

PROGRESS IN SIGHT

Andra Ofosu, founder of Black Hedge Fund Professionals Network, speaks on the diversity, equity and inclusion challenges in the hedge fund industry and advises on solutions for improvement



ANDRA OFOSU, FOUNDER OF BLACK HEDGE FUND PROFESSIONALS NETWORK (BHFPN) AND DIRECTOR, US SALES, ASPECT CAPITAL

Knight Foundation research shows that only 0.04 per cent of US-based AuM is managed by diverse hedge funds; why is this percentage still so low and what barriers to entry remain in existence?

We know that it's not for lack of aptitude, and it's not for a lack of talent. So if we're seeing this dynamic of numbers remaining so low, it must be because of systemic issues that exist. When you speak to different groups, you speak to different entities and you'll find a variety of answers in terms of what those systemic barriers are.

When I look at it from our perspective, and the network that we've interacted with, two themes jump out as pervasive barriers, and I put them in the category of exposure and access: that's both access to opportunity and access to capital.

In terms of exposure, when I talk to our members, many say they stumbled into the hedge fund industry. It's not a very well understood space, especially when you're speaking to people

earlier in their educational path. With this dynamic, you end up with people who don't know that they should have taken a certain course, or they should have done certain internships, to be able to put themselves on the hedge fund career path. By the time they see that this is a viable space for them, it's too late.

It's very clear that there are systemic barriers that are still being worked on across different areas, whether it's in the recruitment process, the hiring process, or the retention process. In the recruitment process, a common dynamic we see is an overreliance on pedigree as a proxy for aptitude. You might have someone who didn't go to an Ivy League college, not because they didn't have the aptitude, but because their family couldn't afford it, or they weren't on the right pathway to even know how to get into these types of schools. These are all very talented people who could still do very well in our industry, but don't get the opportunity.

In terms of access to capital, the early stages of a fund launch process

are very reliant on personal wealth, and also on friends' and family wealth. We broadly understand the hurdles to that kind of wealth creation and the lack of generational wealth amongst diverse communities. So it limits the scope for being able to create institutional-sized, diverse-owned firms when the capital that they need to get started is limited in the first place.

An AIMA survey from late 2021 found that 90 per cent of hedge funds thought that it was 'important' or 'very important' to improve DE&I within the industry – what have you witnessed in terms of reform and change in 2022?

One of the most visible changes that we've seen, especially post-George Floyd, is exactly what the results point to: the widespread understanding and acceptance that this is an area that is important and deserves focus.

What's more encouraging is the fact that this acceptance is especially visible at the top echelons of firms. It's the leaders of the firms, the CEOs, the CIOs, the heads of HR, who are

speaking openly about diversity being an area of focus for them.

Some of the systemic issues that we're collectively trying to push against run deep; many are not on the surface and some of them are not even visible when you're talking about certain unconscious biases that feed into recruitment, retention and promotion.

Therefore, I believe the path to change in this area is very much a marathon and not a sprint. It's going to take a concerted and sustained effort to grow the number of diverse investment professionals and with time, to see the dynamic of the Knight Foundation statistic change.

How are organisations such as BHFPN changing the face of the hedge fund industry?

We've centralised our mission and activities around a few main themes.

The first is, for those who are already in the industry, we've provided a community and network. Many members of BHFPN are in small and mid-sized hedge fund firms, with very few colleagues who look like them. That experience can be isolating. So, creating a community where people can come meet others in the same boat, working in similar roles, finding peers, finding mentors, disseminating information and opportunities, is really one of the central areas where we see our mission: supporting diverse individuals who are already in the industry.

The second alludes back to this lack of access to information on career pathways in the hedge fund industry. We launched an initiative early last year called Future Founders - its central premise is to introduce early career professionals to the hedge fund industry and, more specifically, to help them envision what an investing career path in the industry looks like. The diversity numbers are even

more sparse in the investment space, so we've created this programme with a laser focus on an area that's most challenged, which is identifying those starting out in their careers and offering them a vision for a career as a fund manager.

We invite Black-owned founders, CIOs and senior investment professionals to have conversations with early career professional about their careers, the steps they took, and their missteps. This also allows people to connect the dots in terms of access to opportunity. We encourage members to share job postings from their firms for early career professionals. We want to play a role in the transition to entry hedge fund roles.

The final thing is the dissemination of best practices for the broader hedge fund community. We highlight what other peer firms are doing well and share feedback on the experiences of Black professionals in the industry, providing insights on how they can be improved.

We're looking to launch a sentiment survey to survey Black professionals in the hedge fund industry, to ask things such as: 'What have you experienced in the industry?'; 'How did you get into the industry, how have you progressed?'; 'What's your perception of how the industry is nurturing your abilities and your talent?'

We want to reflect this information back to the industry to show the areas where we've done well, and the areas where we can improve in terms of supporting professionals of colour in the industry.

How important is the issue of diversity among investors/allocators when it comes to allocating money to a hedge fund?

That's one of the most impactful changes we've seen in the last few years. Allocators have been willing to use both their voices and their money to



“ Firms have gone from identifying this as an important area to actionable steps to engender real change ”

nudge managers to improve their DE&I and ESG metrics.

We've also seen an increased demand from allocators for fund managers who are women and people of colour. We all see the data and statistics that show that women and people of colour perform just as well, if not better. So this evolution is not about charity - it's about creating diversified portfolios that increase the return potential for investors.

There is still work that remains to be done in terms of matching allocators' demand with supply. This goes back to some of the systematic barriers I mentioned earlier on in terms of access to capital. Early-stage seed capital, personal wealth and friends and family wealth gets managers to the point where they're considered institutional -

typically three years track record and ~USD100 million in assets - but when I count the number of Black-owned hedge funds in the ecosystem that we track, who meet this historical criteria, it is a small handful. So it's clear that collectively we need to think outside the box in terms of such metrics and also think creatively about solutions to close the capital gap and harness the skills of talented diverse investment professionals.

What else needs to be done to improve issues of diversity and representation in this space and by whom?

I think this is such a multifaceted area and for things to change there are so many people who need to be working together. Conversations I've had with BHFPN members point to one area that

needs a lot of focus at some firms, and that is a disconnect between HR professionals and senior leaders leading the charge on DE&I, and the hiring managers at the forefront of recruitment, retention and promotion. At many firms there remains a lack of broader buy-in into DE&I goals. When you have that kind of disconnect, it means that HR might be shouting from the rooftops about the importance of diversity, but a hiring manager goes in and interviews candidates and may not doesn't necessarily care. They may be set in their ways in terms of candidates they consider a good "cultural fit" for their team which is sometimes interchangeable with certain affinity biases. We need to close the gap between DE&I as a HR and senior manager-led issue, and DE&I as a business issue that is owned across a firm from the bottom

to the top.

It's one of the areas where we could see the biggest systemic improvement. It's about an understanding of the demographic evolution that we have where populations are becoming more diverse and understanding that diverse employees don't want to work at firms where they don't feel valued.

Closing that gap between senior managers, HR, and the people at the frontlines is about winning the war for talent and understanding the headline risks that are embedded in continuing to have a homogeneous and non-inclusive culture.