

# Can PE win deals if it doesn't deal with DEI?

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## Definition of DEI

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### We define DEI as:

- ▶ Diversity: the range of visible and invisible differences
- ▶ Equity: the dismantling of barriers and opening access to opportunities
- ▶ Inclusion: the practice of making sure that all are heard and valued

## Diversity Integration Model

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### How long will it take me to reach my diversity goals?

Developed by the Institute for Private Capital, a partner of the Kenan-Flagler Business School at the University of North Carolina, the Diversity Integration Model uses a few simple data inputs to calculate how long it will take PE leaders to achieve their diversity targets.

Private Equity Diversity Integration Model

<https://kenaninstitute.unc.edu/diversity-integration-model/>

Calculate

# INTRODUCTION

In the wake of recent social justice movements, the private equity (PE) industry has begun to bring the same attention and rigor to addressing diversity, equity, and inclusion (DEI) as it does to doing deals. Examples are everywhere, from firms partnering with historically Black colleges and universities (HBCUs) to setting and meeting targets for diverse hires to tying compensation to DEI targets.

In the EY 2021 Global Private Equity Survey, comprising responses from 127 PE COOs, CFOs and financial executives, talent management was the second strategic priority next to asset growth across firms of all sizes. Top talent management priorities included increasing gender and ethnic minority representation across the front and back offices, and over 70% of the PE managers surveyed said they are launching either documented or informal DEI initiatives.

But significant progress has yet to show up in industry-wide statistics and some firms have yet to begin prioritizing DEI. The reasons are many, but in short: DEI is a massive undertaking that requires fundamentally rethinking the entire employee lifecycle through a diversity lens – from recruiting to engagement to departure and beyond.

Despite being conducive to immense financial success, PE culture has not historically been conducive to DEI. The industry now faces an inflection point at which the challenges posed by legacy PE culture require an evolution in mindset and a transformation at its cultural foundation. We discuss this in depth in this report, including the industry's belief in meritocracy, its culture of apprenticeship and patterns of insularity.

With employees, limited partners (LPs), management teams of potential portfolio companies and regulators all increasingly focused on environmental, social and governance (ESG) measures, including DEI, firms that don't prioritize DEI risk losing the best people and the best deals, not to mention capital from LPs. How firms navigate this in the next few years will affect their brand, their reputation and, ultimately, their very survival.

This report strives to help PE leaders recognize DEI as an existential imperative and provide the data, insights and tools needed to inspire introspection, assessment, and action. The EY organization has collaborated with the Institute for Private Capital, a partner of the Kenan-Flagler Business School at the University of North Carolina, and the analysis incorporates data from research conducted by Level 20, a not-for-profit organization dedicated to improving gender diversity in the European PE industry.

DEI is a crucial and dynamic topic that continues to evolve. Accordingly, we plan to periodically update this report to capture insights learned from the progress being made across the PE industry.

# THE CURRENT STATE of DEI in private equity



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Sweden's EQT in 2020 instituted conscious inclusion training for its global team and met a target to recruit 65% women.

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The PE industry is putting some real muscle behind DEI. The Institutional Limited Partners Association has launched its Diversity in Action initiative, with more than 200 organizations signing on. Level 20, a not-for-profit organization that promotes gender diversity in European PE, has more than 80 firms as sponsors. Efforts to measure and make diversity transparent are taking off, with consulting firm Equality Group launching its first Inclusive Top 20 PE and VC Index and planning annual updates showing how firms are doing.

A growing list of individual firms have recently made progress on DEI initiatives, including:

- ▶ Sweden's EQT in 2020 instituted conscious inclusion training for its global team and met a target to recruit 65% women.<sup>1</sup>
- ▶ The Carlyle Group and Blackstone Group have both committed to fill around a third of portfolio company board seats with directors from diverse backgrounds.<sup>2,3</sup>
- ▶ The Carlyle Group also requires at least one candidate that is Black, Latino, Pacific Islander or Native American to be interviewed for every new role. Advent International has a similar mandate for mid- or senior-level roles.<sup>4</sup>
- ▶ Approximately 50% of TPG's recent associate classes are either women or racially or ethnically diverse.<sup>5</sup>
- ▶ Apollo Global Management, Oaktree Capital and Ares Management began a 10-year, US\$90 million partnership with three HBCUs to train and provide career opportunities for Black students.<sup>6</sup>
- ▶ Partners Group plans to diversify their Financial Analyst Program by hiring 40-60% of program members from under-represented groups in each region into their 2022 Financial Analyst Program class. (Partners Group, 2021).
- ▶ The National Association of Corporate Directors (NACD) and Vista Equity Partners Launched a new program that seeks to increase diversity among professionals who wish to serve on audit committees of the boards of private and public companies. (NACD, 2021).

While initiatives are beginning to proliferate, the scope of the challenge remains large. The world of finance is infamous for its challenges with diversity, and the problem is particularly acute in PE and other alternative asset classes.

- ▶ In finance broadly, women account for an equal proportion of the workforce in entry-level positions.<sup>7</sup> In PE, that figure is one-third.<sup>8</sup>
- ▶ In finance broadly, 20% of executive committee roles are filled by women, and only 6% of CEOs are female.<sup>9</sup> In PE, women fill 20% of mid-level roles and 10% of senior roles.<sup>10</sup>
- ▶ Similar trends are seen for ethnic minorities. At banks, 12% of employees are Black and 11% are Latino, approximating these groups' representation in the broader workforce. These figures decline to 4% or less at senior executive levels.<sup>11</sup> In PE, the figures are lower: 3% Black employees across all roles at firms, with that figure declining even more at more senior levels.<sup>12</sup>
- ▶ The numbers aren't good at portfolio companies, either. A recent study from the Board Diversity Action Alliance asserts that Black and Latino directors each held about 1% of board seats created at companies backed by the top 18 PE and venture capital firms, with women holding 10%.<sup>13</sup>

Recent efforts have yet to significantly budge the industry's numbers – and, therefore, its reputation. Level 20's latest study with the British Venture Capital Association shows 10% of senior investment roles are held by women, compared with 6% in 2018, for example.<sup>14</sup>

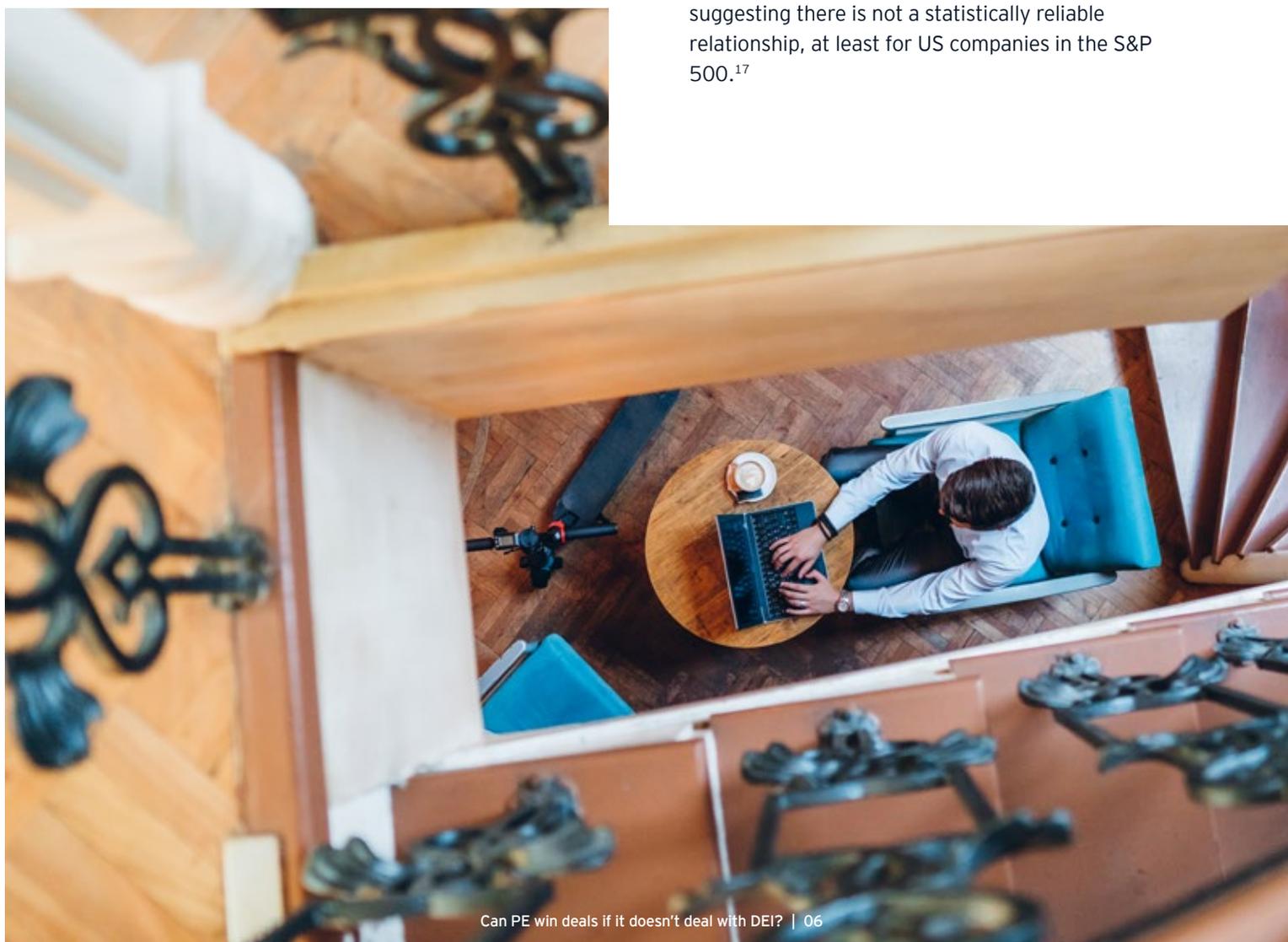
# THE RATIONALE for implementing DEI

It goes without saying that implementing DEI is the right thing to do. An increasing focus on social justice – exemplified by movements like Black Lives Matter – has shined a harsh spotlight on systemic inequalities and prompted action based on an incontrovertible moral case. But there are multiple other reasons to consider DEI as well.

## The research

There is an increasing body of research about the relationship between DEI and operating performance.

Research published in *The Financial Review* documented a positive relationship between corporate board diversity and firm value for publicly traded companies in the US.<sup>16</sup> However, recent research by Jeremiah Green and John R.M. Hand challenges the relationship between performance and diversity, suggesting there is not a statistically reliable relationship, at least for US companies in the S&P 500.<sup>17</sup>



In the private markets specifically, research has found that improved gender diversity improved venture capital deals and fund performance.<sup>18</sup> More in-depth research found that sociodemographic diversity among lead partner teams of PE funds positively affects buy-out performance, but that other types of diversity related to professional experience and educational background can negatively affect performance.<sup>19</sup>

The research, however, isn't unanimous, and half-hearted DEI initiatives can impede progress. There is some evidence that certain aspects of diversity create challenges and costs that could offset benefits, particularly when implemented without careful consideration of the full range of stakeholders.

Research shows that that insincere attempts at creating a more diverse workforce can backfire by creating a toxic culture of tokenism.<sup>20</sup> Other studies show that talented and experienced professionals flee organizations in which they perceive they are tokenized. Organizations can compound problems if they try to solve diversity challenges by hiring people who are less experienced, a move that can escalate internal cultural challenges and affect financial performance.

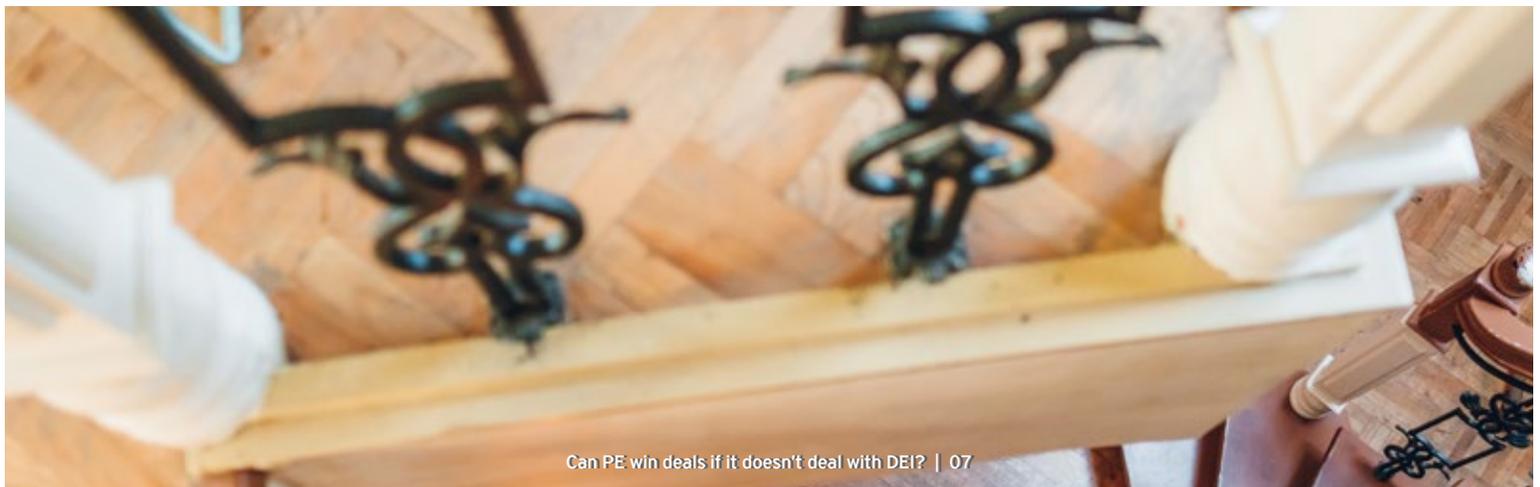
Investors often take note and may penalize firms by ascribing lower valuations. For example, research examining diversity that is mandated by regulators shows that when boards are forced to diversify by adding less qualified directors, it results in lower firm value. In the PE industry specifically, there is evidence that LPs see through attempts by general partners (GPs) to "window dress" return performance so it's not unreasonable to expect the same is true for evaluations of DEI success.<sup>21</sup>

Research continues to emerge. The Carlyle Group has in-house data that it shared in 2020 showing that its companies with diverse boards grew five times faster than those with non-diverse boards.<sup>22</sup> We expect that over time, the preponderance of evidence will come to support diversity's positive impact on performance.

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## Half-hearted DEI initiatives can impede progress.

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PE firms have multiple constituencies that favor DEI, meaning there's an argument to be made in support of better returns in the form of happier, more productive employees and better access to both capital and deals.

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## The stakeholders

Regardless of where the research lands, PE firms have multiple constituencies that favor DEI, meaning there's an argument to be made in support of better returns in the form of happier, more productive employees and better access to both capital and deals.

- ▶ **Regulators** worldwide are looking more seriously at requiring diversity disclosures and other steps to boost DEI in the industries they oversee. British regulators have authored a working paper outlining their role in DEI, including a pilot data survey.<sup>23</sup> The Securities and Exchange Commission and other US regulators have also been discussing what steps to take, including requiring diversity data disclosures, with an SEC commissioner noting, "We should reflect on how the SEC could more systematically consider gender, racial, and other representation disparities in its policymaking."<sup>24</sup>
- ▶ **Employees**, particularly among younger generations, prefer to work in diverse environments. Nearly 80% of workers in a 2021 CNBC/SurveyMonkey Workforce Survey say that they want to work for a company that values DEI.<sup>25</sup>
- ▶ **LPs** are rapidly adopting DEI criteria. More than 200 organizations – including Warburg Pincus, Vista Equity Partners, KKR, Advent International and Apax – have signed on to the Institutional Limited Partners Association's (ILPA) Diversity in Action initiative since it launched in December 2020. This initiative requires participating organizations to commit to certain actions, including having a DEI statement, tracking hiring and promotions by gender and race or ethnicity, and offering up DEI demographics data while raising funds. A related ILPA survey found that



87% of LPs either have or are developing a DEI policy or statement; and 40% are considering incorporating DEI metrics into their diligence processes.<sup>26</sup> We view that percentage as likely to grow even higher with time because the direction of travel is clear – PE firms without diverse workforces risk losing allocations from highly coveted institutional investors.

- ▶ **CEOs and founders** are increasingly seeking investors that share their values. For example, in October 2021, Blackstone took a majority share in the iconic women's shapewear brand Spanx, whose female founder worked with all-female deal and legal teams, and Blackstone pledged to appoint an all-women board.<sup>27</sup> With a record US\$1.3t in dry powder and fierce competition for compelling assets, PE firms are looking for an edge in the negotiations

with entrepreneurs and family business owners. As diverse and allied CEOs increasingly take seats at the deal table, they actively seek partners who can do more than provide capital and operational expertise; they want partners whose values align with or can enhance their own. The competitive edge PE firms so desperately seek will increasingly come from an authentic and compelling story around shared values, including a shared commitment to diversity.

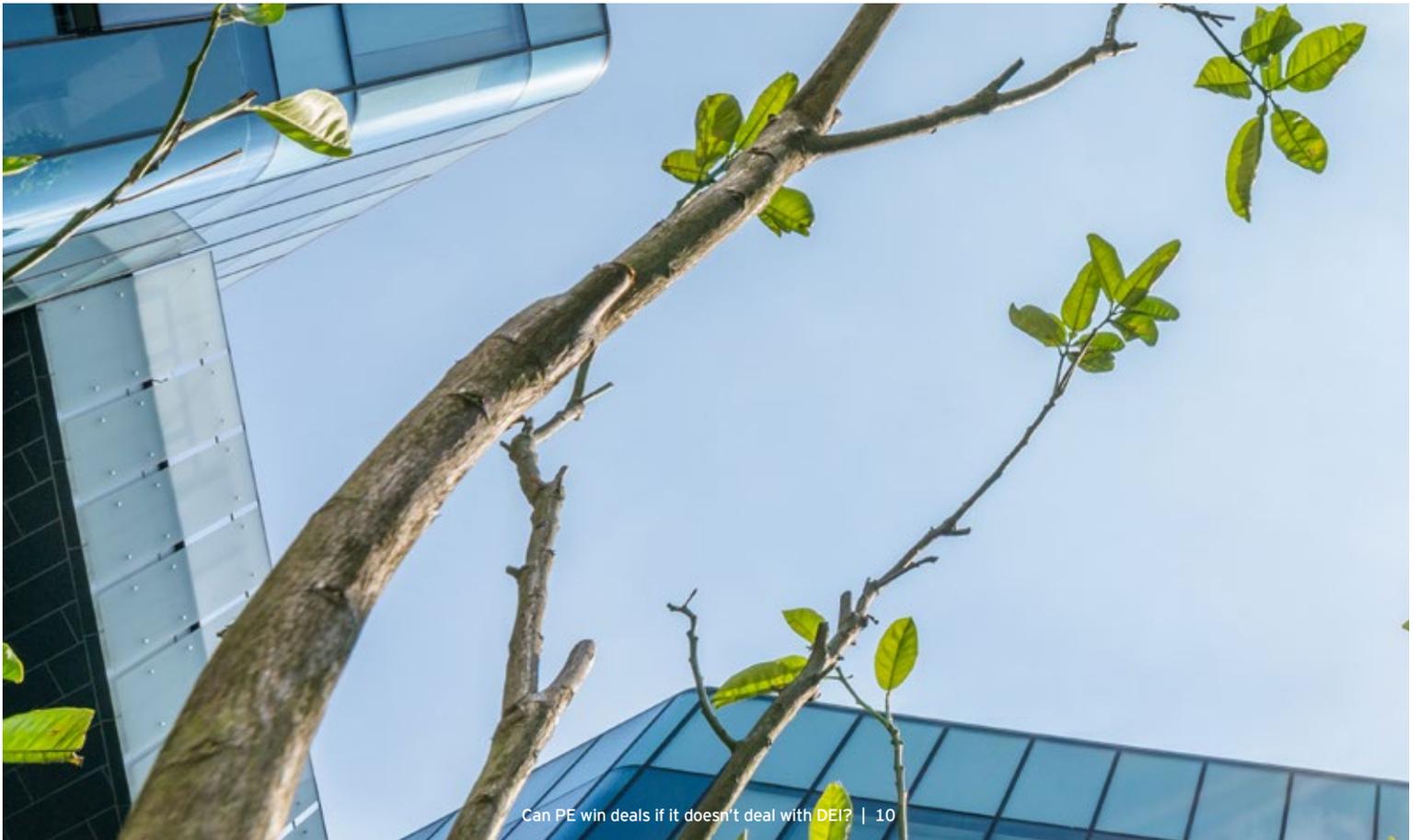
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No simple blueprint exists showing how to “do diversity right.”

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# A LONG-TERM EFFORT with long-term value





DEI is a continuous process. At many firms, initiatives are in the early stages, and still need codifying and systematizing. Many others, especially those in the middle market, have yet to start. A recent survey from PineBridge Investments found that more than a third of firms have not yet taken formal action to support equity and advancement of women and other employees from traditionally underrepresented groups.<sup>28</sup>

Indeed, for these firms that have yet to take formal action, a number of factors could be at play, such as:

- ▶ Managers may not be aware of the ways in which a lack of diversity impacts their teams and investment decisions from day to day, therefore causing reluctance to embrace such a major undertaking.
- ▶ Middle-market firms in particular may lack the resources to dedicate to DEI initiatives, thus reverting to the shorter-term, transactional mindset of dealmakers – a mindset that is not conducive to DEI.
- ▶ Firms may have chosen to focus their efforts on their portfolio, rather than themselves. Indeed, the math is clear – while a PE firm may employ perhaps 100 or maybe 1,000 people, the portfolio companies they own could employ millions. As a lever for social justice, the portfolios in many ways represent the greater opportunity; however, this doesn't absolve firms from making changes at the GP level.

Even for those firms that have begun their journey, progress will take time. Many firms only recently began expanding their hiring pipelines to include more diverse groups. It takes time to hire, train and promote, and industry executives have mentioned timelines of three to five years to begin seeing results. And, as discussed later in the report, retention can be difficult if diverse employees don't feel included in firm culture, lengthening the timelines to achieve diversity targets. No simple blueprint exists showing how to “do diversity right” – meaning DEI sometimes can seem like a process of two steps forward and one step backward, as firms consider and reconsider their initiatives.

Considering the extended time frame for DEI initiatives to bear fruit, firms that haven't started are already well behind. Inaction is a kind of action, and further delay bears the risk of making firms seem inauthentic in their efforts, hindering their ability to raise capital and do deals, tarnishing their legacies and ultimately endangering their survival.

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No simple blueprint exists showing how to “do diversity right.”

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# The two available levers: **RECRUITMENT AND RETENTION**

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To hire underrepresented groups, PE firms must convince them that they will have meaningful careers in a diverse, supportive workplace.

To retain them, PE firms must follow through on their promises.

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To move toward truly diverse, equitable and inclusive workforces, firms at the most fundamental level have two main levers available to pull: recruitment and retention.

**Recruitment.** Firms must reconsider and rebuild their hiring practices. Many firms already do this, including by:

- ▶ Requiring diverse candidates be interviewed for every open position
- ▶ Setting targets, such as hiring 40% female associates in a given year
- ▶ Expanding interviewing channels to include, for instance, HBCUs

Recruiting is complicated by the current lack of diversity in the industry, which means that every firm trying to build diversity in its middle and senior levels is competing for the same pool of talent. One way around this is to broaden the qualifications to include diverse candidates from fields other than finance. There is some evidence that this is happening; executives at firms we spoke with said they are increasingly willing to hire at more senior levels from different channels than other PE firms and investment banks – for instance, consultants and insurance companies.

**Retention.** Recruiting is the most obvious low-hanging fruit. It's easier to hire diverse candidates than it is to retain them in cultures that aren't transforming to become more inclusive. PE has historically struggled to retain diverse talent, and the sparse data that exists on the topic suggests little improvement has been made in recent years.



One study that looked at data from 1995 to 2000 found that the attrition rate of women in private markets was nearly double that of men. Sixty-four percent of the women identified in 1995 were no longer in the industry in 2000 vs. 33% of the men.<sup>29</sup> In a more recent Australia-specific survey in 2020, the Australian Investment Council reported similar results, and additionally found that the highest attrition rates were among junior women.<sup>30</sup> In another 2020 survey, Investec found that 21% of women are dissatisfied with their careers in PE, compared with 8% of men.<sup>31</sup>

Without solid retention rates, hiring more diverse employees is neither an impactful nor sustainable approach. For instance, a firm that sets a target of having 40% female staff overall and begins hiring 60% female employees per year to “catch up” will never reach its 40% target if it retains female staff at two-thirds of the rate of its male staff. To calculate how long it will take to reach your diversity targets, view the Diversity Integration Model interactive tool created by the Kenan Institute of Private Enterprise, a partner of the Kenan-Flagler Business School at the University of North Carolina.

## How long will it take to reach my diversity goals?

The institute for Private Capital's Diversity Integration Model calculates how long it will take to achieve diversity targets.

Calculate

<https://kenaninstitute.unc.edu/diversity-integration-model/>

## The pivotal role of recruitment and retention: a case example

While the crux of the challenge lies in building an authentic culture that embraces diversity, it's useful to understand the mechanics of the problem as well. Ultimately, PE firms have just two levers to pull in generating a diverse workforce: recruitment and retention. And both are critical. What many in the industry may not realize – particularly those who are not fully focused on issues of talent and human capital – is the extent of the commitments that are required for firms to achieve a meaningfully diverse workforce.

To illustrate this, consider an example using a hypothetical PE firm that seeks to increase the percentage of women investment professionals from 20% to 40% as quickly as possible. While this example focuses on women, the same model could be applied to any underrepresented group.

While the real world is much more complex, assume for the sake of simplicity that all professionals have similar qualifications and the size of the professional staff at the firm is fixed – assumptions that let us isolate the importance of recruitment and retention. Again for simplicity, assume that new employees are recruited to replace exiting employees and so the key driving variables determining how long it takes the firm to meet its goal are a) the percentage of new hires who are women and b) the retention rates of men and women.

We start by considering the case in which retention rates are the same for men and women – specifically, 80% of both men and women stay at the firm each year. The firm seeks to reach its target of 40% women by increasing the proportion of new hires who are women. Of course, the proportion of women must be higher than 40% for it to ever reach its target, and the higher the proportion, the faster it meets its goal. Table 1 shows the number of years it is expected to take to reach the 40% target for different proportions of new hires who are women.

**Table 1. Years to reach goal with same retention rates for men and women**

Proportion of new hires who are women	Number of years to reach goal of 40% women
40% or less	Never
50%	6
60%	3
70%	2.5
80%	2

When half of the new hires are women, it takes about six years to reach the goal. Increasing the new hire proportion to 60% leads to much faster achievement and, of course, higher proportions of women new hires (70% and 80%) will result in attaining the 40% goal even more quickly, but the reductions in time are smaller.

This may seem like good news for firms that believe they can recruit women as 60% of their new hires – or it may seem like a big challenge for firms that have been trying to recruit women but are failing to achieve this goal. Either way, it is just part of the story. A note: the assumption that retention rates are the same for men and women is both unrealistic and crucial. Data suggests that retention rates for women in PE are lower than for men, and this is especially true for women in more senior roles and on investment teams.<sup>33</sup>

Considering this fact, what happens to the expected time to reach the goal of 40% women employees if retention rates are below 80%? Table 2 shows the number of years it would take to reach the goal when retention rates for women are 10%, 20% and 30% lower than for men. The first column repeats the data from Table 1 for comparison. The next column shows that a retention rate for women that is just 10% lower than for men more than doubles the time (from 6 years to 13 years) it takes to reach the goal when women make up half of the new hires. Even worse, if retention rates are 20% or 30% lower for women, the firm will never reach its goal when 50% of the new hires are women. Clearly, it is not enough to just hire a slightly higher proportion of women – the firm must retain women at the same rate as men, or it surely will not succeed. A more robust approach to achieving the goal of 40% women employees is to increase the new hiring proportion to 60% women (or higher). In this case, retention rates are still important, but there is a less dramatic impact from a somewhat lower retention rate for women. Nonetheless, the firm will never reach its goal, even if 60% of new hires are women, when retention rates are much lower for women (i.e., 30% or lower).

**Table 2. Years to reach goal with lower retention rate for women**

Proportion of new hires who are women	Number of years to reach goal of 40% women			
	Same retention rate	10% lower	20% lower	30% lower
40% or less	Never	Never	Never	Never
50%	6	13	Never	Never
60%	3	4	6	Never
70%	2.5	3	3	4
80%	2	2	2	3

Firms must succeed on two fronts to achieve and sustain a goal of 40% women employees. They must both increase the proportion of women new hires and aggressively try to retain them at nearly the same rate as men. Again, we note that the same conditions apply to underrepresented minorities and other diverse groups. To help organizations calculate how long it will take them to achieve their diversity targets, we built an interactive tool that uses a few simple inputs to explore different recruitment and retention scenarios. It is available at <https://kenaninstitute.unc.edu/diversity-integration-model/>. [Calculate](#)

# HOW PE CULTURE can impede DEI

PE culture is distinct. On the one hand, it has fostered enormous growth and financial success. On the other hand, it hasn't sufficiently valued high-performing individuals who may not fit the traditional success prototype that is deeply embedded in PE firm culture and operational processes. Below are 10 characteristics of PE culture that can create de facto barriers to DEI.

**Driven by returns.** As an industry that bases its model around investor returns, as well as KPIs and a clear connection between action and impact, it's perhaps a lack of tangibility that has led PE firms to delay their focus on acting toward improving diversity.

**Playbook mentality.** Investment decisions are informed by what has worked well in the past, fostering a mindset that seeks assurance and certainty from prior successes. Firms often have archetypes for deals and well-defined processes for creating value. When it comes to DEI and the possibility of upending legacy PE culture, the resulting hesitation to sail into uncharted waters is understandable, despite being problematic.

**Fear of the unknown.** Inconclusive data, combined with a pervasive lack of exposure to and experience with diverse employees, can foster skepticism about whether diverse teams truly outperform homogenous teams that have historically been so successful.

**Culture of apprenticeship.** PE is not just an industry, it's a way of thinking. Like a trade or craft, "tricks of the trade" are shared one-on-one and often in informal

settings that can be inherently exclusive. Diverse candidates may not share the same outside-of-work interests during which much learning takes place.

**Succession plateau.** While this is changing at many firms, some remain top-heavy, with economics skewed heavily toward founders and a small group of very senior partners. New entrants may be less able to see a clear path of upward mobility.

**Fast pace of hiring.** The speed at which hiring decisions are made can further engrain the intrinsic bias of decision-makers, especially when the talent pool of diverse candidates is small.

**Insularity.** Many underrepresented minorities (URMs) and others simply aren't familiar with what PE is and what it does. They don't come from backgrounds where PE is talked about as a potential career choice, so they may not opt into the industry. There exists an inherent bias toward candidates from privileged backgrounds, where tomorrow's professionals are exposed to various degrees of PE and the broader capital markets ecosystem. PE's long-held tendency to keep data private may also hinder awareness of DEI improvements in the industry if diversity data remains closely held.

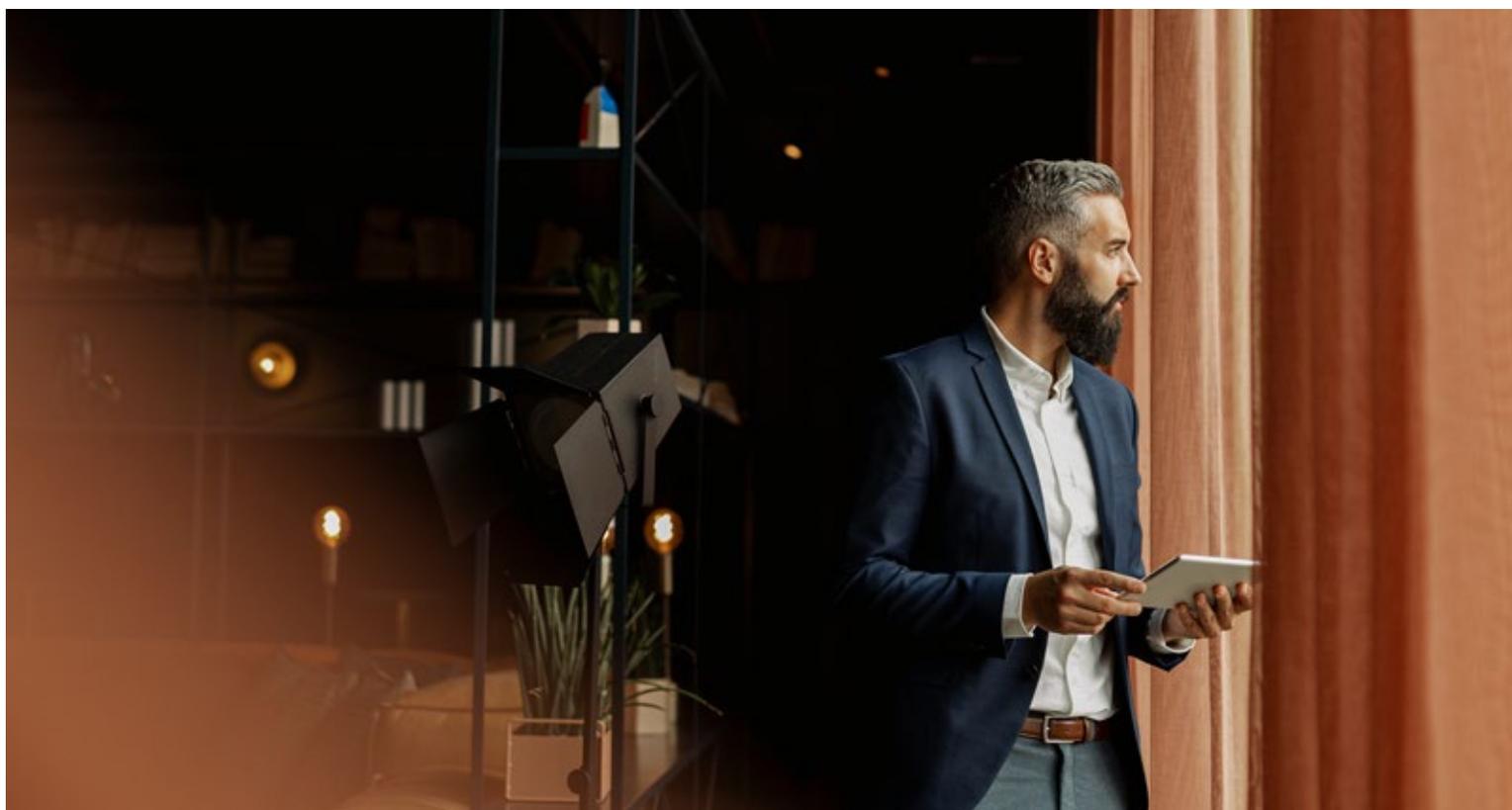
**Consensus-building.** Firms that are exclusively focused on building consensus can overlook the value of diverse thinking. A hallmark of the highest-performing PE firms is their success in engraining diversity of thought into their investment decisions.

**Belief in meritocracy.** Many PE firm executives believe they are a meritocracy that rewards objectively measured performance; however, given that most PE firms aren't diverse, it's likely they have "success prototypes" – preconceived notions about how a successful leader looks or behaves – hardwired into their firm culture, rendering true meritocracy impossible. Challenging this concept of meritocracy is perhaps one of the most important things a firm can do.

**Dated incentive structures.** One of PE's most powerful tools is the alignment of incentives across LPs, management teams and within the firm itself. But structural incentives have not fundamentally changed in 20 years, meaning they don't measure, reward, or penalize behaviors related to DEI. This is beginning to change. In ILPA's diversity survey, 22% of LPs indicated that progress on DEI will be a factor in their decision to invest in a successor fund.<sup>34</sup> The Carlyle Group, meanwhile, has taken the step of tying a portion of compensation to diversity targets.<sup>35</sup>



# ASSESSING THE EMPLOYEE LIFE CYCLE through a DEI lens



A PE firm's cultural mores are deeply and unconsciously intertwined and internalized in behavioral norms that, until very recently, have not been scrutinized through a DEI lens. While PE is a relatively young industry, it nonetheless faces the daunting task of excavating its shortcomings and incorporating DEI into a culture that was historically designed to be exclusive.

Before you act, take some time to self-assess. The question set below is designed to help firms explore the experiences their diverse talent is currently having and illuminate the deficiencies that can disproportionately impact diverse talent so they can take intentional, meaningful steps to improve their experiences.



**Before you act,  
take time assess.**

## Talent acquisition

### **Employer brand: how the talent market perceives your firm's DEI practices**

- ▶ What is our firm's position on DEI?
- ▶ How does DEI align with our firm's ESG strategy?
- ▶ Which factors or stakeholders motivate us to care about DEI?
- ▶ What opportunities could we potentially miss out on by not courting diverse talent?
- ▶ Which DEI-related KPIs do we track across all employee ranks?
- ▶ How are we holding our portcos accountable for addressing DEI?
- ▶ Have we communicated a focus on and commitment to DEI with our employees and recruits?
- ▶ Have we addressed DEI in a public setting and if so, what is our messaging?
- ▶ Do we sufficiently engage with and support minority-owned businesses and entrepreneurs?
- ▶ If we and other PE firms were more vocal on social justice issues, what is the potential cost/benefit?
- ▶ What do we want our firm's brand to mean 10 years from now?

### **Recruitment process: how your firm is cultivating diverse talent in your pipeline**

- ▶ Is there sufficient alignment between our talent/HR and deal teams?
- ▶ How diverse is our recruitment team?
- ▶ Are both internal and external recruiters aware of and aligned with our DEI goals?
- ▶ To what extent are our recruiting processes designed to be unbiased, inclusive and equitable?
- ▶ Have we trained our recruiters on unconscious bias and mitigations when recruiting?
- ▶ Do we have a committee or advisory group to evaluate candidates with diverse backgrounds?
- ▶ From which schools can we recruit to ensure we are considering diverse candidates?
- ▶ Which organizations or initiatives can we support to help us build awareness and positive sentiment of our firm among diverse candidates?
- ▶ How active are we in ensuring board diversity across the portfolio?



### **Leadership development and succession planning: how our leaders demonstrate and enforce DEI behaviors**

- ▶ What definition of “diversity” has our firm agreed on?
- ▶ How diverse are the senior ranks of our firm?
- ▶ How do the biases of a homogeneous leadership team potentially “trickle down” to associate classes in ways that impact DEI?
- ▶ What is our leadership team doing to respect, include and value underrepresented voices?
- ▶ What can I and other firm leaders do differently to build relationships with diverse employees?
- ▶ Which DEI-related KPIs has our leadership team identified and built consensus around?
- ▶ Do we have a formal succession plan?
- ▶ Is DEI baked into our succession plan?
- ▶ Are current managing partners focused on developing diverse talent to be senior leaders at our firm?
- ▶ In 10 years, what will a successful management team look like for us?
- ▶ Are we willing to lean into the discomfort that is necessary for us to lead our firm toward a more diverse, equitable and inclusive culture?

## **Talent engagement**

### **Performance management: how we support development of individuals**

- ▶ By what criteria do we evaluate performance?
- ▶ In what ways are these criteria potentially biased in favor of majority employees?
- ▶ At what cadence can we commit to providing actionable, constructive feedback?
- ▶ Have we formally committed to mentoring and sponsoring our diverse talent?
- ▶ Have we implemented processes and incentives among mentors and sponsors of diverse talent?
- ▶ How are we holding all employee ranks accountable for progress against our DEI KPIs?
- ▶ What are we doing to address bias and promote fairness among managers doing performance reviews?
- ▶ To what extent do we consider how cultural differences can potentially impact career development?
- ▶ Do we have the technology and systems in place to capture the data we need to track our DEI KPIs?

### **Belonging and culture: how our firm culture supports inclusion**

- ▶ Are we asking diverse employees for feedback about our culture?
- ▶ How do our diverse employees describe our culture?
- ▶ Have we defined and communicated our position on and expectations around DEI to our employees?
- ▶ Do powerholders at our firm understand and value the parts of our diverse employees' life experiences that are influenced by their race or gender?
- ▶ To what extent do we incentivize and reward inclusive behavior?
- ▶ How do we encourage our employees to be their authentic and full selves at work without fear of repercussion?
- ▶ What are we doing to ensure our working relationships are conducive to mental health?
- ▶ Do we provide a channel outside traditional reporting structures through which employees can communicate feedback without fear of repercussion?
- ▶ How are we helping diverse employees belong by creating resource groups or other affinity organizations to build belonging?
- ▶ Do we observe and celebrate the holidays and festivals that are important to our diverse employees?

### **Career pathways: how our firm supports the ability to learn and grow**

- ▶ Historically, what has been the career path of diverse employees?
- ▶ Have we done a risk assessment on all employees to evaluate relative performance among different demographics?
- ▶ How do we currently staff "lighthouse" deals?
- ▶ How can we address favoritism and bias among senior members of the investment team when staffing projects?
- ▶ Are diverse employees given mentors to support and advocate for them?
- ▶ How can we motivate our senior leaders to mentor and sponsor diverse employees?
- ▶ Pay equity: How equitable our total rewards package is
- ▶ Have we examined our firm compensation structures with equity in mind?
- ▶ How much oversight do we currently have into pay equity across our portfolio?
- ▶ Do we have processes and measurements in place to ensure diverse employees are paid fairly and equitably?
- ▶ Are there addressable concerns or discrepancies between compensation of diverse and majority employees?
- ▶ Are our benefits (monetary and non-monetary) equally accessible to diverse employees?
- ▶ Does our benefits package address the needs of diverse employees?
- ▶ How are we ensuring our family leave policy doesn't create de facto barriers to career advancement?

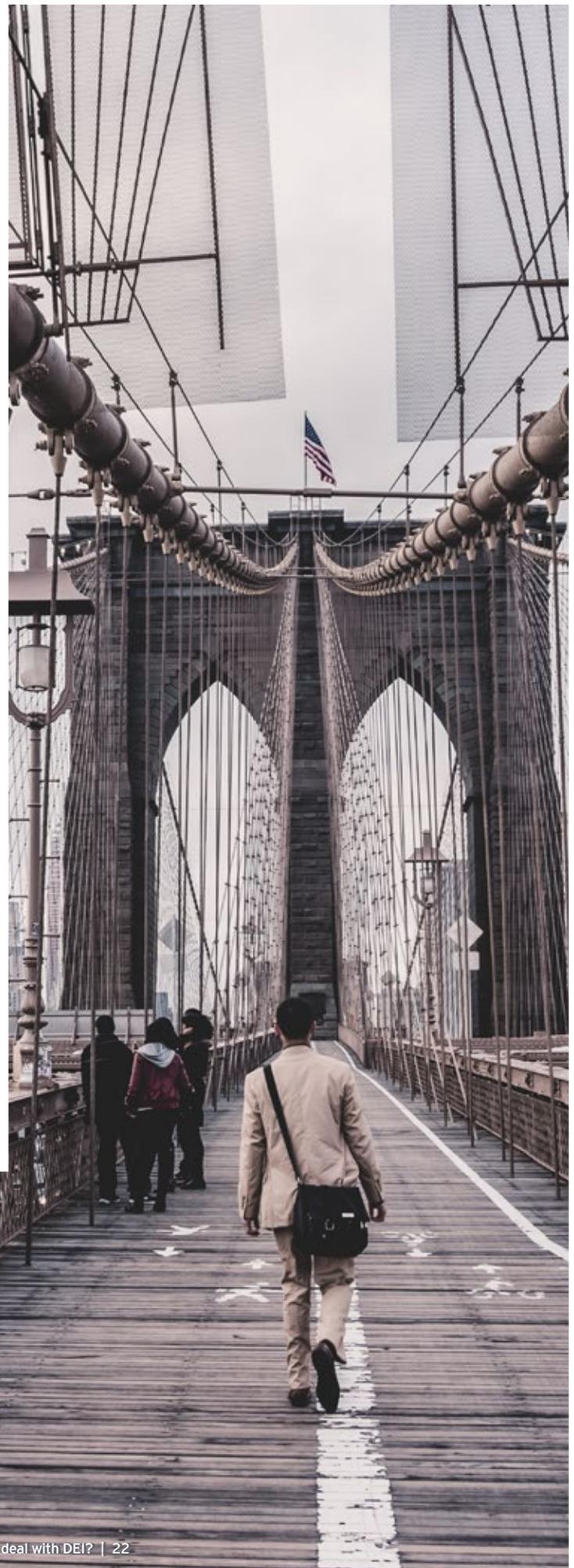
## Talent departure

### Exit process: how departing employees are treated

- ▶ Are we tracking and analyzing any discrepancy in attrition rates for diverse vs. majority employees?
- ▶ If diverse employees are leaving our firm, what is the root cause for their departure?
- ▶ Are we asking questions about DEI in exit interviews at both firm and portfolio levels?
- ▶ How are we incorporating the feedback we receive in the exit process?
- ▶ How can we course-correct upstream to avoid losing diverse talent?
- ▶ Are diverse departing executives starting their own, potentially competitive firms?

### Alumni network: how employees stay engaged with our firm after departure

- ▶ What is our reputation among diverse talent in the market?
- ▶ What are we doing to inspire positive sentiment about our brand and firm leaders among our alumni?
- ▶ Are we continuing to connect with and engage our diverse employees after they depart the firm?
- ▶ How can we improve our rate of returnship?
- ▶ What external networking opportunities or groups are available to diverse PE industry practitioners?
- ▶ Should we consider creating or sponsoring external networking opportunities or groups to support diverse PE industry practitioners?



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