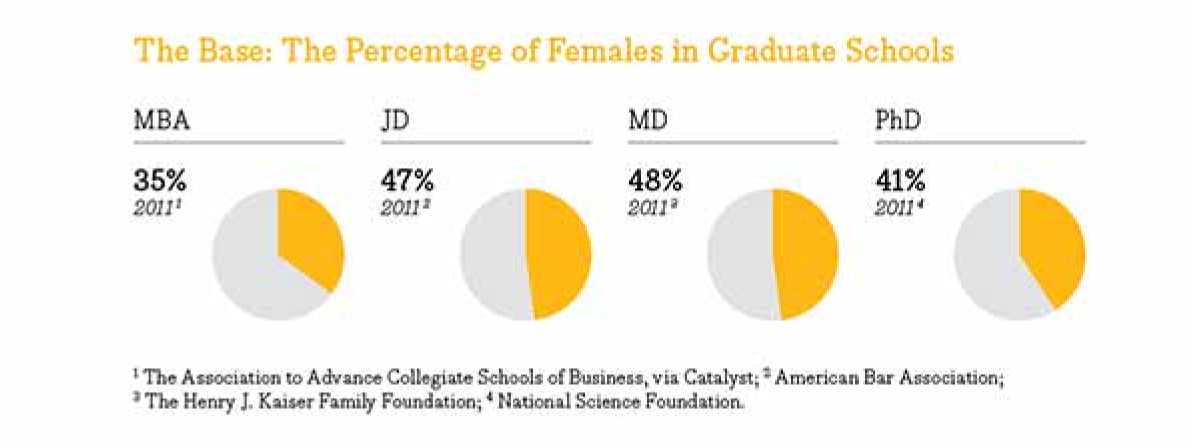
Maybe the industry is actively discriminating against women.

To anyone watching Leonardo DiCaprio’s drug consumption in *The Wolf of Wall Street*, the most obvious reaction is that finance is a man’s business, controlled by men, for the gratification of men. Yet it is far more nuanced than that.

“Yes, you had the knee-rub on the airplane on work travel, that kind of thing, but that was decades ago,” SSgA’s Blake said. “In the last two decades, there’s been very little of anything like that. When I was young, it did happen, but even those occurrences were isolated. On the sell-side”—what outsiders think of when they imagine that place called Wall Street—“you heard stories that it was more pervasive, but not on this side of the business.”

Blake attributes the fading misogyny to both “women becoming less accepting” and demographics. “In the early 1990s, the age gap between the men in power and the woman rising up was much greater than now. You were a young professional travelling with older men. But they got older: If they didn’t leave voluntarily, they were asked to leave.”

Instead, asset management’s discrimination is much more subtle—and because of this, it may be even harder to change than the casual knee-rub of yesteryear.



The University of Chicago's Booth School of Business is a common pit stop on the way to asset management success. The list of hedge fund billionaires among its past students—including AQR's Cliff Asness and Oaktree Capital's Howard Marks—is long. So, three National Bureau of Economic Research academics analyzed these alumni rolls to find just what was happening to women as they entered, and often exited, the financial work force.

What Marianne Bertrand, Claudia Goldin, and Lawrence Katz found was that while both male and female Booth students between 1990 and 2006 were paid essentially the same salary upon graduation, their earnings quickly and increasingly diverged. The reasons for this were threefold. Men did better in business school, for one. But this mattered far less than the other two factors: career interruptions and fewer hours worked on the part of females. "*Any* career interruption—a period of six months or more out of work—is costly in terms of future earnings," the authors found."MBA mothers seem to actively choose jobs that are family-friendly, and avoid jobs with long hours and greater career advancement possibilities. Obvious reasons exist why women choose to cut back work after giving birth. But MBA mothers may also be forced out, or at least out of the fast track." The authors noted that there is "suggestive evidence" that this is due to "the inflexibility of work schedules in many corporate and finance sector jobs."

The authors also looked at another dataset—Harvard undergraduates from the late 1960s onwards—to see how MBAs compared to other advanced degrees. Finance-focused females were, it turned out, having a harder time. "We find that female MBAs appear to have a more difficult time combining career and family than do female physicians, PhDs, and lawyers," the authors wrote, adding that there was a"larger earnings loss to career interruptions for MBAs than MDs, JDs, and PhDs." The authors suggested that the tournament nature of finance was partly to blame, along with the idea that the "organization of work may make the productivity costs to discontinuous experience and more flexible hours greater in business and corporate sectors than in medicine or academia."

In short: finance is abnormally inflexible, and this inflexibility is quietly and insidiously forcing women to abandon their careers.

Robin Diamonte rises every morning at 5:00. Leaving her partner to wake their two young children and get them to school, she heads to the gym. From there, she goes to the offices of United Technologies—where she is the CIO of the company's pension system—arriving by 7:30. After the day's work, she heads home around six. She helps with homework, dinner, evening reading, and putting the kids to bed. She then turns her attention to the other organizations she's involved with: her children's school endowment, the Committee on Investment of Employee Benefit Assets (CIEBA), and, as of late, the advisory committee for the Pension Benefits Guaranty Corporation.

Hectic, yes—but also controllable. If any part of the asset management ecosystem has found flexibility, it's the one Diamonte occupies: the end-user, increasingly referred to as "asset owners." Thirty percent of CIEBA members—the leaders of America's largest corporate pension systems—are women; 20% of America's 50 largest public pension plans and 37% of the 100 largest endowments and foundations have female CIOs. While their pay does not compare to that of hedge fund titans, these pension and nonprofit heads are still relatively well-compensated, not to mention relatively free to plan their days.

"My schedule is largely my own," Diamonte says. "In certain organizations like this, the higher up you get, the more flexibility you have. You're always on call, but you're more flexible."

Getting to that position wasn't easy, of course, and Diamonte has confronted unpleasant situations like many of her peers'. "The first time was right out of college,"she says. "Two months into my job, my supervisor said, 'I'm so glad the diversity office made me hire you. You were my second choice, and I was forced to hire you.' He thought it was praise. I got the fact that he was trying to compliment me and that he was an old-timer. I smiled and endured it and said thank you—but inside, I was devastated. Twenty-something years after and I still remember it."

One of the biggest inhibitors of flexibility at work—besides inexperienced managers—is women themselves, Diamonte believes. "Senior management often understands the need for it, but oftentimes women are wary of using it. They don't want to leave at 4:30, but they don't want to be at work until 9:00. Plus, there are always going to be times when flexibility isn't available—so their desire to be an executive is sometimes outweighed by their desire to be a great parent."

In asset management, rigid schedules are far more common, even for people in Diamonte's position.

"A lot of women bailed out, and they bailed out because they didn't have the flexibility to achieve the multiple goals they had," TIAA-CREF's Davis says. "I'm 30 years in, and very few of my peers are still standing. I always wanted to work. I had kids. But a lot of women chose not to do that—they left, and didn't know how hard it would be to re-enter."

Re-entering is one thing; getting more women to choose asset management to begin with is another.

“I think the problems start at the school level, both undergraduate and graduate,” Davis says. “You’re a woman in a business school class, or undergrad class, and it’s hard to compete. Men are more aggressive, they talk more, they offer their opinions more freely—it can be intimidating. Women’s academic work may be exceptional, but they are not great at promoting themselves, and that pervades the hiring process.”

Business schools—most prominently, Harvard—have only recently attempted to alter the aggressive male/passive female dynamic. Starting in 2010, that school set out to change the existing hierarchy, where “investment bank and hedge fund veterans, often men, sliced through equations while others—including many women—sat frozen or spoke tentatively,” according to an extensive article on the project by Jodi Kantor in the *New York Times*. While “some male students, many with finance backgrounds, commandeered classroom discussions and hazed female students and younger faculty members,” the school, through a series of programs—some subtle, some not—urged women to be more assertive in class and to focus on their education as much as their social lives. The result was a remarkably quick convergence of male and female grades that quieted accusations of “intrusive social engineering”—and a pervasive hope that such changes will help women in the highly competitive recruiting process and beyond.

Once more women have entered the asset management industry, one further problem may well fall by the wayside: that of the stigma associated with actually *using*flexibility benefits. As Diamonte notes, women often do not use flexibility for fear of judgment from both male and female peers. The hope, expressed by Davis and others, is that more Harvard-style programs, combined with better recruiting tactics by asset managers, will lead to more women in the industry—which, in turn, will de-stigmatize flexible work arrangements. It’s a chicken-before-egg issue, but one that TIAA-CREF and SSgA, among only a handful of others, have begun to solve: Both firms, which have active and heavily promoted flexibility programs for all employees, have percentages of females in senior investment roles much closer to that of medicine than do their asset management peers. Studies of flexibility in other industries, most notably accounting, also show that embracing such offerings can dramatically reduce the gap between men and women leaving their jobs.

Many female executives in asset management have found a time-honored solution for dealing with uncompromising work hours: the stay-at-home spouse. While men account for approximately 3% of American stay-at-home parents, more than 50% of the nearly 25 women with children interviewed for this article had a stay-at-home partner.

“My husband left the work force in 2008,” Lynn Blake recalls. “He worked at a hedge fund that had recently launched, and it essentially blew up. It was at that point in my career that I was given a bigger job at SSgA. The timing was ideal: I was being given more responsibilities, with more travel and likely less flexibility. So he became a stay-at-home dad to our two teenage daughters—and he’s thrilled.”Unsurprisingly, “it takes a confident man," Blake adds. "People do ask what he does as a stay-at-home dad. But would you ask that of a woman?"

If their partner also worked, women invariably spoke fondly of childcare. "I haven't had a stay-at-home husband," Davis says. "I've had a super-nanny. I was a single mom for five years at one point—and let me tell you, she was the most important person in my life." And while childcare can often be expensive—in some cases, nearly as much as the salary of the person the "super-nanny" is stepping in for—it is almost universally deemed a good investment by women in the industry."Don't think of it as a cost now," one of the most prominent female asset managers in the business—who wished to remain anonymous—recently said over lunch."Think of it as an investment in your salary 10 years from now."

But these are privileged situations. "It's absolutely a luxury, and it's not typical for only one parent to work," Blake admits. "The fact that I and other women can flip the normal family situation is a result of being in a high-paying industry. It's not available for most families, which is why having flexibility in a day-to-day work environment is so key."

It's also not clear whether this phenomenon is a win for the asset management industry. Rather than solving the problem of inflexibility, many argue, reversing traditional gender roles simply shifts the burden. As Davis says, "It would be a bad outcome if the only solution were a stay-at-home husband."

"I don't think you'll ever see as many great women investors or traders as men. Period. End of story."

Hedge fund manager Paul Tudor Jones sat on a University of Virginia stage in what he assumed was an off-the-record talk in April 2013; it turned out not to be. He had been asked about the makeup of the panel—"rich, white, middle-aged men"—and what it would take to change the status quo. The founder of Tudor Investment Corporation was blunt: Unless they stopped having children *en masse*, women would never match men in money management.

"The reason why is not because they're not capable—they're very capable," he said. But, he explained, "one of my number one rules as an investor is as soon as I find out one of my managers is going through a divorce, redeem immediately. Because the emotional distraction that comes from divorce is so overwhelming—the idea that you could think straight for 60 seconds and be able to make a rational decision is impossible, particularly when there are kids involved. You can just automatically subtract 10% to 20% from any manager if he is going through a divorce." Just as big of a "killer" as divorce, he believed, was motherhood."As soon as that baby's lips touch that girl's bosom, forget it: Every single investing idea, every desire to understand what's going to make this go up or go down, is going to be overwhelmed."

“This is not the Special Olympics and Olympics. Look around you. Women are succeeding and competing at the same level. There is an astonishing number of women today versus 25 years ago—but they are rarely recognized.”

“Maybe women are leaving because assholes like Paul Tudor Jones say things like that,” quipped one asset manager recently. However, she noted, his mistake wasn’t so much his position on gender equality. Few women, she said, believe the trading floor will ever be an even split, due in large part to the traits—risk aversion, caring about more than just career success—that they so often perceive in themselves.

Instead, his mistake was that he apparently views the asset management space as static.“Maybe what he saying is valid in his world—because it certainly isn’t valid in mine,” TIAA-CREF’s Davis said when asked about Jones’ comments. “I’m in private markets, not on a trading desk every day, so he may have more insight than me. But it seems like an old, and odd, way to look at things.” What he seems to be worried about, Davis said, is focus. “He is right—it *is* about focus. But people are able to prioritize, even when there are multiple things in their life. There are ways to do everything. You can do them in a focused way, be they children or divorce.”

Jones’s other mistake was ignoring statistics—at least for the average fund manager. While caution should be used when analyzing return figures for female managers, due to the small sample sizes involved, evidence suggests that women actually outperform their male peers. For vanilla strategies where matching a benchmark is valued, Stumpp showed that females tend to have less tracking error. For more exotic strategies, there is also evidence that females outperform. While it must be taken with some skepticism due to not accounting for survivorship bias (where hedge funds only report returns if they survive), a recent survey found that for the “six and a half years ending June 2013, the Rothstein Kass Women in Alternatives Investments Hedge Fund Index returned 6%, while the S&P 500 gained 4.2%, and the HFRX Global Hedge Fund Index dropped 1.1%”—meaning women-run funds massively outperformed the average hedge fund. A seemingly endless list of studies also prove that decisions are best made by diverse groups—not just the “rich, white, middle-aged men” who sat with Jones on that stage.

“This is not the Special Olympics and Olympics,” the prominent, and anonymous, female asset manager said. “Look around you. Women are succeeding and competing at the same level. There is an astonishing number of women today versus 25 years ago—but they are rarely recognized.” While acknowledging that some asset allocators had established special funds for women- and minority-owned firms, she repeated a belief held by many peers: This problem is more token than transformative, and the ghettoization of these managers implies their inability to compete on a level playing field. “That’s just not the case,” she maintained: “The industry needs to find a larger solution to this.”

Given all the statistical and anecdotal evidence, greater diversity in asset management is in everyone’s interest. As Paul Tudor Jones himself said, “Period. End of story.”

—Kip McDaniel

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