Diversity is Good Business for Advisory Firms

FlexShares research shows how cultivating diversity can position advisors to thrive as U.S. demographics shift

INSIGHTS FROM FLEXSHARES ADVISOR TEAMS & DIVERSITY STUDY

Key Takeaways

- The U.S. population is rapidly becoming more diverse, but the advisory industry remains very homogenous.
- Clients tend to work with financial advisors with similar demographic traits to them.
- Research suggests that consciously pursuing greater diversity also offers a range of benefits for recruiting, retention and firm culture.

This research was conducted in October-November 2019—before the coronavirus crisis. While financial advisors are working urgently to address the crisis, as soon as it passes they will need to re-focus on strategic business efforts.

FlexShares' study on financial advisors' diversity perspectives and practices identified numerous benefits for firms that position themselves for shifting demographic tides. But it also found that many firms—particularly smaller ones—may be missing the boat.

ON DIVERSITY, A DISCONNECT BETWEEN INVESTORS' WORDS AND ACTIONS

The financial advisory industry is much whiter and more male than the U.S. population. FlexShares research finds that actively pursuing greater diversity may help advisory firms position themselves for future success.

When it comes to advisors reflecting the population, the gaps are significant. In 2018, the U.S. Census Bureau, the Center for Financial Planning and Cerulli Associates reported that:

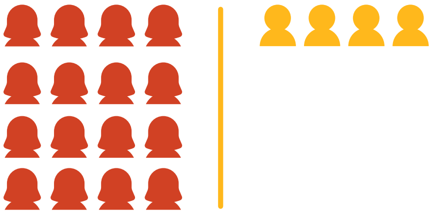
- 31.7% of the U.S. population is black or Latino (Census Bureau)
- 3.5% of CFP® members are black or Latino
- 50.8% of the U.S. population is female (Census Bureau)
- 13.8% of financial advisors are female (Cerulli Associates)

The divide could expand in the future. The U.S. Census Bureau projects that white Americans will make up less than half of the U.S. population by 2045. At the forefront of this change is the Millennial generation, the most diverse generation in America and the largest generation currently in the workforce.

The CFP Board Center for Financial Planning notes that in 2015, the wealthiest fifth of black and Latino households numbered more than five million and had average wealth of approximately $400.000.

THE POWER OF SHARED BACKGROUNDS

4x Women in the FlexShares study are four times more likely than men to work with a female advisor.



91% of male clients work with male advisors

98% of white clients work with white advisors

75% of Asian clients work with Asian advisors

63% of non-white, non-Asian clients work with non-white, non-Asian advisors

"Some clients may refuse to share full information with their financial advisors. One of many reasons could be the belief that finances are considered a very private matter in many households. Different cultures may play a role in this belief. Being aware of such views might make it easier to work with these clients."

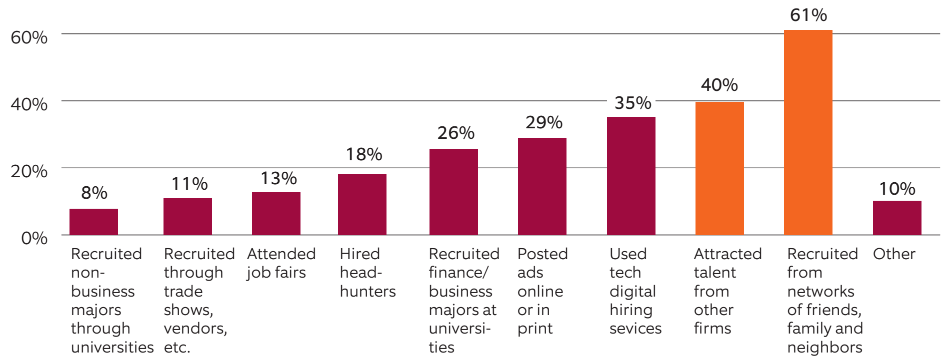
—Xianwu (Sean) Zhang, assistant professor at the Boler College of Business at John Carroll University

THE RECRUITING GAP

Our research found that many firms' staff diversity challenges start with recruiting. Advisors continue to recruit mainly through their own personal networks (see chart below). Focusing so heavily on that recruitment method is likely to reinforce the industry's homogeneity even as investor demographics evolve.

RECRUITMENT METHODS ARE REINFORCING THE STATUS QUO

How has your firm recruited and hired new professional talent?



Source: FlexShares *Advisor Teams and Diversity Study*, 2020.

Why does this matter? Because investors' actions tell a different story than their words. Most survey respondents say they have no preference for their advisor's race or ethnicity (68%) or their advisor's gender (76%). But when it comes time to hire an advisor, respondents showed a clear preference for advisors who are like them in key ways (see statistics, left). This is possibly because when faced with the critical decision about which professional to trust with their finances, investors prefer an advisor who they feel can empathize with their life experience.

"From my perspective this means that investors are telling us, 'I want an advisor who 'gets' me,'" says Laura Hanichak Gregg, senior vice president and director of Practice Management and Advisor Research at FlexShares and sponsor of the study. "For women it's most likely a female advisor. For people of color, an advisor of color."

What you can do:

Plan your approach to diversity.

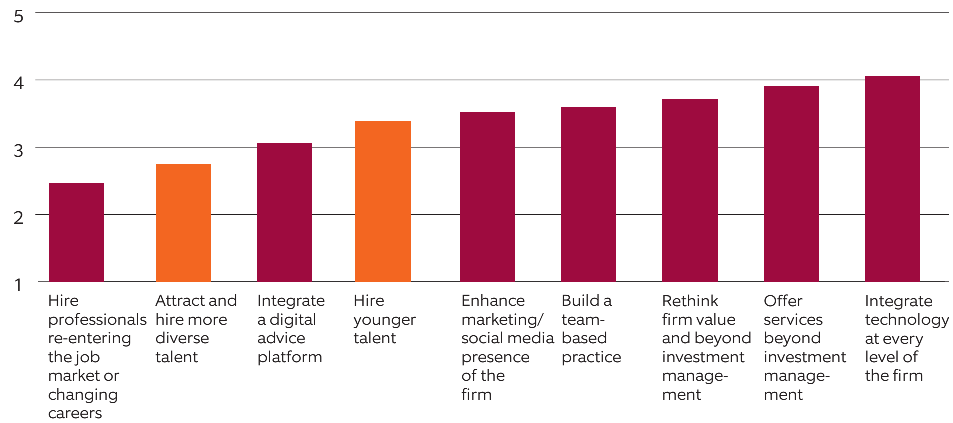
- Set goals that are appropriate for your firm, such as hiring a specific number of non-white, non-male advisors within two years.
- Map out interim steps, such as recruiting methods, clarify who is responsible for them and set deadlines.

LARGE FIRMS ARE MORE DIVERSITY FOCUSED

Despite investors' preferences for advisors who they feel grasp their experiences and perspectives, the advisory industry on the whole considers diversity only modestly important. Fewer than half of advisory firms—45%—call diversity a high priority. And when asked to score nine types of firm initiatives, "Attract and hire more diverse talent" came in second-to-last, and "Hire younger talent" was sixth.

RANKING DIVERSITY

How important will success in the following initiatives be to a firm's ability to align with the future of the industry and grow? (1 least important, 5 most important)



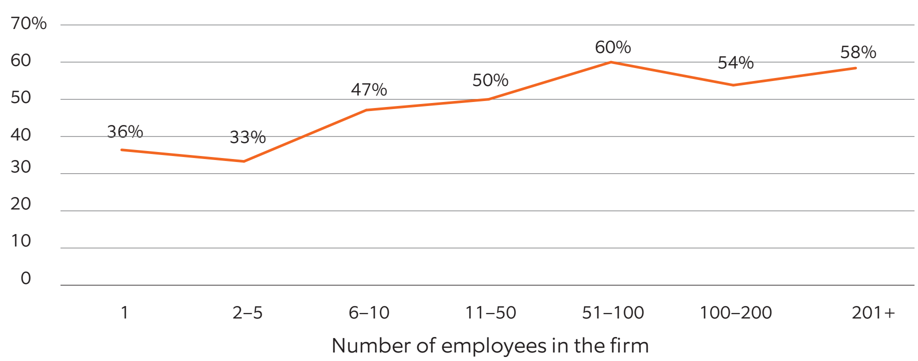
Source: FlexShares *Advisor Teams and Diversity Study* 2020.

That said, larger firms are much more likely than small firms to consider diversity a strategic priority.

"Large firms may have more resources," says Malcolm Ethridge, CFP, executive vice president of CIC Wealth in Rockville, Maryland, and a board member of the Association of African American Financial Advisors. "But smaller firms that commit to the cause can benefit, too."

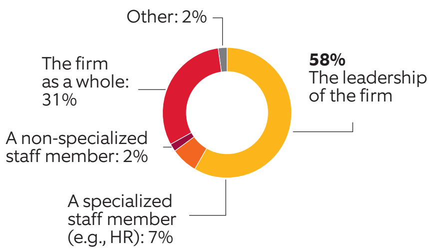
LARGER FIRMS ARE MORE LIKELY TO PRIORITIZE DIVERSITY

Should increasing staff diversity be a strategic priority? (Percentage answering yes)



Source: FlexShares Advisor *Teams and Diversity Study*, 2020.

WHO'S DRIVING YOUR DIVERSITY EFFORTS?



Source: FlexShares *Advisory Teams and Diversity Study,* 2020.

"Diversity needs to be embedded in firm strategy for it to work. Otherwise there can be a lot of wasted time, effort and money."

—Alan Miciak, John M. Boler Dean of the Boler College of Business at John Carroll University

Where diversity efforts are underway, firm leaders are driving them. Members of leadership appear to see a strategic benefit in actively pursuing diversity.

Although small firms are less likely to consider diversity a strategic priority, they have certain advantages. They may be able to act more nimbly and decisively, and a single hire can move the needle far more than it could at a larger firm.

What you can do:

Make diversity a core principle.

- Incorporate it into your firm's strategic vision and goals.
- Managers and HR professionals can add measurable diversity metrics into each employee's development plan. Metrics may include items such as completing diversity, equity and inclusion training or identifying diverse potential hires.

WHAT DIVERSITY INITIATIVES CAN DO

The split between firms with and without diversity initiatives suggests that advisors who don't have experience with these efforts may be able to learn from those who do.

Among advisors at firms *with* diversity initiatives...

59% say the culture of the firm has improved since the initiative began

23% say the strongest reason for a diverse staff is to better reflect their firms' clients, versus 13% of other advisors

3.4 is the average score given to the importance of racial diversity (1 least important, 5 most important). The average score from other advisors: 3.0. This suggests that experience with diversity initiatives shows the value of teams with representation from different races.

Among advisors at firms *without* diversity initiatives...

3.8 is the average score given the importance of age/generational diversity (1 least important, 5 most important). The average score from advisors with diversity initiatives: 3.0.

17.6% say the strongest reason for a diverse staff is to market to and acquire new client types, more than twice the rate among advisors at firms with diversity initiatives.

Firms that don't have experience with diversity initiatives may not fully understand what diversity can do for the firm—particularly beyond appealing to prospects.

What you can do:

- Commit to diversity efforts, starting with firm leadership.
- Institute diversity, equity and inclusion training for staff.
- Employ unconscious bias training to raise awareness.

DIVERSITY, RECRUITING AND RETENTION

Diversity efforts appear especially potent in helping advisory firms address one of their major challenges: attracting, hiring and keeping the right employees.

Nearly half (45.7%) of advisors say their biggest challenge is recruiting and hiring the right people, compared to just 21.9% for the next-most-common challenge: generating enough revenue and profit to support a team. Firms with diversity initiatives are more likely to report success with hiring efforts (85% vs. 70%).

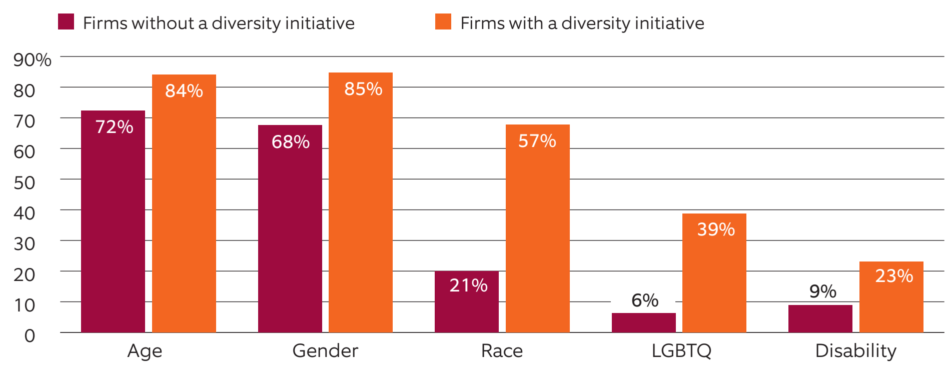
When it comes to retention of new hires, advisory firms overall have had more luck with young employees and female employees than they've had retaining hires of diverse races or sexual orientations or with disabilities. But diversity initiatives make a big difference in helping firms succeed at retaining hires from diverse groups (see chart below).

"Wondering what DE&I is? Think of it this way: Diversity is being invited to the dance, inclusion is being asked to dance and equity means you get to choose the song!"

—Connie L. Lindsey, executive vice president and head of Corporate Social Responsibility, Northern Trust

DIVERSITY INITIATIVES DRIVE RETENTION

Have you retained hires from these diversity groups for more than five years? (Percentage answering yes)



Source: FlexShares *Advisor Teams and Diversity Study*, 2020.

Advisory firms will have a hard time building diversity in their staff if they continue to recruit mainly from their own networks or from other parts of the industry. By contrast, firms with diversity initiatives are three times more likely to recruit through job fairs than their peers and twice as likely to recruit through trade shows.

What you can do:

Adjust your recruiting process.

- Connect with degree programs at diverse colleges and universities.
- Build relationships with professional groups dedicated to advisors of color (such as the Association of African American Financial Advisors, AAAA), women advisors (such as the NAPFA Women's Initiative) and other groups committed to industry diversity.
- Consider recruiting through job fairs and trade shows.

A FOCUS ON TEAMS

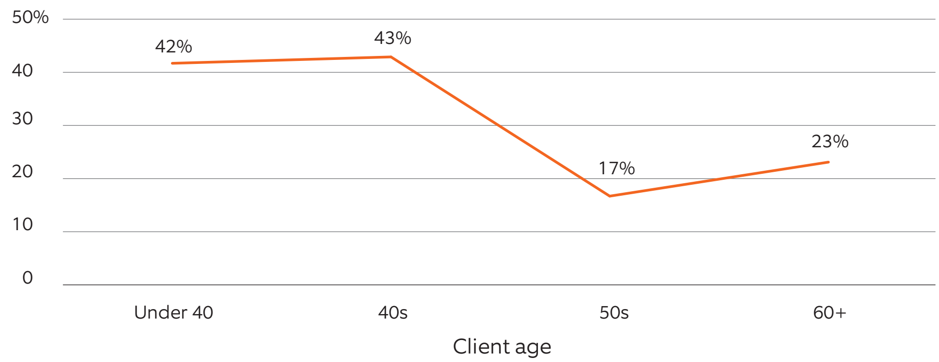
Our research found that diversity initiatives may also contribute to effective teams. Nearly three-quarters (72%) of investors want their advisor to be supported by a team. Many investors under 50 say the diversity of an advisor's financial team is important (see chart below). This finding suggests that a diverse team may help advisory firms better appeal to the children or grandchildren of their baby boomer clients.

"We know many investors want their advisor to be supported by a team. In addition to bringing together the right staff, having the right digital tools in place is also key to effective teams. Digital management platforms, workflow systems, CRM tools—all can help teams efficiently provide seamless client experiences."

— David Partain, senior vice president and head of Marketing at FlexShares

DIVERSITY OF A FINANCIAL TEAM IS IMPORTANT TO YOUNGER INVESTORS

Is diversity is important in a financial team? (Percentage answering yes)



Source: FlexShares *Advisor Teams and Diversity Study*, 2020.

The research shows that emphasis on teams and diversity correlates with success on certain key metrics:

- Higher-AUM advisors are more likely to consider staff diversity a strategic priority.
- Firms with a larger average account size are more likely to:
  - consider a team-based approach as important for future growth
  - hire and retain employees of varied ages
  - serve a racial or ethnic niche

"We need to be in more communities than just affluent groups," says Mark VanVoorhees, CFP, senior wealth advisor at Belpointe Wealth Management in Frankenmuth, Michigan, and past Personal Financial Planning Program director, Department of Finance and Law at Central Michigan University. "There are so many people that need help beyond just managing assets. There are financial literacy needs, budgeting skills that especially younger people need help with. There are estate planning needs that are for everyone—not just people with more money. Wills, trusts, powers of attorney. Financial advisors should not be afraid to talk about these things."

What you can do:

Review your policies to see how you can better support a diverse team.

- Offer flexible work hours.
- Consider ongoing opportunities for flexible work locations. Many employees became accustomed to working remotely during the coronavirus crisis, enabled by technologies that made it easy and secure.

WHAT YOU CAN DO NOW

The FlexShares *Advisor Teams and Diversity Study* finds that investors want to work with an advisor who can empathize with them. Sharing demographic traits may help investors trust that an advisor truly understands where they come from. So as the United States becomes a minority-majority society, advisory practices must evolve as well. What's more, advisors who have experience cultivating diversity at their firms also identify benefits for recruiting, retention and other key functions.

Consider the following tactics:

Make the pursuit of diversity a core principle for your firm.

- Include diversity in your firm's strategic goals and planning, and put measurable metrics behind it. For example, mandate that your firm puts forward at least one diverse candidate for each open position.
- Consider conducting unconscious bias training. This training is designed to help staffers become aware of the beneath-the-surface biases we all carry about groups of people, and to identify ways to move beyond ingrained stereotypes.

Bring key firm stakeholders together to design a diversity initiative.

- Co-create a plan to bring diversity to your firm. Success is more likely when everyone is a stakeholder and has a role.
- Set measurable goals and hold each person accountable. One employment goal could be including a diverse candidate in the final interviews for every new hire. Likewise, a firm may institute client diversity goals for its advisors.

Implement diversity, equity and inclusion training for the entire firm.

- Conduct ongoing training for the entire firm—one session or training for one group won't do the job.
- Leadership should own the diversity mindset and speak of it often, sharing insights about the ways diverse firms are succeeding.

Adjust your recruiting mindset.

- Think outside of your own personal and business networks.
- Consider job fairs, tradeshows and other forums where you may find a more diverse pool of candidates. Reach out to CFP program directors as well.
- Consider candidates that don't have a financial background but are in the business of helping people, including teachers and psychology or social work majors.

Review your personnel policies.

- Keep an eye on the varying needs of diverse employees.
- Acknowledge and allow flexibility around different cultural holidays.
- Offer flexibility in work locations and hours when possible.

ABOUT THE STUDY

FINANCIAL ADVISORS

A national study of financial advisors was conducted between October 28-November 15, 2019. The survey was sent to 112,036 financial advisors, 640 (57% response rate) began the survey, 529 (47% response rate) completed more than half of the survey and 488 (.44% response rate) completed the survey.

- Gender: Female 16.8%, male 83.2%
- Race/Ethnicity: White 93.8%, Asian 2.6%, Black 2.2%, Latino 1.3%
- Age: Median 50-59 years
- Tenure: Median 11-19 years
- Authority to hire: 79.2% have authority to hire
- AUM: Median $151M-$250M
- Average account size: Median $500K-$1M
- Average client base age: 68.3% 55-73
- Geography of clients: 69.2% suburban, 21.9% urban, 8.9% rural

INVESTORS

A national study of 200 investors between the ages of 30 and 65 was conducted October 14-17, 2019. Respondents have household incomes of $200K+, investable assets greater than $500K (>$250K for participants aged 30-35) excluding 401(k) or primary residence and are responsible for making financial decisions about their investments.

- Gender: Female 45.5%, male 53.5%, other 1%
- Race/Ethnicity: White 79%, Asian 8%, Black 3%, Mixed/Other 2.2%, Latino 1.5%, Native American 1%
- Age: Median 49 years
- Assets: Median $1M or more
- Income: Median $200 – $300K
- Geography: 60% suburban, 31.5% urban, 8.5% rural

FIND OUT MORE

FlexShares is committed to helping advisors guide investors through the stress of the financial markets to pursue their long-term goals. The FlexShares approach to investing is, first and foremost, investor-centric and goal oriented. We pride ourselves on our commitment to developing products that are designed to meet real-world objectives for both institutional and individual investors. Please don't hesitate to call us at 1-855-FlexETF (1-855-353-9383) or visit **www. FlexShares.com**.

IMPORTANT INFORMATION

Before investing, carefully consider the FlexShares investment objectives, risks, charges and expenses. This and other information is in the prospectus and a summary prospectus, copies of which may be obtained by visiting www.flexshares.com. Read the prospectus carefully before you invest.

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

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FINANCIAL PROFESSIONALS

By Phone Consult
Consultants are available
Monday–Friday: 9AM to 5PM ET
1-855-FlexETF (1-855-353-9383)

By Mail/Overnight Delivery
FlexShares ETFs
c/o Foreside Fund Services, LLC
3 Canal Plaza, Suite 100
Portland, ME 04101

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