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Leading by Example

These industry leaders are paving the way for women in asset management.

MORNINGSTAR CONVERSATION

Laura Lallo is the managing editor of *Morningstar* magazine. Madison Sargis is an analyst in Morningstar's quantitative research group.



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MORNINGSTAR CONVERSATION

Laura Lалos and Madison Sargis

Morningstar's research on fund managers underscores the fact that women remain underrepresented but also highlights encouraging signs of improvement. (See Spotlight beginning on Page 45.) Against that statistical backdrop are the individual women who have already blazed trails in the field and are guiding others on the path.

We sat down with three industry leaders whose success illustrates the prospects for other women: Marie Chandoha, president and CEO of Charles Schwab Investment Management; Sonal Desai, portfolio manager and director of research for Templeton Global Macro at Franklin Templeton Investments; and Mary Ellen Stanek, president of Baird Funds and CIO of Baird Advisors. (Desai and Stanek and their teams were both nominees for Morningstar's Fixed-Income Fund Manager of the Year in 2016.)



Marie Chandoha is president and CEO of Charles Schwab Investment Management.



Sonal Desai is a portfolio manager and director of research for Templeton Global Macro at Franklin Templeton Investments.

Chandoha, Desai, and Stanek explored the reasons for the current statistics on female fund managers, and offered solutions to improving the numbers. They shared their insights in a discussion on Feb. 13. The conversation has been edited for length and clarity.

Why do you think women remain poorly represented in asset management, particularly when compared with fields like medicine or law?

Marie Chandoha: Two things jump to my mind. One is awareness. It's certainly a smaller field than law or medicine, and not as well-known. When I looked at the original study Morningstar did [in 2015], there were only around 7,700 portfolio managers in the U.S. The number of doctors is much, much larger. We as a firm have been partnering with the nonprofit Girls Who Invest, which tries to bring women into the portfolio management field. They discovered that many college-aged women don't know about this career path.



Mary Ellen Stanek is president of Baird Funds and CIO of Baird Advisors.

Role models can be transformative. I'm a firm believer in "if you can see it, you can be it." I recently asked a portfolio manager in my organization what attracted her to the field. She spoke about another woman portfolio manager who helped educate her about the career path and set her on the course.

Sonal Desai: One point I'd make is that portfolio managers don't get credentialed immediately; you grow to become an asset manager. So, perhaps a better comparison would be to partners in law firms, as opposed to just lawyers. I wonder to what extent what we're seeing in asset management is related to what you also see in technology. Even sooner than college, in middle school, girls are not given enough of a push toward what are regarded as more quantitative fields. Indeed, at Franklin, we're also taking part in the Girls Who Invest program for the reason of raising awareness.

Mary Ellen Stanek: I think of it in two ways. First, it's self-selection, encouragement, and awareness-building among young women. That's one side. We've encouraged broad internship programs as an opportunity for both men and women to test-drive the career. We provide female role models who have successfully navigated through this field and have balanced lives.

The other issue is the hiring funnel. Who's doing the recruiting and the hiring? How wide is the net being cast, through different programs and different schools? How diverse is the pool that's being considered? I do harbor the view that diverse talent tends to be willing to look more broadly for new talent, and so we might see the perpetuation of existing leadership if we're not careful.

Are there structural or systemic issues within the asset-management industry that might be keeping women out, perhaps cultural problems or a lack of flexible workplace environments?

Stanek: On a positive note, while there can be subtle biases in other career paths, this is a wonderful field because it's very objectively measured. If you can put the numbers up and show performance, that's hard to

ignore no matter how old you are, what your gender, your ethnicity, your sexual preference. Once you get people to open that door and consider it, you see women rising through the ranks because of the objectivity of how we're evaluated.

Desai: I couldn't agree more. Relative to so many other fields, there is such an objective criterion for measuring how good or not good you are. Within finance, if you look at the buy side and the sell side, I would argue that there's more flexibility on the buy side than you would find, perhaps, in a very large investment bank. Based on my experience, the culture is not particularly hostile.

Chandoha: I started my career over 30 years ago, on the sell side. When I think about structural issues, I feel like a lot has evolved. But I still feel like there's a perception of the industry that isn't that favorable. The financial-services industry isn't portrayed that well in the media or in movies, and the financial crisis gave it a negative connotation. I think it's still viewed as a male-dominated field, and I don't think women naturally gravitate to it.

We have a culture ambassador at our firm who is focused on making sure that we adhere to a culture that is inclusive and where people can flourish. There's still a lot of differences among firms in terms of culture, even in asset management. When I'm interviewing women that join our firm, they are very focused on culture. The more we can strengthen it, the more possible it is to have diverse employee bases.

Increase Diversity, Improve Results

Stanek: We call ourselves "culture creatures." We have a director of culture at the firm, and we strive to be a more inclusive workplace with an engaged workforce, so that we can retain talent and become more diverse over time. We're a best place to work on the Fortune 100 list; we like to point to that as external verification of what we try to do. We believe we'll have better



investment management teams and ultimately better results if we reflect a broader point of view.

Desai: Across the different areas at Franklin Templeton, whether fixed income or equity, everybody’s opinion is heard. And it’s not just diversity on the basis of gender. I’d expand it to nationality, ethnicity, and experience. For example, on our Global Macro team of 20 there were 18 different languages spoken at last count. Including myself, we have among the analysts around four or five people who’ve come from different countries, and four or five women. The point at which diversity on the team stops becoming an issue, that’s when you’ve really achieved success.

Chandoha: There was a study done by the military when they were trying to integrate women. They found that once the population hit about 30% women, it hit a tipping point where it wasn’t a special issue anymore.

Stanek: That is the best of all worlds, when no one’s gender, ethnicity, or age is a differentiator. If someone wandered into our office, they wouldn’t necessarily know “who’s who in the zoo” just by observing the interaction amongst the team. That is by design. We think we have a better investment management product by having a flat pancake-like structure and constant interaction across the team. It sounds like both of you enjoy the same thing.

Desai: Templeton Global Macro has a diverse team that brings so many different experiences and ways of looking at the same problem. It increases the hard and the soft skills. There have been studies that show more diverse teams perform better at problem-solving. These are not studies specific to finance, but more broadly. We are measured by our ability to outperform the market, so it is essential to bring something more than groupthink. Diversity delivers that.

Stanek: Our senior portfolio management team has a lot of experience together. What keeps me up at night is that we could develop an inbred myopia no matter how different our strengths. The way we try to counteract that is to make sure



“If you can put the numbers up and show performance, that’s hard to ignore no matter how old you are, what your gender, your ethnicity, your sexual preference.”

Mary Ellen Stanek

that newer, younger talent is given voice. It’s not just about building inclusive and diverse teams, but making sure that people are heard. In the end, organizations always have unequal votes in them, and certainly asset-management teams do as well, but giving

everyone a voice, credibility and legitimacy helps us manage risk better, as well as capture opportunities in the portfolio.

Chandoha: Part of the culture at Schwab is that everyone’s opinion counts. That’s very

important in terms of bringing ideas to the table, bringing in different observations from a risk management perspective or a performance perspective. Diverse opinions make a team better.

So, increasing diversity is not just the right thing; you expect it to lead to better results. Are leaders at your firms evaluated on their success in increasing diversity?

Stanek: Yes. Obviously, I'm evaluated on our investment performance over short-, intermediate-, and long-term results, and then also on business periods. But I also have to put forward for asset management our inclusion and diversity goals, as do the other business leaders at Baird. We put forward a three-year roadmap, and in our annual review, we need to comment about our progress against those goals.

Chandoha: Certainly, diversity is important from our corporate board's perspective and our CEO's perspective, and the metrics around how we're doing is monitored and looked at over time. But it also comes down to what you do day in and day out to achieve those goals, so that it becomes part of the fabric and the DNA of the organization.

For example, at Charles Schwab Investment Management, we're attracting women at a 50/50 rate at junior levels into the firm. But we're noticing that it begins to fall off as people get past the midpoint in their career. How do we continue to advance women to more senior levels? We are really working on that issue and putting in place programs to help women move beyond that point within Charles Schwab Investment Management, and also across all of Schwab.

Stanek: That's a perfect example of getting in and looking clinically at your data. You've identified that the retention issue is at midcareer. You can use exit interviews or focus groups to try to get at why. Is it promotion issues? Is it the work/life balance? Then you've got a shot at being able to go in and try to figure out what to do about it.

Desai: At Franklin, at the junior level, it is close to 50/50, and indeed I think on our team it



□□ We are measured by our ability to outperform the market, so it is essential to bring something more than groupthink. Diversity delivers that. □□

Sonal Desai



might be even more than 50/50 in favor of women at that level. But more generally, there is the issue of how women’s careers evolve, and how their needs evolve in terms of work/life balance. That probably is an area where we need more focus in the industry. From a firm perspective, it’s abundantly clear from the leadership downward that increasing diversity is a key goal. This permeates everything that we do.

Stanek: One of my comanagers, Sharon deGuzman, has five children, including triplets. They are now in sixth grade, and she’s been a named portfolio manager on the bond funds since we launched in 2000. When she found out she was expecting triplets, she said, “I don’t know how we’re going to do all this, but I want to continue my career.” She was such a talented, important, successful portfolio manager and a key part of our team. She’s an A player and we worked to find some flexibility in the short run. In the long run, this was an investment in our franchise.

Chandoha: I’ve had conversations with my senior leaders about this issue of progressing women beyond the midpoint. One of our observations is that many times when women are presented the opportunity to take that next step in their career, they wonder, “Can I do this, can I manage it?” But that doesn’t mean they are saying no. For the male leaders on my team, there’s an increased sensitivity, an understanding that when you hear that, maybe you’ve got to engage in a longer conversation.

Desai: That’s the education needed on both sides, to have women explain that they just need more time, but also have the people they’re speaking to, who are men in many cases, understand that this is how a woman is likely to process it.

Expand Opportunities

Chandoha: At Schwab, it’s not just mentoring and helping women progress in their careers. The overall resources that we as a firm provide to women is important. We have invested a lot

in opportunities for women to network across the organization and see different career paths for themselves. We have a WINS network at Schwab that does 400 events a year across the country.

And I do think that having the role models is so important. We have four women executives across Schwab that have made it to the top. I can’t tell you how many times, and I’m sure you have all heard this, too, that a woman has come up and said, “Wow, you really give me hope that I can progress in my career.”

Stanek: Something that you said, Marie, that’s really resonating with me is “across the organization.” If an employee is on track, if they’re a strong talent and are looking for some type of change, we want to retain them somewhere at the firm. Let’s build the network across the firm and open up opportunities.

We found that women were more likely to be running passive funds and to be part of management teams than they were to be running active equity funds or solo managers. Any thoughts on why this is?

Stanek: I’ll show my own bias. We have always believed that our investors are better off with a strong team that can sustain what we do than they would be with a single manager or a star, if you will. We’ve got a team of six named portfolio managers, and two are women. Now, what do we do to make sure the bench is deep and there’s plenty of opportunity ahead for people? Last June, we had six people taking various CFA exams and four were women. We encourage people to do that, as well as MBAs, with programs to support and pay for that.

It’s easier to onboard diverse talent into a team than with a single named manager. We also have a very flat organizational structure. We strive for a lot of transparency and a lot of communication. We want to develop people to see the whole field—if you’re a credit analyst, the more that I can help you develop to see all aspects, the better prepared you will be whether you stay on the credit track or ultimately move to a portfolio role or to a senior executive role.

Desai: I think that management teams indeed are becoming more sought after broadly

in the industry, and the paper showed this trend. We haven’t found in our firm any differences between equity and fixed income. Women are pretty well represented across both.

Chandoha: I’ll take a more historical perspective, having worked at iShares in the early days of the ETF business. I do think that the more traditional, fundamental, active businesses are more entrenched. It may be at some firms harder for women to network into those businesses. Newer fields, like ETFs and multiasset to some degree, are more wide open for women to enter, because they’re a little less entrenched.

Early on, when the ETF business was starting off, it was hard actually to find people who were interested in being in that business. It was not the sexy place. So, I think the barriers to entry were a lot lower, and it allowed more diverse candidates to find their way into the business.

What are your thoughts on our findings that women were better represented in smaller markets?

Desai: Perhaps there are also smaller pools of candidates in these smaller markets, much as Marie was just saying with respect to ETFs. I wonder to what extent they have practically been forced into becoming more diverse almost as a default.

Within the United States, it’s the larger, established fund companies that tend to have higher percentages of female managers, including Franklin Templeton. That almost seems the opposite, intuitively, of our finding that the largest global markets are the least inclusive.

Chandoha: It was interesting that some large companies have above-average percentages of women, but I still feel it comes down to either the culture and/or the role models that are at those firms. The firms that you highlighted in your report that were above average are known for having very good cultures, and many have more female executives. What I’ve noticed in the Bay Area, firms like ours and like Dodge & Cox, where there are female executives, tend to be more diverse cultures and have more diverse portfolio management teams.



so many variables. But I would not discourage women from doing that, because there are a number of investors who want to invest with women-owned or minority-owned firms. It certainly is one alternative, and a pretty significant one. For individuals with strong track records, there's capital out there that's willing to help them get launched. It's a question that I think has got to be explored and encouraged.

Build Support Systems

Desai: I would note that there's a little bit of a Catch-22, in the sense that once you have a strong, established track record, what would the driver be for you to leave your current firm? Of course, there's a desire to set up your own firm, certainly, for many people. That's where the business risk issue comes in and the tolerance for that.

But there's a lot of comfort being at a large firm. I'm talking about the backbone that comes from having a huge quantity of compliance, a huge quantity of legal infrastructure that supports you in doing what you really want to do as a portfolio manager, which is to manage your clients' portfolios. I think that's a part of the reason that large firms tend to do quite well in terms of keeping women at a higher percentage. It's that support. Perhaps it's not disproportionate for women versus men, but it is certainly one of the factors that might play a role.

Chandoha: At Schwab, we definitely see in the wealth management area, among independent Registered Investment Advisors, many women being entrepreneurs, starting their own independent RIAs and being successful. In that area, you don't have to put together all that compliance and all the infrastructure to be managing portfolios and be out there trying to seek business. I think it is possible in the wealth management area, and quite a few women have been carving very successful careers in that area.

Stanek: Schwab has done such a great job providing a lot of the infrastructure for those RIAs to go out and launch. It's been really a wonderful solution, because you've enabled

It's a journey, and while there's still work to be done, I'm very optimistic for the future.

Marie Chandoha

Stanek: You have those strong individuals and leaders who can be the pioneers, if you will, but then how do you institutionalize a commitment beyond those individuals? That's the key, that's the transition that will happen over the next decade or so in fund management teams.

Following the thinking of someone like Sallie Krawcheck, should women in asset management be starting their own firms?

Stanek: It's dependent on the individual, what their risk tolerance is, and also what their client base and track record look like. There are

in a lot of ways these women-led RIA firms to launch.

Chandoha: There was a comment about the medical field at the beginning of the conversation. It's a little bit like the independent RIAs, in that it is a field where women can establish medical practices that can be successful. But I've mentored women in the medical field, and in the more corporate settings, like big hospitals or big research facilities, it can be just as challenging for women in those areas as in the financial-services industry. So, I think there is something to the idea that more entrepreneurial types of vehicles can benefit women, but there does need to be support to get them going. For RIAs, Schwab provides that kind of support for women establishing businesses. That isn't as easy to do if you're a portfolio manager. There isn't an extrinsic support out there for anyone establishing a small asset manager, whether you're male or female.

On a related note, we found that female portfolio managers were more likely to be promoted from within, whereas men were more likely to leave firms for promotions as an outside hire.

Stanek: Right now, we're putting the lens on women, but we've observed that if we support all our talent in terms of providing meaningful opportunities that allow them to come and build their careers here, there's a commitment on their part and loyalty. In many cases with women, they get to a certain point and are trying to figure out how to juggle all life's balls. If we are committed to them, if we provide the flexibility and support, it's very hard for someone else to recruit them away. If you back women as they progress through life, they will be very committed back to you and your investor base. That's what our experience has been.

Chandoha: There's research showing that men tend to take more risks. Women take less risk or are maybe not as inclined to try something new, because they don't feel like they're qualified for it. In *Lean In*, Sheryl Sandberg talks a lot about that, and I definitely have seen that over my 30 years of managing teams. I wonder if that plays into it, too. Women tend to want

to know that they can do 100% of a new job at a new firm before they'll take it.

Desai: To add another layer, and this is just speculation, but if you have a dual-career situation, and especially if you're talking about a move to a different city, women may be more concerned about any potential disruption to the family. Men may be less likely to follow their wives than women are to follow husbands.

Despite the hurdles, it sounds like you are all somewhat optimistic on the trend of women in the industry.

Stanek: I am optimistic, but I also believe that there is no quick, easy, overnight solution. This is about building a pipeline of women and men who can come and build careers here. That is a tried-and-true approach that we have found works—and, most of all, works for our investors. Having visible senior role models who show it can be done, that anything's possible here, encourages others to take that risk and to go ahead and push. I am an optimist on that.

Desai: I am optimistic about this as well. The first step is awareness that there is an issue and that is increasingly becoming clear, not just in our industry, but in areas like technology and other parts of the working world. The next step is role models; as they increase, more women will come into the business. Finally, we have active efforts, via various programs like Girls Who Invest, to address the perception that it's difficult to enter fund management, to become a portfolio manager. All of these together lead me to think that over the coming decades, this is something that will improve.

Chandoha: I've been in this business for 30 years, and there has been so much improvement. It's a journey, and while there's still work to be done, I'm very optimistic for the future. In the Bay Area, there are four women CEOs of asset management companies. At Schwab, the two people who lead our retail organization, which is a huge part of Schwab, are women. If you scrolled back 20 years ago, you would not have seen that. These role models are so important for younger women to see, and it helps them to know that their careers can grow in a great way in this field.

We talked a little bit about the role of corporate boards. I think that mutual fund boards can play a role with this, too, especially where fund companies have big subadvisory businesses. We have a lot of subadvisors that we use within our complex, and that's a question that our mutual fund board asks. We ask for their diversity policies and the data on what their portfolio management teams look like, etc. That's increasingly becoming a more important part of the decision set.

Stanek: The other point I would make is that institutional investors increasingly are asking us to provide information on the profile of our talent. We're a manager for the San Francisco county and city employees' retirement system, and shortly after being hired, they asked me to participate on a panel with their board to get at the issues around how we can encourage more female investment managers and investors. Increasingly, a number of community foundations or public plans, and some corporate plans, are posing these questions.

To the extent investors are asking these questions of investment management organizations, that gives even more credibility to the idea that this is important. Certainly, we still have to perform. That's why people hire us—for our products and our performance. But who is behind the products and the performance is important, as well, to our investor base. I'm encouraged that they continue to ask the questions and hold us accountable for the answers. ■■■

Laura Lallo is the managing editor of *Morningstar* magazine.

Madison Sargis is an analyst in Morningstar's quantitative research group.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing. Robert W. Baird & Co.