Industry Split on Whether Sustainability, Diversity Efforts Drive Flows

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Asset managers have ramped up their focus on environmental, social and governance factors and diversity measures over the past few years, but industry participants are split on whether these efforts will have a significant impact on asset flows, according to a recent survey from Chestnut Advisory Group.

More asset managers than investment consultants believe a manager's efforts related to ESG and diversity, equity and inclusion to be a significant driver of asset flows, according to a survey conducted by Chestnut.

While 40% of asset managers surveyed said these efforts have a "high impact" on flows, just 32% of consultants said the same. Smaller contingents, 13% of asset management respondents and 21% of consultants, said such activities have "low impact" on flows. The remainder of respondents said the impact was moderate.

There may be a gap in perception between investment consultants and managers when it comes to how a manager's diversity and ESG efforts are weighted when investors make asset allocation decisions, said Amy Hsiang, director of public markets manager research at Meketa. Asset managers are putting more resources toward these issues while also receiving more questions and data requests from clients. "Whether or not that effort translates to more asset flows… they're very hopeful and optimistic," she said.

The gap between asset managers and investment consultant responses does not mean that consultants do not find these efforts to be important, said Amanda Tepper, CEO at Chestnut Advisory Group.

"It is important, but you can't make decisions on that basis if you don't have the data," she said. "We're still at the point where it's still really early days."

When asked about the biggest barriers, "lack of reliable data available on [the] diversity of manager investment teams and ownership" was the answer most frequently selected by consultants, with 34% of respondents choosing it.

The question also lumps a manager's diversity, equity and inclusion and ESG efforts together, which can skew results, Tepper said. For instance, some managers may consider ESG as a driver of flows but not their internal diversity, equity and inclusion process, she said.

"To use a baseball analogy, with ESG we're maybe in the fourth or fifth inning," Tepper said. "[With diversity, equity and inclusion] we're at the first."

Respondents from firms considered to be "diverse managers" were even less likely to view these efforts as having a strong impact on flows. Just 20% of those respondents said the impact was high, according to the study.

Data collected by Willis Towers Watson has shown that investment teams that are more diverse outperform less diverse teams, but much of the industry may "still [be] in the measurement phase and not necessarily in the action phase," said Nimisha Srivastava, the firm's head of investments for North America. "It's hard to manage what you can't measure."

While efforts by consultants to collect more data from managers on their workforce composition have picked up steam, many firms are still not yet reporting that information.

Callan, like other institutional consulting firms and databases, has been collecting that type of data for about two years, said Lauren Mathias, member of the global manager research group. "It's really hard to say that there's going to be a dramatic change in asset flows when we're still getting the data. I don't think right now is the time to be measuring asset flows as a result of DEI."

A more diverse staff can drive business and investment performance over time, but a lot has to be put in place before the industry sees those results, she added.

It is also hard to assess which factor ultimately will cause one manager to win out over another, consultants say.

When institutional clients are selecting between finalists for a mandate, "there's so many different things that add up to the kind of total of 'OK, you're going to win the business,'" Mathias said. A manager's ESG and diversity, equity and inclusion efforts can make a difference on the margin if the rival firm did not place importance on those things, but that's assuming all other things are equal, she added.

There is also a large variation in what investment consultants' clients want from managers when it comes to diversity and ESG, Meketa's Hsiang said. A subset of investors is really honing in on these issues and pushing both their consultants and managers in that direction, she said. But on the other side of the spectrum, there are clients that avoid ESG or find a manager's diversity, equity and inclusion efforts to be less important.

"Do we as a consultant at Meketa put a lot of emphasis on DEI and ESG? Yes, we do," Hsiang said. "But we serve all types of clients."

Back to top