

KEYNOTE INTERVIEW

Opening up access to private equity



LPs have a vital role to play in driving meaningful progress on diversity and inclusion in the industry, say HarbourVest's Craig Fowler, Amanda Outerbridge and Sanjiv Shah

Diversity and inclusion has moved further up the agenda at most organisations as the pandemic and murder of George Floyd last year highlighted social and racial inequalities. Many in the private equity industry are now in listening and learning mode so they can work out how and where they can make changes.

The influence of limited partners can be key here, from pushing for change among their existing relationships to allocating much-needed capital to funds managed by people from diverse backgrounds. We caught up with HarbourVest managing directors Craig Fowler, Amanda Outerbridge

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and Sanjiv Shah, to discuss how the industry can move forward and why investors ignoring emerging and diverse GPs are missing out.

Q Why is D&I important to your firm?

Amanda Outerbridge: We believe every business that wants to succeed in the long term must constantly evolve to reflect the world in which it operates. D&I is vital for innovation and growth and is important across all our

touchpoints – our firm, our investments and our clients.

A third of our senior professionals are female, which is around three times the industry average, and 27 percent of our global workforce are from ethnic minorities. However, we recognise there is always more we can do across all aspects of diversity. We established a D&I council in 2019 and one of its key workstreams is around recruitment – attracting a diverse workforce is a top priority and we are working with recruiters to find ways of expanding the talent pool. It is also important to focus on the inclusion part of D&I, so we work hard to ensure candidates succeed

beyond the recruitment and interview process.

Q How do you see your role as an LP in this regard?

Sanjiv Shah: As an LP, we play a vital role because we can influence how our clients' capital is deployed. Capital is not infinite and so focusing on D&I cannot just be a nice thing to do. If we want to be at the forefront of change, we must succeed so that others want to participate and allocate capital in a way that is different from the historical focus. Last year we became a founding signatory to ILPA's Diversity in Action initiative. This is an important initiative for private equity because it is not just aspirational, it requires evidence of action in order to sign.

We also support organisations that are focused on education and training

for diverse students to help them get into private equity and we take active leadership roles in strategic organisations. Craig has been a board member of the National Association of Investment Companies, the largest US network of diverse-owned private equity and hedge funds, and I am co-chair of the Association of Asian American Investment Managers, for example.

Q Do you have a D&I investment strategy? Or is your focus on improving D&I among GPs?

SS: We do both. Through our emerging and diverse manager investment programme, we have supported E&D teams for many years. Private equity is a long-term asset class, so you need to build relationships with the next generation of talent. There has been a lot

of research around why diverse teams make better decisions and our own data shows that E&D teams, when you have the right screening process in place, do as well as – if not better than – other private equity teams even though they often struggle to raise capital.

We have an open-door policy to provide timely and honest feedback to GPs. This is often lacking in the industry and yet is so valuable. We also run an annual GP forum, bringing together leaders and founders from well-known firms and our newer relationships, which offer the opportunity to have candid conversations about how to get more diverse talent into the industry.

Private equity is an opportunity business, which is why we try and partner with talented, ambitious people who may not traditionally have had access to capital but who we believe are going to bring something new to the table. Yet it is also about having conversations with our more established GPs to ask them what they are doing to diversify their own intellectual capital. There is no one-size-fits-all approach to this, but as an LP we can use our influence to encourage change.

Q Where can private equity improve on D&I?

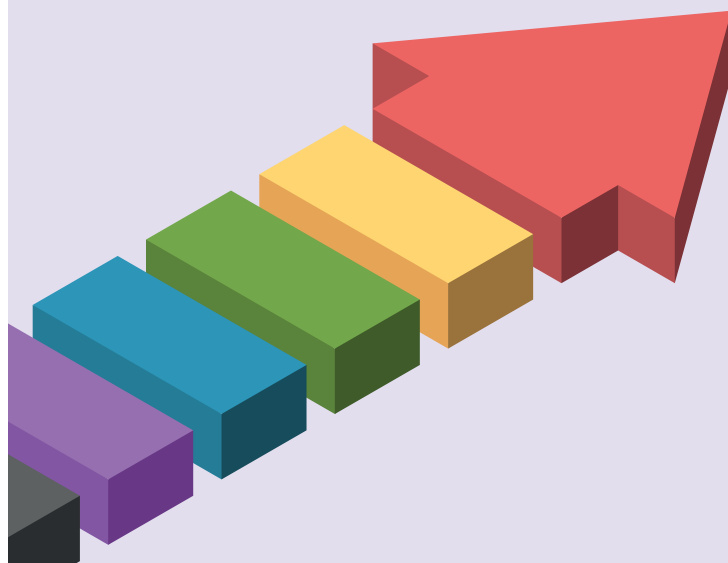
Craig Fowler: Industry leaders have become much more aware of the need for D&I and have made public statements about their concerns. This acknowledgment is an important first step that must be followed up with action for change to take place. Private equity can make corrective actions within their own firms by recruiting and developing more diverse talent. The industry can also address head-on the significant gap of investment dollars going to firms owned and managed by ethnically diverse and female individuals. Without specifically designed programmes little will be accomplished.

There is a relatively small group of public pension funds that have been leaders in this regard and set the standard to be followed. I am hopeful that other investors follow up on their public statements with concrete actions inside and outside their organisations.

Q How do you measure progress on D&I in GPs that are not part of your emerging and diverse manager investment programme?

AO: We have developed an ESG scorecard that we use to assess GPs, from the evaluation stage and throughout the investment process to monitor progress. We benchmark GPs across 26 process-based ESG criteria, and D&I ratings are an integral part of this.

Our scorecard covers the management company level, including the policies a firm may have in place, governance and culture. It looks at the investments made, the due diligence process, best practice through the investments and then exit. It also covers reporting. Overall, it looks at the GP's capabilities for managing ESG-related risks and opportunities – it is a highly



engaging process because it cannot just be a checklist.

We can use these results as a way into discussions with GPs around diversity, as the GP's efforts on D&I at firm and portfolio level are also taken into account. Some issues are tough to talk about, but we are here to be a sounding board and help them adopt best practices. We have also been able to show that firms that take D&I seriously are offering strong returns.

Q How receptive are GPs to those conversations?

Craig Fowler: As part of our process, we engage with GPs on their scores and overall, we have found most tend to be open to guidance to make improvements and strengthen their policies. Most managers the emerging and diverse team works with have meaningful levels of diversity and understand how diversity can improve performance.

The non-diverse managers appreciate that we are sharing information with them to drive improvements – and it sends a message when a key investor shows that it cares about this. Working with each manager, we've been able to show them how their results compare to their peers. Firms like to hear what their competitors are doing and usually want to be at the forefront of change.

AO: I have seen folks that have been in the industry for three decades really embrace change – they are open to it and are putting resources into it. This has been accelerated since the events of 2020. Many more firms have now established D&I councils and appointed heads of diversity. We are starting to see meaningful progress here.

Q How can the industry help address systemic racism?

CF: The industry must be engaged. The starting point is to look internally. Our firm, for example, now observes Juneteenth, a day which commemorates the end of slavery in the US, as one of our firm-wide holidays. This is

“Fostering the right culture in organisations is crucial”

AMANDA OUTERBRIDGE

not just a symbolic gesture; rather, we encourage our employees to use the day for reflection and education. Clearly, there can be change at a corporate level, but individual minds need to be behind this if we are to help drive societal change.

One of the results of systemic racism is a wealth gap that has persisted through history, as diverse managers have been historically excluded and under-represented. Our emerging and diverse programme strives to help bridge that gap by providing these managers with access to capital. These managers not only produce successful firms, but also usually have broad and diverse networks. They are more likely to invest capital in their network of diverse entrepreneurs – there is a flow-through effect.

We also took public action by signing the Diverse Alternative Investment Industry Statement, put forward by the National Association of Investment Companies. This commits our firm and the other signatories to helping create permanent, structural and perennial investments by investing into neglected communities. ILPA's Diversity in Action initiative is also important here, as it commits LPs and GPs to a foundational set of actions that help advance diversity, equity and inclusion, both internally and within the industry more broadly.

Q In terms of D&I, where do you think the industry will be in five years' time?

SS: I would like to think that in the next five to 10 years we will not be having this kind of conversation. I expect we will continue to see push and pull factors that will drive change in the industry. Nasdaq, for example, recently proposed a new listing requirement that companies have more diverse boards, among other things, and I suspect other exchanges could consider similar changes. Private equity will not be immune to these kinds of external pressures.

There is also growing awareness that those who provide capital – those who pay into pension funds, for example – are not as well represented by the investment managers who receive the vast majority of allocations from these plans. I can see the pressure for change and creating more opportunity for funds which are managed by diverse individuals coming from here, too. Finally, there will be greater recognition of the potential for outperformance that diversity can bring – there's already published data in this regard, and I suspect we'll see more such research and even more success from diverse led teams. I am hopeful that we are at a point where a lot of positive things can happen in the industry.

AO: We will see product innovation and greater capital directed towards increasing diversity in the industry. The inclusion part of D&I will gain more focus because we must set our teams up for the long term. There will need to be initiatives, such as mentoring, to ensure candidates from diverse backgrounds continue to grow and succeed. Fostering the right culture in organisations is crucial – without this, any progress made would just be short term.

CF: I am encouraged by what is happening industry-wide, in light of the events of last year. D&I is not a new topic, but 2020 provided a much-needed push for the industry and we have to use that urgency and momentum to push us forward. ■