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STATEMENT

OF

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BEFORE THE

US HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON DIVERSITY AND INCLUSION

ON

A REVIEW OF DIVERSITY AND INCLUSION PERFORMANCE AT AMERICA'S LARGE
INVESTMENT FIRMS

DECEMBER 9, 2021

I. INTRODUCTION

Chair Beatty, Ranking Member Wagner, Chair Waters, Ranking Member McHenry, and distinguished members of the Subcommittee, thank you for the opportunity to testify on behalf of the Investment Company Institute (ICI) and to share with you both ICI's and our members' commitment to increasing diversity and inclusion (D&I) in the asset management industry. ICI applauds the work of the Subcommittee to make diversity and inclusion a core pillar of ensuring our financial services system works for all Americans.

As the leading association representing regulated funds, ICI's members include mutual funds, exchange-traded funds, unit investment trusts, money market funds, and other funds publicly offered to investors in jurisdictions worldwide.¹ With more than \$40 trillion in assets under management, our members provide the investment vehicle of choice for more than 100 million Americans seeking to create financial security and save for major financial milestones such as education, a home, and retirement.

I would like to take this opportunity to state that ICI was honored this past fall to host a virtual discussion with you, Chair Beatty, and a panel of industry leaders, including ICI's Board Chair and CEO of New York Life Investment Management Yie-Hsin Hung, about the importance of increasing diversity, equity, and inclusion in the investment management industry.² The event was part of ICI's broader initiative making diversity and inclusion a key priority for us as an organization and for the industry.

The panelists, all women of color who have achieved significant success in their careers, discussed the challenges as well as the opportunities for our industry in increasing diversity and inclusion at all levels, particularly in senior leadership roles. The conversation was forthright, especially with respect to hearing about their career journeys and the obstacles they had to overcome to be the leaders they are today.

Chair Beatty, in your comments addressing some of the challenges the asset management industry faces in making real progress, you said the best thing we can do is "be transparent, be accountable, and most importantly, be proud that you are a part of making a difference, making a change, and growing this wonderful America that we live in."

¹The Investment Company Institute is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of \$32.7 trillion in the United States, serving more than 100 million US shareholders, and \$9.9 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in Washington, DC, London, Brussels, and Hong Kong.

² <https://www.ici.org/events/21-ici-event-dei-1014>

I fully support your statement. Across our membership, we are seeing a growing momentum in the discussion and, most importantly, in the actions of our members to make diversity and inclusion a top priority. I am seeing a commitment, an intentionality, and a focus to make progress. This is reflected in the activity of ICI's own Board of Governors—the leadership of the investment management industry—which has convened a working group devoted to increasing diversity and inclusion in the industry (the Board-level Diversity and Inclusion Working Group). The Board-level Diversity and Inclusion Working Group, composed of the senior leadership in the asset management industry, is setting the tone for how important it is for us, as an industry, to make progress, and is helping ICI launch initiatives to facilitate change across the industry. Additionally, a discussion of diversity and inclusion is a regular agenda item at all the ICI Executive Committee and Board meetings.

Some of our members have been engaged in this area for many years and are leaders in the financial services industry, demonstrating the types of initiatives, programs, and measures that work. But we also have members that have more recently begun to engage on this issue and are trying to identify ways to make changes within and outside of their organizations.

All this to say, we as an industry are a work in progress in developing the strategies, practices, and actions that will achieve enduring results.

I now wish to discuss three core themes about the industry's work on diversity and inclusion, which also happen to track the Subcommittee's focus on examining the financial services industry more broadly.

First, I will discuss disclosure, which ICI believes enables the industry to have a fact-based dialogue on diversity and its impact on the industry and shareholders. Second, I will address the industry's efforts around measurement and benchmarking to make meaningful progress toward creating a more diverse and inclusive industry, in fund management and in fund governance. Third, I will highlight initiatives that ICI and the industry have launched to make meaningful progress toward ensuring that women and people of color are fully represented at every level of the asset management industry. In addition to those themes, I will share some examples of ICI's own initiatives on behalf of the industry and address the commitment of the industry and ICI going forward.

II. DISCLOSURE

I would like to share some highlights of the industry's advocacy on disclosure in the brief time since receiving this letter from Chair Waters and Chair Beatty. Since March 2021, the industry has encouraged key initiatives in Congress and the Administration to support and mandate the disclosure of information related to diversity and inclusion.

ICI has endorsed the Improving Corporate Governance Through Diversity Act, introduced by Representative Gregory Meeks (D-NY). We support efforts to enhance the disclosure of board and executive diversity, and Representative Meeks's legislation would require corporate issuers to disclose the race, ethnicity, gender, and veteran status, based on voluntary self-identification, of their board members, nominees, and executives.

Representative Meeks's legislation would also require the Securities and Exchange Commission (SEC) to provide Congress with an annual report on company disclosures and trends, as well as publish best practices every three years for complying with the disclosure requirements. Not only does ICI endorse this initiative but has also called on the SEC to require companies to disclose demographic information about their workforces. ICI believes that these disclosures should be mandatory, but that the SEC should also develop a regulatory framework that is flexible enough to allow disclosure practices to develop organically over time. Having a dynamic framework will enhance the quality and volume of disclosures.

Additionally, in ICI's comment letter to the SEC,³ we recommend that the Commission require all companies to disclose human capital-related data that they already report to the Equal Employment Opportunity Commission (EEOC) on Form EEO-1. These data would provide insight into a company's management and investment in its people—one indicator of a company's long-term value—in a comparable and consistent format. In fact, our review of a sample of fund manager stewardship reports found that a number of our members identify the effect of human capital management on the expected long-term value of companies. While some companies provide this information voluntarily today, the SEC requiring all companies to provide the Form EEO-1 information would make it more widely available for fund managers to use in the investment process. We look forward to engaging with the SEC as it develops its proposal.

III. MEASUREMENT AND BENCHMARKING

In 2020, industry leadership, through ICI's Board-level Diversity and Inclusion Working Group, directed ICI to conduct a survey of members to assess the state of diversity and inclusion in the industry by looking at demographics for a range of job levels, as defined by the federal government's EEO-1 reporting categories for employers, which is also the metric used by the SEC's Office of Minority and Women Inclusion.

The Independent Directors Council (IDC), the leading organization supporting the fund director community, also conducted a joint survey with ICI looking at common fund governance practices and diversity and inclusion at the independent director level.

In February 2021, ICI and IDC released the results of these surveys.⁴ The ICI survey shows that women and people of color are significantly less present at management and executive levels than at administrative and staff levels, with women making up just 25.4 percent of executive ranks and people of color making up 16.3 percent. Across the industry broadly, women represent 41.8 percent of the workforce while people of color make up 30.5 percent.

Diversity data from the IDC/ICI survey show that in 2019, women represented 29.7 percent of all independent directors. However, of independent directors who were nominated and started serving in 2019 (i.e., new independent directors), 45.5 percent were women. Regarding people of

³ https://www.ici.org/system/files/2021-06/21_ltr_rf1.pdf

⁴ https://www.ici.org/news-release/21_news_diversity

color, in 2019 they represented 10.7 percent of all independent directors. However, of independent directors who were nominated and started serving in 2019, 22.5 of the new independent directors were people of color. The survey shows a material advancement for women and people of color in the placement of independent directors on fund boards.

The ICI survey did shed light on how the industry is addressing the dearth of diversity and inclusion within their workforce by looking at the importance that D&I plays in member organizations:

- 89 percent include D&I considerations as part of their strategic plans for recruiting, hiring, retaining, and promoting employees.
- 84 percent take steps to promote a diverse pool of candidates when selecting executive and senior level officials.
- 83 percent have a written D&I policy that is approved or supported by the CEO or other senior level official.
- 78 percent provide regular reports on D&I efforts to a board of directors or other governing body.
- 44 percent include D&I objectives in performance plans of their managers.

As an industry, we can, and we will, do more to increase the number of women and minorities working throughout the asset management industry, but measurements and benchmarks are a critical starting point and lay a foundation of accountability for the industry. While the numbers demonstrated our industry still has a long way to go, benchmarking and measuring progress are key efforts toward making improvement.

IV. MAKING PROGRESS TOWARD REPRESENTATION

ICI and the industry have launched a number of initiatives to facilitate progress toward ensuring that women and people of color are fully represented at every level of the asset management industry. These efforts range from early career initiatives that encourage individuals from historically underrepresented communities and backgrounds to explore careers within our industry to initiatives designed to grow the careers of those currently working at our member firms so they can ascend into positions of leadership. Lastly, I'll talk about some of the ways that the industry is making progress toward building awareness about the importance of diversity and inclusion among all of its employees. We know that D&I initiatives are only successful if diversity and inclusion is incorporated into the day-to-day management of organizations, rather than relegated to a specialty day, week, or month.

Building a Pipeline of Talent into the Industry

ICI member firms recognize that building diverse and inclusive organizations starts with building a strong pipeline of talent into the industry. Firms across our industry coordinate sponsorships and mentorships for undergraduate students as well as students working toward graduate degrees in business school. Some firms have specialty partnerships with middle schools, high schools, and colleges that have large populations of students from historically underserved communities. In some instances, firms have partnered together to support programs that provide job-readiness and career launch programs to students from underrepresented and underserved populations.

I'd like to mention some of the specific initiatives that ICI is coordinating with our member firms to help strengthen this pipeline of talent. In 2021, we launched the Talent Connection program, which is a series of webinars and other events that introduce students from underrepresented communities to the asset management industry and the substantial career opportunities available to them. These webinars and events are targeted at college and law school students. For college students, the webinars are designed for students attending a range of colleges and universities, including Historically Black Colleges and Universities and Hispanic-Serving Institutions. At these events, our member firms send leaders representing various career paths—including investments, operations, and sales/marketing—to introduce the fund industry, recount their own career journeys, and provide advice for obtaining jobs and achieving success in asset management. For law school students, our member firms send leaders to share information about the asset management industry and how it serves investors, the range of legal and compliance career opportunities in the industry, and insights into a day in the life of an asset management lawyer.

As part of the Talent Connection program, ICI is collecting resumes from program participants interested in working in the fund industry. Member firms can access this resume collection to connect with underrepresented talent seeking careers in asset management. We are continuing to work on expanding the program and looking at opportunities to give the Talent Connection students greater exposure to our member firms through in-person events.

The ICI Education Foundation (ICIEF) is also an important resource for ICI and our member firms as it develops, delivers, and promotes investment education programs to a variety of specific audiences, including historically underserved and underrepresented communities. ICIEF has launched two partnerships aimed at promoting greater diversity and inclusion within the asset management industry.

In September 2021, ICIEF announced a partnership with Girls Who Invest, a leading nonprofit dedicated to increasing the number of women in portfolio management and executive leadership in the investment management industry.⁵ Through its partnership with Girls Who Invest, ICIEF will support the continued growth of the organization's popular and successful Online Intensive Program (OIP). The OIP is a tuition-free, self-guided learning curriculum that gives rising college sophomores and juniors a solid foundation in core finance and investment concepts

⁵ <https://www.ici.org/news-release/21-news-gwi>

through a rigorous three-course series—CFA Investment Foundations, Wall Street Prep, and Wharton Online. Girls Who Invest partners with universities, investment management firms, corporations, and foundations to fulfill its vision: having 30 percent of the world’s investable capital managed by women by 2030. Girls Who Invest has an impressive track record of educating and helping women successfully pursue careers in the industry and develop their leadership skills. We are proud to work with them on our shared commitment of ensuring that more women are fully represented at every level of the industry.

ICIEF has also partnered with the Robert Toigo Foundation since 2019, an organization with the mission to foster the career advancement and increase leadership of underrepresented talent by creating mechanisms for greater inclusion from the classroom to the boardroom.⁶ ICIEF provides grants to the foundation itself, as well as scholarships to its fellows to support their education and professional development in the finance industry. Since our initial partnership in 2019, ICIEF has announced a five-year commitment to help further fund the Toigo Foundation’s important efforts to increase participation of underrepresented talent in the finance industry.

Attracting, Retaining, and Growing Diverse and Inclusive Talent Within the Industry

Now that I’ve covered some of the examples of ways that ICI and our member firms are looking to build a pipeline of talent into the industry, I’d like to pivot to various ways many of our members are looking to retain and grow talent at their respective firms.

Common practices across the industry start with increasing the reporting and transparency of workforce data, including representation, hiring, promotion, attrition, compensation, and other key metrics. Member firms are conducting ongoing reviews of these data to identify gaps, shape strategy and goals, and evaluate progress against those goals, and in some instances, tying management performance metrics to D&I metrics. To promote diversity and inclusion in hiring practices, many member firms require diverse interview panels and slates for new hires and have protocols to ensure equitable pay.

ICI member firms are also monitoring attrition rates for underrepresented employee populations and instituting retention and growth strategies. These strategies include mentorship, exposure, allyship, and promoting paths to leadership. Many firms are building leadership development programs for underrepresented populations, as well as developing talent and succession plans for key employees identified within these groups.

Instituting employee resource groups or affinity groups is a common practice across ICI member firms, as well as training that encourages and helps other employees act as allies to underrepresented and underserved groups. Other practices include developing employee engagement surveys to assess and address firm culture and the firm’s commitment to diversity and providing benefits and scheduling flexibility to assist employees maintain better work-life balance with their other roles as parents and caregivers.

⁶ https://www.ici.org/news-release/19_news_toigo

ICI also provides regular opportunities for members to share best practices through working groups devoted to diversity and inclusion initiatives. Since its creation in May 2018, ICI's Diversity and Inclusion Member Committee has met on a quarterly basis to provide member firms with a forum to share ideas and best practices related to advancing diversity and inclusion efforts and programs in the workforce. The Committee has approximately 181 members, representing 97 firms, made up predominantly of diversity officers and HR representatives but also legal and compliance professionals, and representatives from the business and policy sides of the industry.

Recent meeting topics of ICI's Diversity and Inclusion Member Committee have included discussions on the following:

- What meaningful advocacy and/or allyship for D&I looks like
- How to ensure senior management/leadership supports D&I efforts
- Incentive structures to achieve D&I improvements
- Resources ICI member organizations dedicate to the promotion and retention of current employees
- Internal communications side of D&I, including how to ensure communications are inclusive, bringing underrepresented employee stories to the forefront, honoring D&I holidays/events, and including employee recognition in the D&I process
- Creating and maintaining an inclusive culture: strategies to retain underrepresented talent
- Accountability and integrating D&I metrics into performance reviews
- Member D&I initiatives, e.g., Juneteenth and Pride observances and celebrations

Our Board-level Diversity and Inclusion Working Group has helped to raise the profile and importance of diversity and inclusion in the industry and helps to guide ICI's programming in working with members to facilitate increasing diversity and inclusion across the industry. The working group's first initiative was commissioning ICI's inaugural survey on our members' diversity and inclusion workforce data.

Advancing Diversity and Inclusion in the Boardroom

Attracting candidates with different backgrounds and perspectives for fund boards is vital. That's why I want to highlight the work of IDC, the leading organization supporting the fund director community.

In 1995, ICI created a committee that focused primarily on education issues for directors. As interest in fund governance grew, ICI recognized the need for an office dedicated to serving independent directors—and launched IDC in 2004. IDC represents independent directors who serve on the boards of mutual funds, closed-end funds, exchange-traded funds, and other registered investment companies, and serves the fund independent director community by advancing the education, governance, communication, and public policy priorities of fund independent directors in the United States. As a result of this mission, IDC is well positioned to advance initiatives that champion diversity on fund boards.

IDC's Governing Council formed a working group of independent directors dedicated to a three-part objective: developing educational resources regarding diversity and inclusion on fund boards, facilitating dialogue within the independent director community, and assisting fund boards seeking to increase board diversity. This IDC D&I Working Group has launched two key initiatives to support a more diverse and inclusive fund director community: a partnership with the Robert Toigo Foundation to develop programming to help diverse professionals learn about fund boards and the role of independent directors, and a partnership with Diligent Corporation to provide a technology platform to connect fund boards with diverse potential candidates.⁷

As I mentioned earlier in discussing the work of ICIEF, the Toigo Foundation has a broad network of diverse seasoned professionals with extensive finance expertise. Working together, IDC and the Toigo Foundation will introduce those professionals to educational programming and networking events focused on the work of fund boards and the roles and responsibilities of fund independent directors. Fund independent directors within the IDC community also will have opportunities to connect with professionals in Toigo's network.

Through IDC's partnership with Diligent, potential candidates will be able to add their profile to Diligent's Director Network and express an interest in fund boards. At the same time, fund boards in the IDC community will have access to Director Network to search for diverse candidates. IDC and Diligent will launch this initiative in the coming months through a dedicated portal for fund boards and board-ready candidates.

Both of these partnerships will help fund boards make meaningful progress toward bringing more women and persons of color into the boardroom, while enabling IDC to provide educational resources to diverse potential candidates about the role of fund independent directors.

Building Awareness to Build Allies

ICI members know that building diverse and inclusive workplaces isn't just about numbers—it's about culture. ICI member firms across the industry have created programs and practices that build awareness across all employees to promote allyship. This includes introducing programs to educate employees about mitigating bias in decisionmaking, understanding microaggressions and unconscious bias, appreciating cultural differences, and learning about disability and gender etiquette. Firms across the industry are encouraging their employees to recognize the impact that intersectionality may have on their peers, especially those who may be marginalized on multiple, intersecting fronts. In some instances, firms are drafting or sharing inclusive language guides, and tying corporate philanthropy to diversity goals and initiatives. We have seen many firms seek out suppliers owned by ethnically diverse individuals, women, veterans, people with disabilities, and members of the LGBTQ+ community. Member firms are also instituting strategies to address capital access limitations often facing multicultural entrepreneurs.

In addition to the work of our members, ICI has also sought to raise awareness about the importance of diversity among our members and the public. All of ICI's major conferences now

⁷ <https://www.ici.org/news-release/21-news-idctoigodiligent>

feature sessions devoted to the discussion of diversity and inclusion, and we have organized webinars and other educational offerings for our members on this topic. The most recent of these events that I mentioned in my introduction featured Chair Beatty, alongside the ICI Board Chair and New York Life Investment Management CEO Yie-Hsin Hung, Northern Trust Funds/Northern Trust Institutional Funds Independent Director Cynthia Plouché, and Vanguard General Counsel Anne Robinson. This webinar, held in October 2021, was titled “Diversity, Equity, and Inclusion in the Asset Management Industry: Measuring Progress, Navigating Roadblocks, and Ascending into Leadership.”

And in celebration of Juneteenth, ICI held a webinar for ICI staff and ICI members commemorating Juneteenth, featuring a conversation between Dr. Mary Schmidt Campbell, the president of Spelman College, and Anne Robinson, Managing Director and General Counsel of The Vanguard Group to discuss the meaning of the holiday, how it is celebrated, and its cultural significance in the African American community. Additionally, in IDC’s inaugural Speakers Series event, IDC featured L. Song Richardson, then the Dean and Chancellor’s Professor of Law at the University of California, Irvine School of Law, addressing the nature of implicit bias and how to foster a more diverse and inclusive fund director community.

V. CONCLUSION

In closing, I want to reiterate that the asset management industry plays a significant role in improving the financial well-being of investors by helping them build financial security. Our industry is not only well positioned to support women and people of color, but also to break down barriers within the industry that have prevented historically marginalized groups from ascending in financial services careers.

Clearly, the industry must improve in this area, and we are working toward that goal, including at ICI. We are working with our members to develop and implement new targeted initiatives within firms and industrywide. These initiatives aim to make meaningful progress toward ensuring that women and minorities are fully represented at every level of the industry. We still have a lot to accomplish, but we are working toward this goal.

Thank you for the opportunity to address the Committee today, and I look forward to answering your questions.