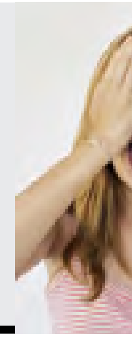
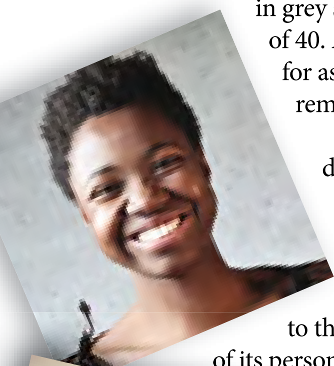


Summary
- Eighty-three per cent of private sector pension governance bodies are male.
- McKinsey has found that companies with the highest number of female boardroom members perform up to 27 per cent better in terms of value creation over the long term, while those with a diverse ethnic make-up are 35 per cent more likely to have financial returns that are above their respective national industry medians.
- The pensions sector has taken large strides to try and improve diversity, but more needs to be done.

Diverse thinking

Strong evidence suggests that a more varied workforce is a better performing one. But the pensions sector is playing catch up. What more can it do to promote diversity?



Charles Stanley's senior portfolio manager, Bob Campion, puts it this way: "You only have to look around the room at any pensions conference to see that it is dominated by white males in grey suits over the age of 40. And it has been for as long as I can remember."

There's little doubt that the pensions sector is one of the most uniform when it comes to the composition of its personnel. Men have traditionally monopolised the financial services jobs market due to a number of socio-economic factors, while DB trustee boards tend to be mostly made up of older scheme members, partly because a lot of them won't have many younger ones to draw upon in any case.

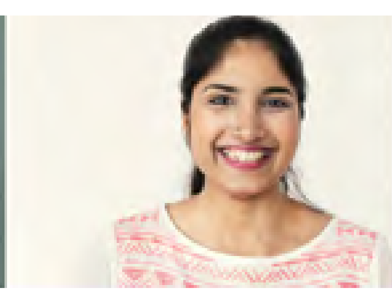
Current figures from the PLSA show that 83 per cent of the governance bodies of private sector pension funds are male, and the Office for National Statistics reported last year that just 30 per cent of investment analysts or advisers are women.

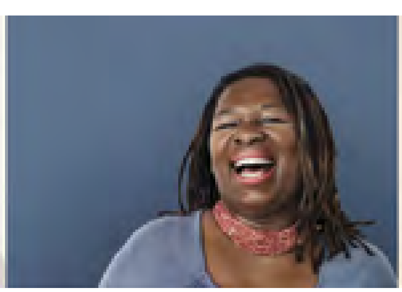
Aside from the fact that this opens up the industry to accusations of being a closed shop and not being a reflection of 21st century Britain, it could also be putting it at a distinct disadvantage. Various studies into the benefits of heterogeneity in the workplace have all drawn the same conclusion – a more diverse workforce is a better performing workforce.

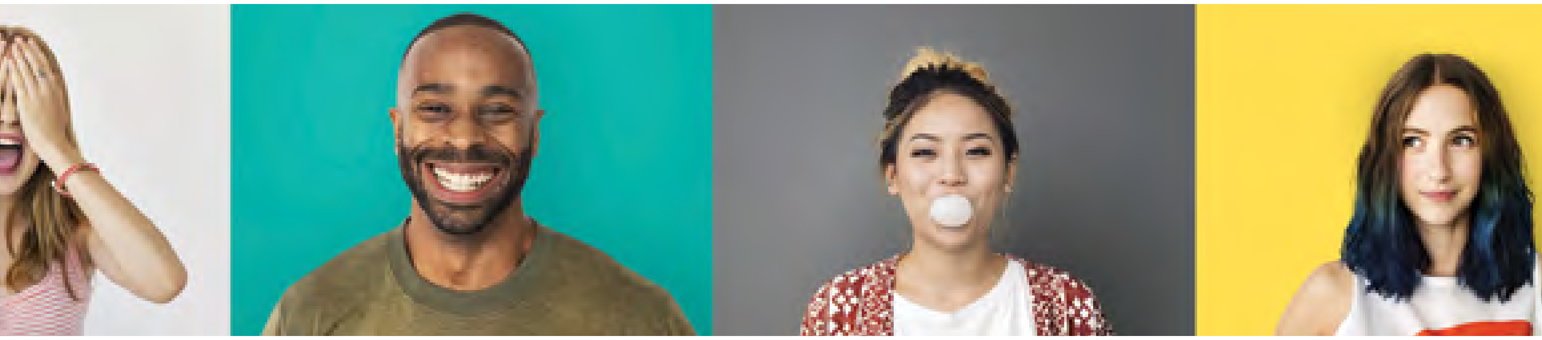
McKinsey released an updated report of its original 2015 *Delivering through diversity* report at the start of 2018 that shares this inference. The consultancy has found that organisations with a greater proportion of women, and a more mixed ethnic and cultural composition in their leadership, usually outperform companies that are less diverse. Its statistics are revealing. Companies who have a top quartile representation of women in executive committees outperform their fourth-quartile industry peers by 21 per cent on an EBIT margin, and by 27 per cent in terms of longer-term value creation.

Diversity isn't just about gender, however. As ARC Pensions Law senior partner Anna Rogers explains, it encompasses factors such as social backgrounds, education, age, race and even political stance or whether an individual is introverted or extroverted. And the McKinsey report also shows that companies in the top quartile for ethnic diversity are 35 per cent more likely to have financial returns that are above their respective national industry medians.

"There seems to be evidence that diversity is correlated with good decision







making, though there is less evidence to suggest that it is causatively connected," says Rogers. "Perhaps organisations with strong evidence of success are more confident about taking what seems to be a risk with the mix on their boards, but it makes sense that embracing difference will reduce the risk of group-think and contribute to better outcomes."

Improving the picture

Opening up the various professional strands within pensions is not a straightforward task however. The Chartered Insurance Institute's people engagement director, Tali Shlomo, believes that gender parity, a perceived problem across almost all industries is one of the keys to improving diversity.

"To give women parity with their male colleagues in future, we need to attract more women into the profession and encourage, support and develop them to reach their full potential through professional qualifications and dedicated leadership programmes," says Shlomo.

The mean pay gap between the sexes currently sits at about 30 per cent, she says, which is mainly down to the disparity between men and women in the boardroom.

"We must also stop instinctively pigeonholing women and begin creating opportunities for women in areas that they are not traditionally associated with," argues Shlomo. "Life events such as maternity and childcare must not continue to prove barriers to progress too."

Reassuringly, most companies who have disclosed their gender pay gaps have put plans in place to include inclusive recruitment policies and to challenge existing processes or behaviours that may create barriers to gender parity.

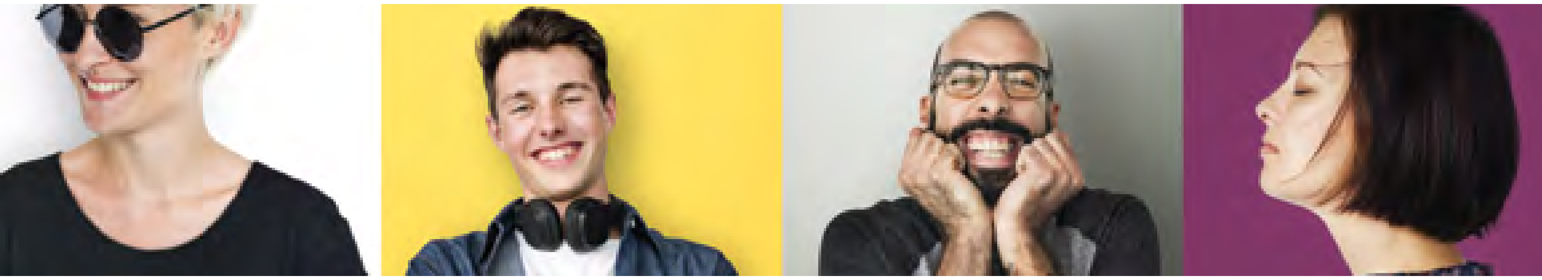
When it comes to governing pension schemes, 20:20 Trustees director Naomi L'Estrange says that the number of women trustees is slowly increasing, but that there has been barely any shift in relation to other diversity characteristics.

One tactic that may help, she says, is to change the focus of trusteeship into an occupation for retirement. As an example, one of the outliers in the diversity debate is the legal profession and the majority of younger pension lawyers are now female. They could provide a potential source of future trustees.

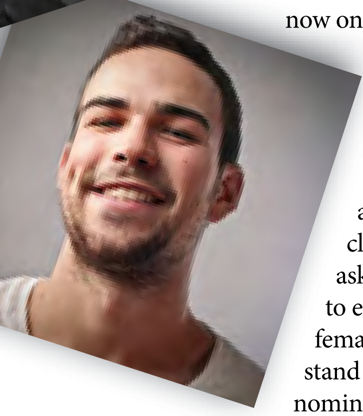
The make up of professional trustees is expected to change as pension fund service providers gradually change theirs, but member-nominated ones pose a difference challenge.

"For the member route, getting people of any background to stand at all is a huge issue," says L'Estrange. "Greater diversity is only likely to be achieved for open schemes where sponsors actively see the benefit of a broader board and actively support a wider recruitment, emphasising the development opportunities and that willingness to learn is more important than specific knowledge, and directly approaching potential candidates.

"It's a worthwhile effort for



sponsors as evidence grows by the day of the benefits of more diverse boards – and given the huge financial impact of their pension schemes they should be grabbing this opportunity with both hands."



Change is coming, slowly

It may not be long however before significant steps are taken to improve diversity on trustee boards says Rogers.

"It feels like we are now on the verge of a step change when it comes to gender," she says. "I've seen a number of clients recently asking people to encourage female members to stand as member-nominated trustees (MNTs) or actively seeking a female independent trustee."

This change in attitude may be partly down to the work carried out by the PLSA with the its *Breaking the mirror image* campaign. Launched last year, it aims to encourage a more inclusive culture within pension funds and the wider industry. As part of the campaign, and in collaboration with the think tank New Financial, the PLSA has examined how some of the more forward-looking asset owners within pensions are addressing diversity.

In October, the two organisations published research that found the top three reasons for greater diversity were to improve decision making, attract and retain talent, and better innovate and compete. They also discovered however, that there is a still a large cohort of people even within forward-thinking companies that are unconvinced and believe that a focus on diversity compromises financial performance.

It is clear therefore, that if the pensions sector is to benefit from society's wide talent pool, then more needs to be done. For its part, the Investment Association (IA) joined forces with careers provider Investment20/20 in April, to raise awareness of career opportunities within investment management. Their work will include the development of in-depth programmes in schools and universities to encourage students from all backgrounds to apply for jobs in the profession and projects to encourage those thinking of undergoing a career change.

Commenting on the merger at the time, IA CEO Chris Cummings said that both organisations wanted to ensure that greater diversity was "at the heart" of the investment industry. In their view, he added, this would create a strong pipeline of talent that would bring new ideas to the sector.

Similar initiatives are also in place across the pensions world. Campion says that his work with The Society of Pension Professionals will involve setting up networking events for younger members of the sector to them as broad an exposure as possible to a range of their counterparts.

"The fact that we have to do these things suggests that creating diversity within pensions isn't a natural phenomenon," he says. "But these ventures can work. And I believe they will."

Written by Marek Handzel, a freelance journalist