Gender diversity in private capital

Moving the dial in a static landscape

Time to tip the balance

Businesses across the globe know the importance of improving gender diversity within their teams – particularly at the top of their companies.

Numerous studies show that gender diversity at board level can positively influence performance, with studies of US, British, Chinese and Japanese firms all indicating that a higher percentage of women on a company board can improve general performance and the return on assets.[1]

The private capital market faces a considerable challenge when it comes to diversity.

The sector has grown exponentially in recent years, expanding far faster than expectations. However, the percentage of women within the C-suite has barely changed and still lags behind other sectors.

Intertrust Group's review of research by data analytics company Convergence Inc shows that, although women are replacing men at board level within private capital companies faster than men are replacing women, progress is still slow.[2]

While women are making their way into board positions such as chief operating officer or chief financial officer, it appears that it has been harder for them to break the final glass ceiling to take the CEO title.

The data raises questions about whether the industry, and individual companies within it, need to do more to raise women to senior positions – and, if so, how this can be done.

[1] https://jfin-swufe.springeropen.com/articles/10.1186/s40854-021-00265-x/tables/1 (See table 1)

[2] Intertrust Group's report was powered by proprietary data and research from Convergence Inc as of 9/29/2022 (i.e. derived from its database of 40,000 fully profiled investment advisers and their 250,000 private funds that invest in a range of credit and non-credit strategies), providing the most comprehensive data-driven insights into growth trends powering the alternative credit marketplace. Founded in 2013, Convergence provides data-driven insights that helps its clients increase revenues, improve margins and identify commercial and client risk.

Opportunities and challenges

Organisations such as 100 Women in Finance make the case for taking positive steps to improve the proportion of women at board level in financial services and investment companies of all types.[3]

In 2021, it launched a new Guiding Principle called Vision 30/40, stating that 30% of executive committee roles and 30% of investment roles should be occupied by women by 2040.

But the new data shows that the private capital industry has a long way to go before it hits this target.

“Change takes a long time,” says Barbara Martin, head of private fund sales EMEA at Intertrust Group.

“We can look at it from the negative side and say it's not enough, which is true, but it's better than it was 30 years ago.

“It has to do with women choosing these career paths, and then also being given an opportunity to grow.”

While she believes some of the change within the C-suite will happen over time, as there is a higher proportion of women in early-stage careers within the private equity industry who will grow into board members in the coming years, she adds that there are opportunities to improve gender balance in other ways.

Mentoring is one of the most helpful things you can have in a company, as well as flexibility – work-life balance – which I think applies to both men and women.

Barbara Martin,
Head of Private
Fund Sales EMEA,
Intertrust Group

[3] https://100women.org/

The current landscape

The Convergence figures show that the percentage of women in C-suite roles has remained more or less static over the past three years.

In total, just over 16% of C-suite board members in private capital firms are female, a percentage that has grown only very slightly since 2019.

However, this percentage masks a wide variation between the number of holders of different roles who are female.

The figures show that women are least likely to hold a chief executive officer role, with under 11% of private capital CEOs being women. In contrast, over a quarter of chief financial officers are women and 28% of chief operating officers.

“It is true that I see more and more female COOs and CFOs. But I think there’s still a lot of work to be done for more females to be considered for a CEO role,” Martin says.

“Things are improving slowly, definitely not as quickly as we would expect,” she adds.

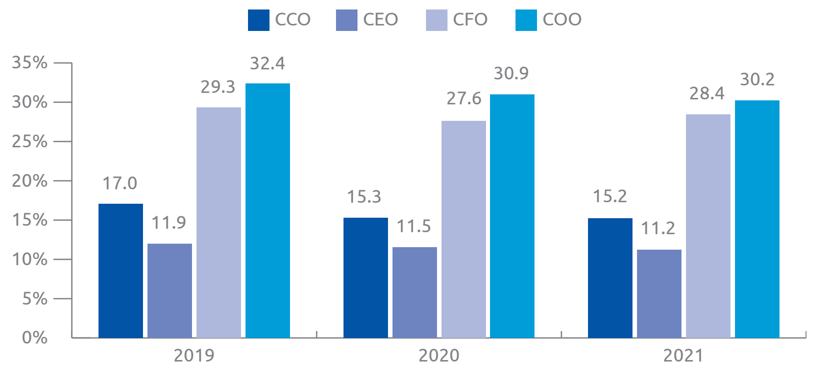
Fig. 1: Percentage of women in C-suite roles in private capital firms

Job title	Percentage of role holders who are female 2019	Percentage of role holders who are female 2020	Percentage of role holders who are female 2021
CCO	18.7%	18.6%	18.8%
CEO	10.7%	10.7%	10.8%
CFO	26.2%	26.5%	26.7%
COO	27.7%	28.7%	28.1%
Total	**16.3%**	**16.3%**	**16.4%**

Even among new hires in the private capital industry, there's little evidence that the number of CEO roles for women is growing quickly. Only 11.24% of new CEO hires were women in 2021, down from nearly 12% in 2019.

In fact, the percentage of new C-suite hires who are female has fallen in all roles since 2019, down from 17% to 15% of chief compliance officers, down from 29% to 28% of chief financial officers and down from 32% to 30% of chief operating officers.

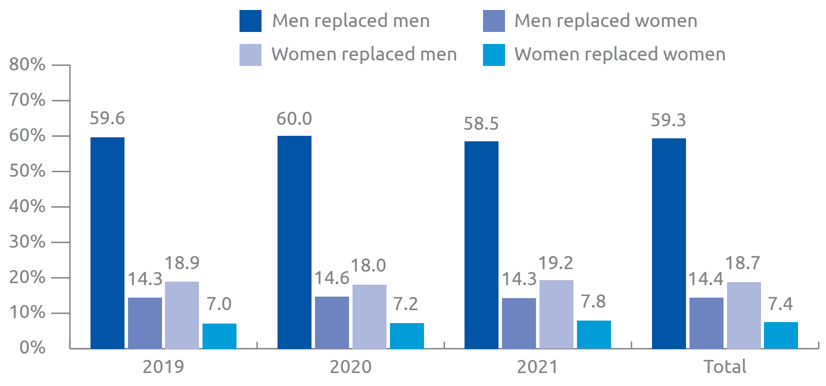
Fig. 2: Percentage of new C-suite hires who were female year-on-year



In the majority of cases (almost 60%) when men are leaving a private capital C-suite role, they are replaced by other men. In 14% of cases, men are replacing women in these scenarios.

In 19% of cases, women are replacing men in C-suite roles, and in just 7% of cases, women are replacing women.

Fig. 3: The rate at which women are replacing men as new C-suite hires



How does this compare with other industries? According to the World Economic Forum, 15% of all Fortune 500 CEOs are women,[4] with the number rising four years running.

But financial services companies lag behind on this metric, with a recent study showing that just 5% of the Fortune Global 500 list of financial services institutions are headed by women, with 19% of C-suite roles as a whole taken by females.[5]

The figures show that 17% of existing C-suite managers are female and 14% of new hires, slightly below the industry as a whole. However, with around 11% of CEOs being female, the trend towards female leadership is slightly higher than average for the financial services sector.

Barbara Martin at Intertrust Group says it is important that there are now high-profile women, such as Adina Friedman at Nasdaq, holding CEO roles in the financial services industry, providing visibility for other women who want to enter the profession and grow their careers. She says:

> "At the end of the day, we need to lead by example. We can talk about change. We can talk about opportunities, we can talk about training and mentorship. But if women do not see women leaders in their place of work, we've lost the battle before we've even begun."

[4] https://www.weforum.org/agenda/2022/03/ceos-fortune-500-companies-female/

[5] https://www2.deloitte.com/uk/en/insights/industry/financial-services/gender-diversity-in-global-financial-services.html

Differences between fund types

When it comes to female representation in the fund sector, some areas are more diverse than others.

Hedge funds and venture capital funds have a lower percentage of female C-suite members than real estate funds.

Private equity funds have seen the biggest rise in female leaders: by almost two percentage points to 19%.

Barbara Martin at Intertrust Group says that the discrepancy may be due to more women in newer parts of the private equity industry, who have "grown with" these parts of the sector.

"I think private equity is still like the new kid on the block," she says. "There was more of an opening for women because it was all new. When you talk about hedge funds, they've been around for much longer, and predominantly led by males."

"Women are there in private equity and real estate, because they grew there straight out of college."

Fig. 4: Female C-suite percentage by type of fund

Type of fund	Percentage of C-suite who are female 2019	Percentage of C-suite who are female 2020	Percentage of C-suite who are female 2021
Hedge fund	17.2%	17.3%	17.0%
Private equity	17.2%	17.6%	19.1%
Real estate	19.3%	17.9%	19.5%
Venture capital	17.6%	17.7%	18.4%
Total	**17.4%**	**17.5%**	**18.1%**

Why women matter

The Convergence figures show that private capital firms led by women grew their regulatory assets under management (RAUM) faster than those of their male counterparts.

Although the differences are small, they are consistent across the three years covered in this dataset. The phenomenon occurs both with existing managers and when new managers are hired.

"I think women are fantastic project managers. They're extremely organised, they do an excellent job and they can handle the pressure. They just need to be given the opportunity – whether it's specific training or being put up for promotion – based on their performance."

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Fig. 5: Growth or decline?

2019

Female-led funds	59% grew	17% declined	24% did not change
Male-led funds	58% grew	17% declined	25% did not change

2020

Female-led funds	62% grew	17% declined	22% did not change
Male-led funds	60% grew	18% declined	22% did not change

2021

Female-led funds	65% grew	13% declined	22% did not change
Male-led funds	64% grew	14% declined	22% did not change

These findings are consistent with other surveys which show that more diverse firms are more successful.

A study[6] from the International Finance Corporation – part of the World Bank – found that gender gaps may reduce investment returns for funds, with gender-balanced teams having a higher internal rate of return.

The study defined gender-balanced teams as those in which 30% to 70% of the leadership roles are held by women.

Other reasons why gender balance in private capital matters include:

A current lack of funding for female-led businesses that could be addressed by more women in private capital.

The IFC survey found that female-led deal partners invested almost twice as much in female-led businesses than male-led deal partners.

The potential loss of female staff if they are overlooked for promotion.

If women do not see themselves represented in leadership positions in an organisation they may look elsewhere and companies may lose their skill sets.

Non-diverse firms may lose business.

Companies that mirror the diversity of their clients are more likely to be able to win and keep business in the long term.

[6] https://www.ifc.org/wps/wcm/connect/79e641c9-824f-4bd8-9f1c-00579862fed3/Moving+Toward+Gender+Balance+Final_3_22.pdf?MOD=AJPERES&CVID=mCBJFr

Improving gender diversity in private capital

We asked Intertrust Group experts how gender diversity might be improved in businesses in this sector. They replied:

Mentoring

Successful mentoring should include performance reviews, discussions of where people want to be five years from now, as well as forward planning.

"Let women know that there is space."

Flexibility

"In 2022, when we talk about flexibility, work-life balance, I think this applies to both men and women. As a woman, I say, we all need flexibility."

Training

"It's about training, it's about getting them involved in bigger conversations, giving them opportunities to work in different departments. It's just having this motivation to explore new horizons."

Representation

"I see a lot of women in interesting senior roles. They're getting the job done. I think they're being recognised for the work that they do. They definitely have a seat at the table. If you want to give women a chance, then they need to see there is a chance in their place of work."

Conclusion

Gender diversity leads to greater success, but the figures show that, in the private capital industry, little progress has been made in the past few years.

There are encouraging signs in some areas – an increase in the percentage of private capital firms with female leaders in the C-suite, as well as increasing numbers of female hires replacing men as they leave firms.

There is more that the industry can do to increase gender diversity in the sector, especially when it comes to recruiting more female CEOs and increasing the percentage of hedge funds with female leaders on the board.

When these changes are made, success ensues. RAUM grow faster in female-led businesses, and other recent studies show that internal rates of return grow, too.

Ultimately, representation, training and mentoring can help to improve gender diversity throughout the industry, hopefully reaching a point of parity which will improve the situation for all concerned.

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