ESG and **Diversity** in practice

CASE STUDY 04:
Pantheon

PAUL HASTINGS

PANTHEON

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1 FOREWORD

Arun Birla
Paul Hastings

At Paul Hastings, we want to make a real difference in what matters to both our clients and society more generally. As a long-time adviser to many funds, and as a partner at Paul Hastings, I see the increased importance of both Environmental Social Governance and diversity and inclusion in the funds industry.

I put this down to a combination of factors: one is just from a human perspective; it's the right thing to do. Secondly, from a business perspective, it is necessary to make real headway on these issues in order to be successful in today's highly competitive market.

Our client Pantheon has recognised the moral imperative for both ESG and diversity and inclusion for many years. It has been in the DNA of their culture from the start.

In their openness to discuss these issues, they are way ahead of many private equity funds, where progress, certainly in diversity, has been much slower than in many other industries.

But Pantheon is not complacent; its open and forward-thinking culture means they continue to seek improvement.

It's that forward-thinking mentality and the attitude that they can always do more which really makes their culture of inclusivity stand out in the funds industry.

1 | Chris Sloley, Citywire Selector

2 WHAT IS ESG?

Environmental Social Governance has been a steadily growing area of focus. Now it seems the appetite for investing aligned to ESG protocols is at an all-time high amongst private equity investors. A report released in 2020 canvassing 150 fund managers across Europe, North America and Asia found that 88% of investors expected fund managers (GPs) to increase their focus on ESG over the next 12-24 months[1]. However, many of the investors also voiced disquiet that some managers may try to over-emphasise or ‘greenwash’ their commitments to ESG.

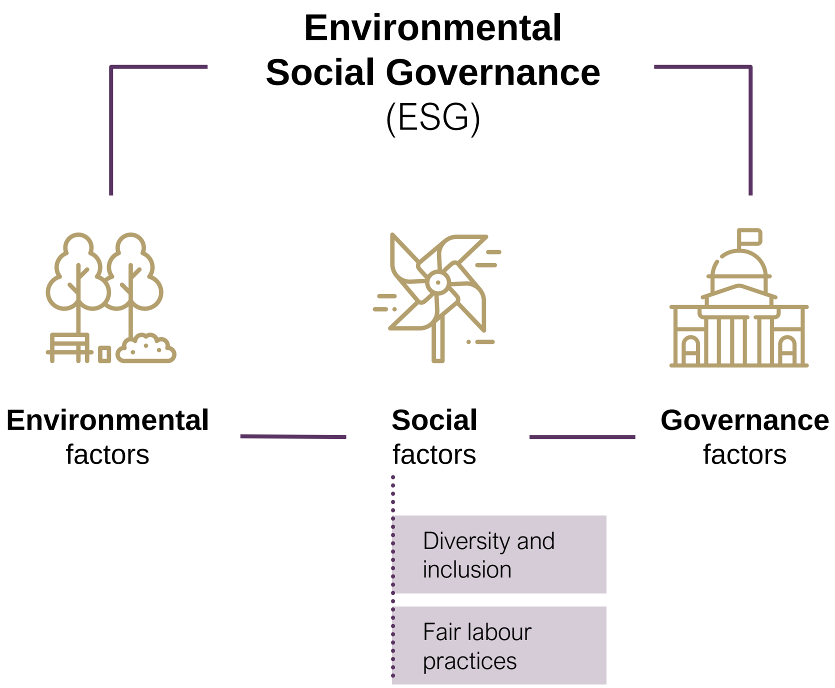
Environmental Social Governance covers a wide range of issues. These can broadly be subdivided into three main categories of environmental factors, social factors including diversity, and fair labour practices and governance.

WHAT IS DIVERSITY & INCLUSION?

Diversity is any dimension that can be used to differentiate groups and people from one another. It is respecting and appreciating what makes people different, in terms of age, gender, ethnicity, religion, disability, sexual orientation, education, and national origin.

Inclusion is having a culture, demonstrated by workplace practices and policies, that allows people to be themselves, feel valued and have a sense of belonging in their workplace.

For the purposes of this report we will be considering diversity and inclusion as it pertains to fund managers themselves and the industry as a separate category from ESG.



3 ESG

Concern about how we treat others and the world around us is now more of a defining fact in society and in business. Whether it's global warming or racial justice, no business can be tone deaf; for the shrewdest, they recognise these factors are fundamental to success. It's something top private equity managers now also see as vital.

Public trust in traditional institutions such as government and big business is at an all-time low. Edelman's Trust Barometer, which measures institutional trust around the world, shows that "In a majority of markets, less than half of the mass population trust their institutions to do what is right."[2] That view certainly colours the public's view of private equity and it has not always had the best public reputation. In one of the first leverage buyouts setting the stage for the industry as we know it, the private equity contingent was referred to as the 'barbarians at the gate'. This continues even today with a member of parliament in Germany recently characterising private equity firms as locusts. Both metaphors reveal something about the public consciousness of the industry: it's seen as self-interested, focused on what it can get and not caring about the feelings or situations of others involved.

Whilst 30 years ago this new industry's practices were focused on the bottom line, in tandem with the rest of the corporate world, private equity has woken up to the fact that better business practices make for better returns. Over the last 20 years the focus on Environmental Social Governance (ESG) issues has moved from being a tick box to central to many investors' strategies.

Allied to this centralisation of ESG, the funds industry has also become much more aware of the dangers of operational risk. This has led to an increasing focus on diversity and inclusion (D&I).

Investors into funds have been a substantial driving force in ensuring this is not just a talking point; funds are now well aware that inclusivity needs to be a consideration not only in their portfolio companies and investments but in managers' own operating structures as well.

Helen Steers, a partner at Pantheon and a member of Pantheon's European Investment Committee and the firm's Global Co-investment Committee, joined the private equity industry in 1989. In 2015 she co-founded Level 20, a non-profit organisation to address the lack of women in senior roles in the industry. Whilst numbers were low in 1989, they were still extremely low in 2015, explains Helen.

> *"I think there's been very little change in private equity for a long period of time. However, now, due to more of a spotlight on this area, private equity is taking some positive steps to address these issues, not just gender diversity, but other forms of diversity and inclusion as well.*
>
> ***Helen Steers,***
> *Partner in Pantheon's European Investment Team*

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Reasons for this report

The move towards greater ESG and diversity has been driven primarily by investors, the clients of fund managers.

This is a movement that law firms like Paul Hastings are well aware of. In law, the pressure to become more inclusive came primarily from clients of law firms, but as progress has been made, this impetus became more internalised within firms as they saw this was the right thing to do.

Over the last several years, international law firm Paul Hastings has made it a strategic focus on helping clients realize their ESG goals, investing in the long-term well-being of their communities and in creating a truly inclusive culture at the firm. In contrast to some competitors, this has not been window dressing – focused only on quotas of hiring diverse talent. It has been a thorough examination of client needs and their own culture.

It was spotting this affinity in the stance of their long-time fund client Pantheon that the idea for this report was born. Paul Hastings saw synergy in many of the challenges that funds face in creating more inclusive cultures with those that law firms also navigate and wished to highlight where their client Pantheon has had success.

By creating reports such as this, Paul Hastings looks to learn from their clients and to share those learnings with the broader industry.

History of ESG

The idea of using business to do good is not new: the origins of this way of thinking trace back to the early 1800s when religious groups such as Quakers and Methodists outlined socially responsible investment guidelines for their followers, stating which companies they should and should not put money into.

The practice of responsible investing entered the mainstream with the growth of mutual fund platforms during the 1960s. Given the public nature of these funds, they needed to reflect public concerns and social trends in approaching investment decisions. A result of this could be seen in the 1970s, 80s and 90s when many publicly traded funds avoided investing in companies with operations in South Africa, then under Apartheid.

These concerns also became manifest in private funds mainly because of the prevalence of institutional investors and their fiduciary duties to investors, which could include the general public. Examples of this would be the investment arms of the various pension funds such as CALPERS, (California Public Employees State Retirement System) and sovereign wealth funds, such as that run by the Norwegian Government.

Two key events during the beginning of this century meant that investment managers and their institutional investors started to become very serious about ESG.

One was the creation of the United Nations Principles for Responsible Investment (UNPRI) in 2006. The second was the global financial crisis, which took hold in 2008 and highlighted the dangers of irresponsible investment practice.

As an early signatory to the UN principles in 2007, Pantheon saw the importance and relevance of ESG to their business. Alex Scott, a partner in Pantheon's European Investment team and co-head of Pantheon's ESG Committee, credits the firm's early adoption of the UNPRI as a valuable framework around which they organised their ESG activities:

"We had investors in the Nordic regions, Germany and the Netherlands who had given us feedback on ESG in the early to mid-2000s. We also had a managing partner, Carol Kennedy, who was visionary in this and understood that it was the direction that the entire industry would be going. She saw that ESG was going to be perpetual and garnered wider support for signing up to the UN PRI principles. That really became a springboard: the UN principles gave us a framework around which to harness greater integration of ESG."

The group scored an 'A+' rating for Strategy & Governance, Private Equity and Infrastructure in the most recent annual assessment by the UNPRI.

Signatory of:

PRI Principles for Responsible Investment

Pantheon and ESG – The Why

The early adoption of ESG principles was driven by then co-Managing Partner Carol Kennedy. In an interview in 2012, on her retirement from Pantheon, Kennedy reflected on why she felt ESG was more than just a trend or window dressing: “A senior executive at an oil company told me that he didn’t think private equity could afford to take on board sustainable investing. I said we couldn’t afford not to.”[3]

Kennedy’s view was more than prescient. Taking a bigger picture view than merely profit alone is now a driving force in business. The private equity investment ethos takes a long-term approach, differentiating it from some purely financial return driven strategies, such as hedge funds. The investment approach also includes operational improvement and greater governance, as well as the benefit of the fund managers’ experience and insight from a range of different markets and investments. This long-term view on improving returns is compatible with the aims of ESG. Bain & Company’s *Private Equity Report 2020* sums up the benefits:

> *“As social and environmental issues increasingly affect consumer behaviour and business conditions, there’s growing evidence that ESG programs can actually improve returns and limit risk.*[4]

ESG has now become one of the driving forces of the investment industry. If a manager does not have an ESG strategy, particularly in a developed market, investors will certainly question why.

The Role of Investors in ESG

It's a truism in any market that if clients are interested in something it becomes more compelling to those who are trying to attract those clients. Large institutional investors have had a significant interest in responsible investing, but this now applies as well to sovereign wealth funds and family offices.

More people now view existential global challenges such as climate change, plastics pollution, loss of biodiversity, deforestation, social inequality and water shortages as tangible threats. Conventional wisdom has it that these are "millennial issues," but evidence suggests that concern is much broader. In September 2019, institutional investors with $2.4 trillion in assets challenged managers to get serious about climate change. With the backing of the United Nations, funds including CDPQ, CalPERS, Pension Danmark, Swiss Re and Allianz joined the Net-Zero Asset Owner Alliance, pledging to transition their investment portfolios to become carbon neutral by 2050.

This demonstrates that ESG is not a static concept. What comprised ESG even ten years ago has grown and developed as wider social viewpoints transform, such as concern around climate change.

What this means for funds like Pantheon is that their own approach to ESG has to be similarly agile. As Jie Gong, Partner in the Hong Kong office and a co-chair of the firm's ESG committee explains:

> *ESG as a concept has really developed in recent years to include a very* wide range of topics. As a result, we have periodically added into our ESG questionnaire *topics like cybersecurity, diversity and climate change. Ten years ago, you would not even have thought about cybersecurity, but because of the prevalence of digital tools, it is very different now. ESG moves with the times and we need to move with it to stay on top of the emerging risk factors.*
>
> **Jie Gong,** *Partner at Pantheon*

Both Sides Now

One aspect about Pantheon's strategy and structure, which has informed its progressive stance on ESG and diversity and inclusion, is that the firm functions as both a general partner (GP) or manager of the private equity funds it raises and as a limited partner (LP) or investor in other managers' funds in which it invests as part of its secondary investing strategy.

Pantheon's role as secondary investor in other managers' funds means that it has to carry out due diligence on a range of other GPs and it has allowed them to get comprehensive insights on what the industry as a whole is doing. As Alex Scott explains, "Initially, that focus is on the fund manager and its culture around ESG. In terms of making new investments to managers and committing to a strategy where we don't actually have visibility of what companies the manager is going to invest in, instead we build up a picture of the manager's approach to integrating ESG factors into its investment selection and monitoring processes. We initiate that process with a short questionnaire, which is consistent and focused around nine questions. It enables us to gather all the information about a manager's ESG integration approach. Our aim is to gather and digest as much information as possible in a concise way to support further due diligence."

A development in the assessment of ESG risk is the increasing use of data and technology in the industry to assess this. Pantheon now uses a technology called RepRisk as an additional factor in investment due diligence process, as Alex Scott explains: "We use RepRisk to support our process because we can use it to look back at the companies and managers owned and see what ESG issues took place in those companies. Once we have completed the due diligence process, we calculate an overall rating of the manager: we've got three categories: high, medium and low risk. By example, if a manager has no written ESG policy and no integration of ESG into its investment process, that's a high-risk manager. A low risk manager might be a signatory of UNPRI with a clearly articulated process and allocation of responsibilities for integrating ESG into its investment selection process."

Having a data-based assessment of ESG provides transparency both internally and to external clients for whom secondary investments might be part of their overall investment portfolio. The data-based ratings mean that Pantheon can track changes in managers, over time. It's not a one-way street though; for over ten years Pantheon has been sharing its learning in implementing ESG strategies with managers it invests in. This certainly has an effect, reports Alex Scott,

"We see ratings go up, over time as well, for example, in specific cases where our investment teams have worked with the manager to improve ESG or bring focus on improving ESG processes and enabled a rating to be upgraded.

For funds like Pantheon it is not just return on investment, but sustainability that's increasingly central to what they do. Pantheon has introduced an environmental metric via its "Lead by Example" project, which measures the environmental impact of Pantheon's offices so employees can be aware of the sustainable impact of daily activities. This includes energy efficiency, an environmental audit, energy consumption, carbon emissions and waste disposal and recycling.

Given concerns by some investors that funds may merely be 'greenwashing' Pantheon's approach shows a clear commitment to walk the walk, not just talk the talk. This is demonstrated by its focus on ESG before it was a major concern for most funds, showing a foresight that this metric would not just be a 'nice to have' but a future imperative for many institutional investors.

Key Points

- ESG is now a fundamental component in investing and cannot be ignored or written off as a ‘nice to have’.
- ESG is correlated with better returns as wider society becomes more focused on sustainable practice that forms the component aspects of ESG strategies.
- While institutional investors historically drove this change, funds, like Pantheon, have now adopted this as a central tenet of their investment strategies. In Pantheon’s case, this is both as a GP and a LP in their functions as a fund manager and a secondary investor in other funds.
- But some investors have concerns about the potential for a superficial approach or ‘greenwashing’ from funds; it is imperative that funds can show solid credentials both in how they approach external investments and their internal policies and practices.
- The use of data analytics to measure and quantify ESG is a way to measure risk factors based on measurable points such as historical investments or a transparent commitment to ESG principles by the manager. It also allows funds to demonstrate the rigour of their due diligence regarding ESG and their commitment to it.
- What can further underscore this rigour is demonstrating sustainable practices in the manager’s own working practices as Pantheon does with its Lead by Example Project.

4 DIVERSITY & INCLUSION

Private Equity: A Boys Club?

Similar to ESG, private equity has lagged behind many other sectors for diversity and inclusion.

Ten years ago, many funds had few or no women in partnership or leadership roles. For those women who did make it to the top, it was a hard climb and a lonely place. Some years ago, a female partner at a private equity fund shared that she felt the need to check her Blackberry and respond to emails even while in labour so as to not show any ‘weakness’. A distinct set of values was being associated with success in the private equity industry. Therefore, lasting change for the industry needs to interrogate many of these values that unconsciously bolster attitudes that make it likely that only certain groups can succeed. The labour room story shows that those from diverse groups that succeeded were often being held to, or feeling they needed to hold themselves to, impossible standards to be a success.

Now private equity has woken up to the need for greater diversity and inclusion. The fund industry press now has sections devoted to diversity and inclusion, which, certainly ten years ago, would not have been the case. But the picture is still not a rosy one, while press around the issue shows it has moved onto many managers’ radars, concrete action, particularly in the leadership teams of fund managers, is slow. And for many companies this is now pressing.

A World Economic Forum study in 2014 showed that three out of five LPs believe private equity firms benefit from having gender-diverse teams.[5]

The benefits investors believe is enhanced team interaction and quality of talent. Institutional investors such as pension plans note how this lack of diversity is problematic for their stakeholders, particularly when a large portion of their beneficiaries are women (e.g., teachers’ or public service pension funds).

Arun Birla at Paul Hastings thinks the time is ripe for change due to the combination of some significant factors---factors which hold true for other service providers like law firms as well as for asset managers.

> “*I think it's going to be a combination of market sentiment, investor sentiment, and government regulatory sentiment that is going to continue to drive the push for diversity and inclusion in the funds industry, the legal industry and the corporate world. At the end of the day, we are service providers and when customers demand something you have to do it.*
>
> ***Arun Birla,*** *London Office Chair, Paul Hastings*

But it’s not just about the bottom line-adds Birla: “Now there are wider external elements that mean we need to accelerate changes and look to the future. These include social movements such as #MeToo and Black Lives Matter that have made us further re-evaluate what true inclusion looks like. We have not yet done enough.”

Investor Pressure and Inclusion

As with ESG, much of the impetus for increased focus on inclusion and diversity comes from the ultimate clients of private equity funds, the investors, particularly institutional investors.

Many larger institutional investors have been vocal about the need for more diversity, particularly gender diversity at funds that they invest in. In Illinois many of the pension funds have been focused on diversity and inclusion for over ten years. As early as 2005, the Illinois State Board of Investment (ISBI) created an emerging manager committee, which focused on including minority and female-owned businesses as service providers.

But the push for requiring diversity statistics as part of their investment criteria is certainly not yet universal across LPs. *Infrastructure Investors LP Perspectives 2020 Survey* found that 78% of LP respondents stated that diversity and inclusion criteria formed some part of their due diligence process, whether major or minor. However, 54% said that they had no significant active engagement with their managers on promoting diversity and inclusion, suggesting that investors may be asking for statistics but not reinforcing this ask with action. [6]

Kara Zanger, Partner and Global Head of Legal at Pantheon thinks the increased focus in the industry is being driven to some extent by external pressure. "I do think investors are starting to ask questions about diversity and inclusion in their diligence, but they want to get great performance as well. On the one hand, they are doing it because it's the right thing to do but, on the other hand, they are also focused on getting results."

Zanger feels there's an increasing realisation internally at some fund managers that diversity could provide a competitive advantage, and it's the interaction of these external and internal forces that is starting to drive more focus on making the private equity industry more inclusive:

> *I think it's a combination of these two forces – certainly the outside pressure has put a focus on this issue, but ultimately you want to get the best talent to get the best results. Having investors focus on the issue forces firms to reflect on why private equity firms have been lagging in terms of diversity and forces them to consider situations and perspectives that they might not otherwise have necessarily considered. For example, a partner who regularly golfs with a junior male colleague is likely to give that person guidance about how to approach issues with his counterparts and that might give them an advantage that a female colleague might not have – it's not intentional. But now firms are focusing on understanding where they need to do better in terms of diversity and inclusion. I think the dual forces of the external pressures and the increasing internal awareness are both necessary until we get to an ideal situation.*
>
> ***Kara Zanger,*** *Partner and Global Head of Legal at Pantheon*

As Kara points out, the accepted social practices in firms can lead to unfair advantages for certain groups, such as the junior male colleague who is being informally mentored by his more senior male golfing partner. This is an advantage that female colleagues are not benefitting from.

This drive for change from clients, is something that law firms have experienced in the drive for greater inclusion and diversity in the legal profession. Arun Birla at Paul Hastings has seen it become much more visible in the funds industry through his clients, as well. "Pressure tends to be coming from the larger institutional investors and then it's being acted on by larger fund managers, many of whom will have an in-house legal function. Again, it's a case of watch this space but, definitely, there's more visibility such as asking about diversity numbers on pitch proposal."

Diversity and Performance

Diversity and inclusion is measured as part of ESG criteria for investment decisions. Lack of diversity in managers is a red flag because it leads to group think and less diverse perspectives, both significant factors in creating more risk for companies.

A 2019 report that analysed data from more than 700 PE/VC funds and 500 portfolio companies in emerging markets found that there was a positive correlation between diverse leadership teams and the performance of their funds. “When normalised for the median net IRR of emerging market funds, which is approximately 8 percent, performance for funds of gender balanced teams is approximately 20 percent higher than funds of male or female dominated teams.”[7]

There is no definitive data on the correlation between investment returns and diverse teams at private equity fund managers but Helen Steers, Partner in Pantheon’s European Investment Team, sees a link and it’s one, she thinks that fund investors have woken up to. “Private equity is an incredibly competitive industry; people are really very much focused on performance and generating great risk adjusted returns. There's been a realisation that to generate good performance, you need a diverse group of people who will provide different views and not fall into the trap of group think. In addition, if private equity managers are trying to win a deal and their deal team does not look like the portfolio company management team they're sitting in front of, they’re not going to win the deal - whether that's because of a lack of gender diversity, of racial diversity or other forms of diversity.”

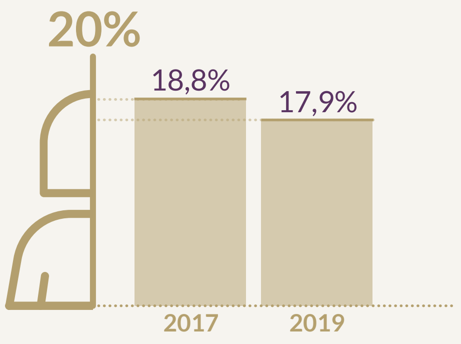
Steers has noticed much more focus on diversity in teams in portfolio company management and believes that shows the industry is changing: “I think in generating those returns, they realise they need to get the best and the brightest out there. And if they keep on hiring the same people in the same mould, they're not going to get the best and the brightest.”

The Data in the industry

Currently the statistics across the industry show there is a lot of work to be done.

A 2019 survey from Preqin across 280,000 funds industry professionals showed that only 17.9% of employees in private equity were women – a figure which remained unchanged from 2017. The data is worse the higher up you get with only, on average, 9.9% of senior roles in the asset class being held by women.[8]

Female Employees in Alternatives



- Source Preqin Pro

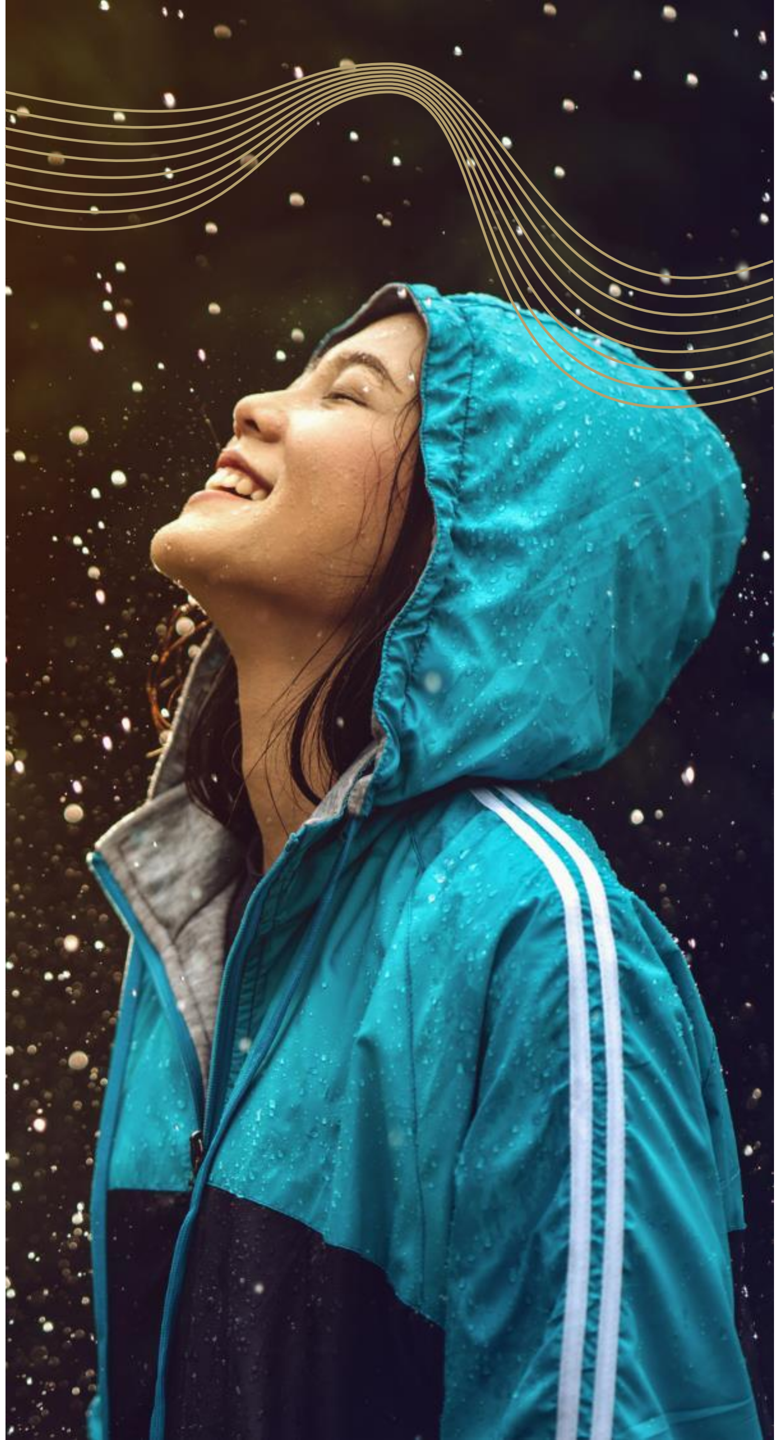
Women are primarily employed in investor relations and finance teams rather than as investment professionals or as partners. Across different regions, women account for broadly equal proportions of private equity employees, ranging from 19% in Europe to 17% in regions beyond North America, Europe and Asia.

Asia is the only region in which more than one in ten senior employees are women.[9] China and Hong Kong buck the global trend with more senior women than any other region 14% in China and 13.8% in Hong Kong.

This echoes the experiences of Jie Gong, a partner at Pantheon, and a member of the firm's Asia Regional Investment Committee and Global Co-investment Committee. For Jie, Asia is not a monolith in gender diversity and much of what allows women to succeed is both cultural but also practical assistance:

"Even within Asia, there's quite a wide divergence. Part of it is cultural and part of it is just the practicality of help available to take care of children in Hong Kong and also in China. Whether women have access to childcare from their parents, in-laws and relatively affordable helpers is a very strong determinant, in terms of if they'll go back to work after having children and what kind of career they will pursue, so that's not to be dismissed as a small contributor. In the Hong Kong GP and LP community there's a quite high percentage of females in the leadership roles and the same in China. Both societies have had a much longer history of dual income households than in the West think those cultural factors actually play a big role in people's choices and what kind of jobs they take on, and even what subjects they study in university.

***Jie Gong,** Partner at Pantheon*



The Culture Factor

Data provides a snapshot of the lived reality of an industry via its culture. Pantheon has gender diversity figures that are much better than many of its peers and has done so for many years. 40% of the firm's overall employee mix is female versus a 19% average for most managers in Europe. Similarly, globally, the industry manages only 9.9% of women in senior roles. But in Pantheon, 25% of its partnership board are female; 21% of partners and 43% of Global Team heads are female. 45% of Investment Team heads are female and 22% of the Investment Partners. Pantheon believes it was the first private equity firm to make its diversity statistics public. And those statistics are much better than many competitors.

Women in firms' overall employee mix

40% Pantheon

19% Most managers in Europe

Women in senior roles

25% Pantheon

9.9% Globally

22% Pantheon Partners are Women

37% Pantheon Team leaders are Women

43% Pantheon Female Investment team heads

23% Pantheon Female Investment Partners

But what these numbers represent is a cultural success. "It's a culture of inclusion, that is deeply embedded but we cannot be complacent, and we have to keep it as a focus," says Dianne Remanous, Global Head of HR at Pantheon. "It's inclusion that is key and is the real focus. Diversity really sits behind inclusion for us," shares Remanous, "and it's this sentiment that has allowed diversity to flourish at the firm over such a sustained period".

Amanda McCrystal, head of Marketing at Pantheon, believes it comes down initially to culture and the fact that from the early days diversity and inclusion were embedded in the firm by the fact it had a female co-founder in the shape of Carol Kennedy.

"Behaviour and culture are cited as among some of the key reasons applicants apply and they single us out as having an open and welcoming culture, together with a transparent external ethos and profile." What emphasises this, Amanda feels, is that many of Pantheon's personnel are visible and involved in networking groups, career support initiatives and charitable initiatives; applicants can see from Pantheon's LinkedIn feed the sorts of initiatives in which the firm gets involved. But says Amanda, "the proof that this is really embedded in the firm's culture is the visible evidence applicants can see. Women are making progress through the firm. Candidates can see women in strong positions vertically across the firm and that's very important because it draws talent in."

Partner Helen Steers agrees that Pantheon's embracing of diversity was in its DNA almost from the very start:

"Pantheon initially had three Managing Partners, two men and a woman, so it was one third female from the beginning. It was also pretty much global from the very start. We started in the UK in 1982 but then opened in the US in 1987 and then in Hong Kong in 1992, and the firm was founded by people who had a very open outlook right from inception, and they set the tone of the culture. Ever since then there have always been senior women and they've created role models that have been helpful and encouraging to younger women. We've also always been a very diverse organisation on other metrics as well; I think because that open culture was created right at the creation of the company.

***Helen Steers,** Partner and a member of Pantheon's European Investment Committee and the Global Co-investment Committee*

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This type of culture has not historically been the norm in the industry. Forging a successful career for people who are not white, male, privileged and heterosexual can be hard. There can still be aspects of this behaviour in the industry today, shares Helen Steers; the challenge for many is recognising it and calling it out as there can be massive blind spots: "Men don't even know they're doing it but it can become quite cliquey, there's the sports talk, that you can't always participate in. And then there's the way that women present versus the way that men present." Men are generally more confident when speaking or seem that way even if they are not. Women are more likely to express self-doubt when speaking. This difference in confidence between men and women becomes a chicken and egg situation: if you feel like you do not belong it's harder to feel confident and that will be true of any employees who do not conform to the industry norm.

That has been a factor in holding women back, says Steers. "There's the old adage about how, if there's a male colleague who is going for promotion, he'll go for it even he's only got 60% of the skills, whereas a woman can have 105% of the skills but still have doubts whether she can actually succeed."

But greater focus on work-life balance is bringing change, and much of that is generational. The old definitions of what success look like are being questioned by a new generation in the workforce and private equity is not immune. How effective will the traditional carrot of success be if it just doesn't look that tasty at all to newer generations?

"That's bringing about a broader change," agrees Steers. "There are men in my team who need to go and pick up their kids from kindergarten. I think that's really good, because now everybody is saying that it's important, and the newer generation is actually helping break through these sorts of issues."

That comes down again, feels Steers, to show the need for a broader mix of diversity. "It's not just a male/female thing either. I think having a wider and more diverse group of people breaks down these sorts of very obvious cliques which have existed in the past."

Role Models

"You can't be what you can't see,"

said American Civil Rights activist Marian Wright Edelman and research has shown that the absence of role models can adversely impact young girls' perceptions of what career paths are open to them. Role models are vital all the way through women's careers to show that not only entry, but progress and seniority are possible. But a challenge that women in the workplace may face in searching for not just other women but other successful women to look up to may be women's propensity to not be as vocal about their successes.

Arun Birla at Paul Hastings also points to the importance of role models at senior levels in driving cultural norms for younger generations in the workplace at Pantheon: "I think it's so important to have your leadership or your partners show diversity at the top level, as well. That helps the younger generation who can see these leaders as role model and mentors showing that the funds industry can be shaped in a more inclusive way."

In the wider industry the need for successful role models is also felt. Level 20, the industry-wide networking group to achieve more senior roles for women in private equity, was co-founded by Helen Steers of Pantheon and has launched an 'Inspiring Women' initiative to showcase stories of female success.

LEVEL 20

In 2015, Helen Steers and a group of other senior female partners in private equity firms formed a group devoted to increasing female representation in the private equity industry to 20% of senior positions.

A key aspect of their mission is inspiring women to join the industry, particularly in investment roles. This is manifest through outreach into schools and universities, ensuring women do not write private equity off as a career that is not for them.

For those in the industry, it is helping them to succeed by providing support, mentoring and sharing insights and experience.

The group started as friends, who happened to work in the same industry and would gather for lunch or drinks and share war stories. Of the initial group of 12, ten of the members were not originally from the UK. “So partly we needed to network”, shares Steers. “We ended up informally mentoring each other. Even though some of us worked for competing firms, and there were GPs and LPs we just left everything at the door. After our group had been together for 10 years, word was getting out and women kept coming and saying, could they join our “club”.

Most of the initial group didn’t perceive it as a club, explains Steers. It was just a set of women that got along really well together. “But we came to an agreement that since we had benefited so much from having this group, maybe we ought to think about a way that we could expand this Initiative so that other women could benefit from something similar.”

Many of the group’s topics for discussion will be familiar to professional women no matter the industry: balancing rearing children with a career; managing your career; asking for a promotion; asking for a raise.

Level 20 has set up a mentoring programme that is growing every year. The group has also grown out of its original base in London and has 11 chapters set up throughout Europe including, Germany, France, Spain, the Netherlands and the Nordics.

Level 20 also holds regular networking events and carries out research and advocacy to educate the wider profession. Over the last year this has included a toolkit for GPs on best practices for encouraging gender diversity, a series of roundtables with GP managers on how to lead cultural change to create more inclusive firms, and Level 20 industry guidance for private equity firms.

Creating Culture

Culture and role models work symbiotically with how culture is made and manifested through day-to-day behaviour at Pantheon, explains Amanda McCrystal. “We have a very flat culture: we don't have separate offices for senior people, we don't have walls in our London offices, which is our largest global office.

So, it's visibly, very accessible. People give freely of their time and are very willing to be supportive and help.” It’s this supportiveness and openness that is fundamental, shares McCrystal. While Pantheon has had this culture for some time, there has been a growing awareness in the industry of cultural factors and the need for soft skills, “there wasn't much recognition, historically, that those soft cultural factors mattered. Now there's much more recognition that they do and as a result, a lot of private equity firms in recent years have appointed HR leaders. It is becoming more commonplace to have an HR person either on the executive committee or at a partner level,” explains McCrystal. “Most recently, there has been a step-change in awareness about the positive benefits of prioritising employee wellbeing, accelerated by the covid-19 pandemic and mass home-working through 2020,” she notes.

Culture is always going to be more than initiatives: it has to be a mindset as well. A significant equality issue for all industries is combining professional life with parenting. Women are, generally, more likely than men to take breaks from work due to childcare. This can lead to an assumption of diminished professional commitment and no longer being 'fully in the game'. This also means women are outside many informal networks needed for career opportunities. Pantheon via its historical commitment to women throughout the firm and women in senior roles has avoided this. Kara Zanger, Pantheon's Global Head of Legal has seen this in action from the very start of her tenure at the firm.

"Since the firm has always had strong women in management positions, it is better aligned to some of the realities of being a woman, of being a parent. Everyone does what they need to do - we work really hard and perform well but then you also have the flexibility to manage the personal aspects of your life. I joined Pantheon eight months after having twins. First, the fact that Pantheon hired me speaks volumes, but the firm also afforded me opportunities to thrive and do well at the firm." It's not the case for many women in the funds industry as Zanger concedes "There's been a ton of research that shows women leave the industry, and many do because of the competing requirements."

In reinforcing inclusivity for mothers and all parents, it's the culture at Pantheon that has come to the fore. Pantheon's cultural acceptance of parenting and the need for work-life balance does not only extend to female employees. It's also, as Dianne points out, "a culture which is inclusive in considering parenting needs and not assuming this is only an issue for female employees." Richard Berke, Global Head of Recruitment, is quick to concur with this, "I have shared custody of my twins and am often the parent in charge, I remember last year Dianne (Remanous) insisting that I take some time to focus on being a parent when I needed to." It's a viewpoint, says Dianne, that is definitely a top-down point of view.

> *"During the Covid-19 pandemic when we have been working from home our Managing Partner, Paul Ward was adamant that staff should never apologise for their children interrupting video meetings or coming into the frame."*

Defining Success

A significant issue for inclusion is how talent or success is defined. Whilst companies can claim to welcome diverse talent, if the mould in which to fit is based on a template of success defined by white, straight, privileged, men, it won't work. It's here that inclusion comes to the fore rather than just diversity. Not being willing to deconstruct what success means and how it is being coded removes the opportunity for change.

"What's making a difference in cementing the strong culture," says Dianne "are initiatives which drive success for all, such as the firm's relatively new mentoring programme, Beyond Barriers." During the first twelve-month iteration of Beyond Barriers, the firm matched 50 employees globally with mentors, using research to try and produce as useful a match as possible. The success of the first iteration led to a 100% increase in sign-up for this year's programme. The second iteration of the mentoring programme saw double the number of applications with 101 pairings formed.

The oversight of a mentoring programme helps both with retaining and progressing diverse talent. It also provides a balance for another symptom of the way success has traditionally been defined in private equity via overwork, which can lead to stress, burnout and mental health issues. The mentoring programme allows colleagues to share issues or concerns and can help deal with cultural issues that can impact everyone. Research has shown that more men suffer from stress related issues and poor mental health at work and are less likely to speak about it or ask for help.

Given the performance pressure of the private equity profession, attention is starting to be paid to wellbeing and mental health. Pantheon is leading the pack in this by being one of only two investment funds to sign up to the Mindful Business Charter (as of February 2021).

> *Paul Hastings is a signatory and huge supporter of the Mindful Business Charter, and we've been talking to all of our Funds clients about adopting its practices.*
>
> ***Diala Minott,*** *Pantheon Relationship Partner at Paul Hastings.*

"Marc Melia's (Pantheon's Head of Legal for Europe) team – one of the most diverse legal teams in the industry – already demonstrated many of the best practices such as communicating 'real' deadlines, respecting rest times and weekends, and holding each other to account, for example. It was no surprise to me that Pantheon signed-up to and implemented the charter in a matter of days."

The Mindful Business Charter

Openness and respect

BUILDING TRUST AND EFFECTIVE COMMUNICATION:

- Discussing upfront with my colleagues, clients and contacts their preferred method of communication and clarifying any relevant implications of an individual's working patterns.
- Treating internal colleagues and external contacts with the appropriate level of respect and courtesy.
- Asking for and providing feedback to others on a regular basis.

Smart meetings and emails

ADHERING TO SMART MEETING AND EMAIL GUIDANCE:

- Allowing people to join meetings by the method they deem suitable, providing dial in details as default on meeting invites unless it is imperative that everyone attends in person.
- Being respectful of others' time by planning meetings properly (considering who needs to attend / giving appropriate notice / setting clear agendas and objectives) and avoiding last minute cancellations.
- Avoiding over-use of email and not copying people onto emails that they don't need to receive.
- Making use of subject lines in emails and ensuring these are reflective of the email's content.

Respecting rest periods

CONSIDERATION GIVEN TO THE NEED TO 'SWITCH OFF':

- Where support is required outside of someone's core working hours, giving them options for when that could be (early morning or evening/weekend).
- When sending emails outside of business hours, being clear in the title whether it needs to be read/actioned promptly or considering sending pre-timed emails (so emails are not received late at night and on weekends).
- Including working hours/availability as part of my email signature, so people are aware of each other's working patterns.
- Respecting people's right to take annual leave without the expectation of them checking emails/being on call, and modelling the same behaviour myself where possible.

Mindful delegation

IMPLEMENTING A BEST PRACTICE APPROACH TO COLLABORATION, INSTRUCTION AND DELEGATION:

- Respecting the need to provide sufficient context and information for a piece of work, ideally including the purpose and ultimate recipient.
- When instructing on a task, negotiating rather than imposing a deadline, being transparent where possible on the wider timetable, and promptly communicating timing changes that impact others.
- When being instructed on a task, being confident to flag when a deadline is unrealistic and/or unachievable.

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The Pipeline

Private equity had a limited pipeline of diverse talent in the past.

Some of that was due to its reputation as a natural habitat of the alpha male and for many years private equity sourced much of its talent mid-career from investment banks.
So naturally, private equity firms were subject to the culture that predominated in most investment banks in the 1980s and 90s. This was a culture where a certain type of success blueprint was the norm: working hard and long hours, leading to stress, which can often lead to coping behaviours, such as drinking or drugs. Such behaviours build a culture that is built on a particular vision of masculine success. In a professional context, stereotypically masculine behaviours, which are coded white, heterosexual and privileged, can deter not only women, but people of colour and LGBTQ individuals, too.

"What's starting to change," says Richard Berke, Head of Recruitment at Pantheon, "is that there's now more than one route and point of entry for talent into firms like Pantheon. And that's something that they encourage. The investment banks are not seen as the only natural fit for talent into investment firms as they once were, Dianne Remanous adds. "We now hire from a diverse set of backgrounds, rather than just targeting investment banks because we genuinely believe that more diverse talent brings a better fit for our business."

There's also much greater awareness that firms have to do more to build their own diverse pipelines, starting much earlier. For those reasons, Pantheon has become involved in a range of initiatives to help young people, particularly from diverse groups, consider private equity as a possible career choice. Helen Steers takes part in the Speakers for Schools initiative. This early action is important says Richard Berke:

> *It's key to expanding the social diversity of our firm and the industry that we are reaching out to young people to make them aware that this is career path that is open to them, so they do not write it off as an option.*
>
> **Richard Berke,** *Head of Recruitment at Pantheon*

Steers agrees that it is incredibly important to reach out to young people and much earlier than might traditionally have been the case:

> *I think the industry absolutely has certain image problems, so we have to do more outreach and not just go to universities or business schools. I've gone out and spoken to school sixth forms to tell them what investing is about, because some kids might have the right qualifications, but they would just never consider it as a career. It's getting out there and spreading the word and trying to combat the mythology.*
>
> ***Helen Steers**, Partner in Pantheon's European Investment Team*

Building the Future

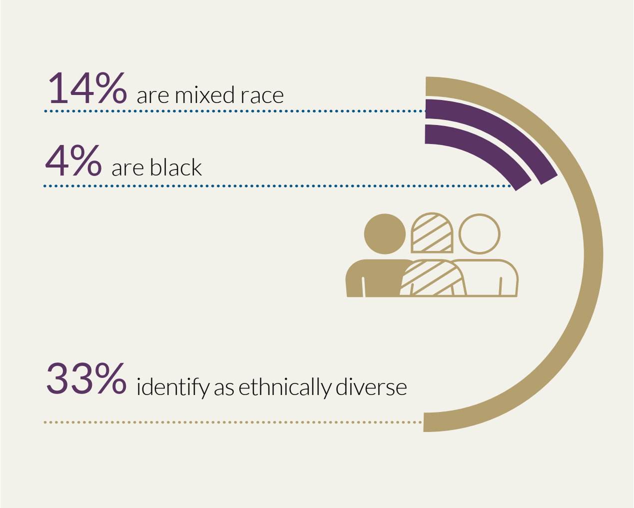
The private equity industry is looking towards greater diversity, initially with a greater focus on gender diversity. Does the industry need to take a more intersectional approach to examine its structural issues and change these to assist all diverse groups? There is certainly a pressing need, in the light of the increased focus on ethnicity and inclusion as a result of Black Lives Matter, for all businesses to evaluate how much they are promoting belonging and pathways to success for ethnically diverse colleagues.

At Pantheon they have seen the benefits of doing this by their focus on culture. As Amanda McCrystal states, having a reputation for a culture that is more equitable and being seen visibly discussing gender diversity and engaging on issues such as wellbeing, mental health, or diversity broadly and charitable initiatives that reflect the ethics principles at the firm gives a picture of a culture that seems welcoming to a more diverse constituency… "That is what your target audience – your potential applicants - are looking at when they're considering whether they want to apply and they will look on sites such as Glassdoor, they will look at the company's external channels and they will chat to people, and they will do their homework."

"What also assists other areas of diversity," feels Helen Steers, "has been Pantheon's willingness to publish its diversity statistics, something many other private equity managers shy away from."

> *To produce change, you have to measure. We publish our diversity breakdown and we are one of the few managers that does so. In our due diligence questionnaire when we go out to private equity fund managers, we've got a diversity and inclusion section in there. So, we ask them about gender and racial diversity. That's the start of it, you do have to measure it, to know where you are.*

Pantheon's reporting on ethnic diversity statistics as well as gender is showing where work is needed. 39% of the firm's employees are non-white. Of that figure, the majority are Asian, 12% are mixed race and 11% are black. Much of the same tactics used to create greater gender diversity are being adapted to increase ethnic diversity such as broader hiring policies and more family friendly policies.



Pantheon is seeing results through more and more active engagement with underrepresented communities, particularly at a much earlier point than might traditionally have been the case. This ensures that diverse talent is either aware or becoming aware of private equity as a potential career path and one which, in a firm like Pantheon, has a place for them. As Amanda McCrystal explains, their outreach beyond gender diversity is focused in a range of different areas including charities, groups and initiatives that champion underrepresented minority groups, disability groups and social mobility groups. "Our Inclusivity & Diversity programme seeks to achieve a cohesive profile, in terms of what we do, and we work hard to practise what we believe. It's helpful that we are willing to be transparent, to be vocal and to have strong and well recognised role models internally and externally."

Key Points

Longer term—the global pandemic has interrupted the schedule—Pantheon plans to reinforce its I&D ethos and culture via an employer brand presence on social media.

But the most important aspect of outreach is building up a true picture of the culture at Pantheon for those outside; it's a culture that has had success in nurturing female talent and is committed to not letting its focus slip in regards to bringing ethnic diversity, LGBTQ+, social mobility and disability up to the same levels of inclusion.

- Diversity and inclusion have to be more than rhetoric. Change has to be cultural and be embodied in day-to-day practices as well as strategy.
- What's significant in achieving culture change is committed, inclusive leadership. Pantheon's three founding managers included a woman, who was also committed to finding and encouraging diverse talent. This has helped set the blueprint for a virtuous cultural circle of attracting and retaining diverse talent because that talent sees that it is welcome and can be successful.
- Hiring to change diversity has been a key part of Pantheon's strategy. This includes earlier outreach targeted at underrepresented communities and dispelling stereotypes that might discourage diverse applicants.
- Pipeline outreach is further reinforced by internship programmes and the company's new social media campaigns that focus on employees' life experiences and stories.
- Making success real for diverse talent is central to an inclusive culture. At Pantheon, 25% of its partnership board are female, compared the industry average of 9.9% of senior roles going to women. It is not just numbers though, seeing that role models, women like Helen Steers, can be successful is a key factor for inspiring more women to join and thrive at Pantheon.
- What is also central to this success is the participation of straight, white men as allies for change. A key example would be Managing Partner, Paul Ward's request that no one should apologize for their children's appearances during virtual meetings in the COVID-19 crisis. It might seem like a small gesture, but it can speak volumes in allowing employees to bring their whole selves to their work.
- The culture of openness and supportiveness is made manifest at Pantheon by open working practices and encouraging conversations via its mentoring programme.
- Inclusion has to be all encompassing, though, and Pantheon's commitment to parity in attitudes to parenting and to the Mindful Business Charter show understanding of inclusivity beyond identity.
- Collaboration brings change. Pantheon has not ringfenced its success in diversity but provides education to other managers and works with industry wide groups to share their success more widely and promote inclusivity across the sector.

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5 CONCLUSION

Ultimately, the secret of Pantheon's success in ESG and in diversity and inclusion is because these concepts are literally part of its DNA and have been from the start.

This commitment to these topics and understanding of their impact on culture and business growth continues via both Pantheon's measurement of progress and new initiatives. This impetus is now prevailing across the wider private equity industry, particularly amongst other GPs.

The firm's leadership are keen to maintain this focus. It's been taking further measures to ensure that inclusion and diversity and ESG permeate throughout the firm's day-to-day practices and are not just investment strategies.

Over the past 20 years, both wider business and the funds industry have seen the positive effect that culture can have on returns. A stringent focus on ESG is now an accepted element of success for funds. Diversity and inclusion is less embedded as a metric across the industry, but that is changing.

A range of factors, such as wider societal views, investor pressure and the desire to hire and retain the best talent mean inclusivity is now becoming a fundamental aspect that managers and investors need to consider, both in their own operations and those of investment opportunities. In this, forward-thinking funds like Pantheon are at the vanguard of change. "It's this attitude that makes Pantheon such a great client to partner with," says Arun Birla at Paul Hastings.

> *Having this cultural synergy make clients and their lawyers work together much more effectively.*
>
> *For all of us, the ultimate goal is to create a working environment that is truly equal and inclusive.*
>
> ***Arun Birla,*** *London Oiffce Chair, Paul Hastings*

6 BIOGRAPHIES

PANTHEON

Pantheon is a fund manager that invests in private equity, infrastructure & real assets and private debt.

It was founded in 1982 as the private equity investment division of GT Management in London; Pantheon's management acquired the private equity division in 1988 through a management buyout. Pantheon was then acquired by Russell Investments in 2004 and by Affiliated Managers Group alongside Pantheon Partners in 2010.

As a fund manager, Pantheon is known for conducting both primary investments, direct co-investments and secondary investments.

Pantheon is at the forefront of pioneering private equity initiatives for the defined contribution and private wealth markets.

The firm operates from offices in New York, San Francisco, London, Hong Kong, Seoul, Bogotá, Tokyo and Dublin, with representation in a number of other key markets. It employs approximately 350 staff members, 104 of which are investment professionals.

Richard Berke

Richard is the Global Head of Recruitment within Pantheon's HR team. Prior to joining Pantheon, Richard managed resourcing functions at RBS, HSBC and Insight Investment and holds a BA in Classics from Liverpool University.

Jie Gong

Jie Gong is a Partner at Pantheon, and a member of the firm's Asia Regional Investment Committee and the Global Co-investment Committee. She also co-heads Pantheon's Global ESG Committee with Alex Scott. Jie joined Pantheon from Morgan Stanley Alternative Investment Partners' private equity fund of funds group, where she was head of Asia, and before that she worked at JP Morgan in leverage finance. Jie holds a BA in Economics and International Trade from Shanghai International Studies University, an MA in Economics from the University of Miami and a Master's degree in Finance from the London Business School. Jie is a Vice Chairman at the Hong Kong Private Equity and Venture Capital Association.

Amanda McCrystal

Amanda is Pantheon's Global Head of Marketing and Communications. Amanda joined Pantheon from HarbourVest Partners and worked previously for SG Warburg Securities and Mercury Asset Management. She is also a former financial journalist. Amanda holds a BA in Politics from Durham University.

BIOGRAPHIES

Dianne Remanous

Dianne is Pantheon's Global Head of HR. She joined Pantheon from Capital Dynamics where her experience included working across Private Equity, Clean Energy Infrastructure and Private Credit. Dianne has worked across various industry sectors introducing performance management structures, leadership development, cultural and engagement improvements and succession planning. Dianne holds a BA (Psychology) from the University of Queensland, MEd (Adult Workplace Education) from QUT and an Executive MBA from the Australian Graduate School of Management.

Alex Scott

Alex is a Partner in Pantheon's European Investment Team and a member of Pantheon's European Investment Committee. He co-heads Pantheon's Global ESG Committee with Jie Gong. Prior to joining Pantheon, Alex was an investment manager for the West Midlands Pension Fund's private equity portfolio. Before this, he was a portfolio manager at Gartmore Investment Management. Alex holds a BSc in Economics from the University of Southampton.

Helen Steers

Helen is a Partner in Pantheon's European Investment Team and a member of Pantheon's European Investment Committee and the firm's Global Co-investment Committee. She also sits on Pantheon's International Investment Committee. Prior to joining Pantheon, Helen worked for Russell Investments, where she was Managing Director with overall responsibility for private equity in Europe. Helen holds a BA and a MA in Engineering from the University of Cambridge and a MBA from the University of Western Ontario in Canada. Helen is a Past Chair and Council member of the British Private Equity and Venture Capital Association (BVCA) and a past Board member of Invest Europe. She is also a co-founder and Board member of Level 20.

Kara Zanger

Kara is a Partner and the Global Head of Legal at Pantheon. Prior to joining Pantheon, Kara was an Executive Director at Morgan Stanley and the head of the legal group for Alternative Investment Partners, Morgan Stanley Investment Management's funds of funds business. Prior to Morgan Stanley, she was an associate in the corporate department at Ropes & Gray LLP. Kara received a JD from the University of Pennsylvania Law School and a BA in political science, French and women's and gender studies from Amherst College.

BIOGRAPHIES

PAUL
HASTINGS

Paul Hastings is a leading global law firm with a strong presence throughout Asia, Europe, Latin America, and the U.S.

The firm has been ranked among the Top 10 on The American Lawyer's A-List of the most successful law firms in the U.S. eight years in a row.

Its lawyers provide innovative legal solutions to many of the world's top financial institutions and Fortune 500 companies. The firm offers a complete portfolio of services to support their clients' complex, often mission-critical needs—from structuring first-of-their-kind transactions to resolving complicated disputes to providing the savvy legal counsel that keeps business moving forward.

Since the firm's founding in 1951, Paul Hastings has grown steadily and established successful practices in key U.S. and European cities. It was one of the first U.S. law firms to establish a presence in Asia, and continues to be a leader in the region. Over the past decade, it has expanded its global network of lawyers around the world, including in the emerging markets of Latin America.

Diversity is a fundamental part of the Paul Hastings story. Over the past 60 years, the firm has established themselves as a leader in global diversity. It takes a holistic approach that focuses on four key focus areas: talent, brand, culture and business. All its programs all align with this strategy and concentrate on recruiting and developing talent, promoting an inclusive firm culture, building awareness in the industry and engaging with clients to ensure the firm is tackling this important issue from every angle.

Arun K. Birla

Arun is the chair of the London office of Paul Hastings and vice-chair of the global Tax practice. He is the Law Society's Social Mobility Ambassador 2021, and – with special mention of his commitment to D&I – was highly commended as 'Practice Manager of the Year' at the Law Society Excellence Awards 2020. Arun was nominated as 'Diversity Champion' by the UK Diversity Legal Awards in 2019. He is widely recognised for significant experience in tax and investment funds, with particular expertise in tax structuring for private equity, private debt/credit funds and infrastructure funds.

Diala Minott

Diala is a private funds lawyer in the credit funds practice in the London office of Paul Hastings. She advises on a wide range of fund-related work including private equity, private debt, real estate, mezzanine, venture, credit, infrastructure, funds of funds, distressed and special situations, and activist funds, as well as on the structuring of carried interest, co-investment and other incentive schemes, secondary transactions, and fund restructurings. She also has an expertise in diversity funds working on female only founder funds, social impact funds and ESG funds.

Catherine McGregor

Catherine runs her own company focused on thought lead creation, events and training for businesses and professional services companies. She is an experienced speaker and moderator covering topics such as business ideas and their influence in the legal profession; innovation and disruption in professional services; inclusion and diversity. Catherine's first book, Business Thinking in Practice for In-House Counsel: Taking Your Seat at The Table was published in 2020 by Globe Law & Business.


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