McKinsey & Company

The state of diversity in global private markets: 2022

New research captures regional differences in the state of diversity in private equity and discusses the role of institutional investors as a catalyst for change.

This article is a collaborative effort by Pontus Averstad, David Baboolall, Alejandro Beltrán, Eitan Lefkowitz, Alexandra Nee, Gary Pinshaw, and David Quigley, representing views from McKinsey's Private Equity & Principal Investors Practice.

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Contents

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Introduction: The power of private markets—and a look at the talent driving it

When you think of the global economy, several leading public companies or the various stock exchanges likely spring to mind. Less likely to come to mind are the numerous institutional investors (IIs) or private equity (PE) firms that back thousands of companies around the world. Private capital is quietly powerful. The private markets industry has almost $10 trillion in assets under management (AUM), which is more than the GDP of every country except two—China and the United States.[1] About 9,200 PE firms and IIs invest in or control many privately held companies around the world.[2] The sheer scale and influence that PE and IIs have over businesses globally makes it relevant to understand the composition of the employee base driving the deployment of so much capital.

This report examines to what extent IIs factor in the diversity of deal teams when allocating funds and explores II sentiment on the state of diversity in PE today. Examining the current baseline for PE firms on gender diversity globally and on ethnicity and race in Canada and the United States, we outline a few levers driving current-state representation numbers, such as promotion, attrition, and external hiring, and conclude with recommendations that leaders in the industry can consider and further tailor by their geography or organization. These findings highlight the importance of diversity of talent in PE, as well as the progress made over the course of 2021, and provide clear areas of opportunity as the industry continues to prioritize diversity, equity, and inclusion (DEI) (for more on our research, see sidebar "About the study").

About the study

Our inaugural report, *The state of diversity in global private markets: 2022*, builds on prior McKinsey research on diversity in the workplace to explore diversity, equity, and inclusion (DEI) in the global private markets industry, with a focus on private equity (PE) firms and institutional investors (IIs). This aims to be the largest study of gender diversity and ethnic and racial diversity in the global private markets industry. We launched this research to shed light on the state of diversity in the industry and to help advance the industry's progress toward diversity goals. We surveyed 42 PE firms and IIs around the world and conducted interviews with several industry leaders to supplement the data we received from these firms. Participating PE firms directly employ more than 60,000 people globally. We also used scenarios to learn about the role of diversity in IIs' capital allocation decisions. Our inaugural findings focus on capturing the current state of gender diversity and ethnic and racial diversity in PE.

Analysis of the survey data uncovered three key insights for the industry: a view of IIs' assessment of diversity on investing deal teams today; IIs' preference toward more diverse deal teams when allocating capital to PE firms; and today's baseline of diversity for PE investing teams—in terms of gender diversity for the Americas, Asia–Pacific (APAC), and Europe and in terms of ethnic and racial diversity for Canada and the United States. Given data collection limitations, this report remained largely focused on gender diversity and ethnic and racial diversity within PE firms. We recognize there are several other categories that contribute to the diversity of employees. Future reports hope to broaden the categories examined, as well as expand to include PE firm portfolio companies, among other segments within private markets. The inaugural survey findings highlight the importance to IIs of having diverse talent in PE and the progress the PE industry as a whole has made over the course of 2021. It also provides clear areas of focus as the industry continues to prioritize DEI.

[1] "McKinsey's Private Markets Annual Review," McKinsey, March 24, 2022.
[2] Nir Kaissar, "Private equity's goldilocks era is coming to an end," *Washington Post,* July 6, 2022.

01

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Institutional investors as catalysts for change

Institutional investors (IIs) can have an impact on the diversity of the industry. Diversity, equity, and inclusion (DEI) is increasingly important to the constituents of several major endowments and pension funds, which has prompted IIs to pay close attention to PE funds' diversity metrics. Early data suggests that IIs generally prefer to invest in PE funds with more diverse investment teams, even if it means sometimes allocating capital to a firm with lower historical performance. Further, PE respondents confirmed that they have been sharing more—and a wider variety of—diversity data (for more, see sidebar "Institutional investors in the private market ecosystem").

Institutional investors' mixed feelings about PE's progress on DEI

With many pension funds and educational endowments in their ranks, some IIs have expressed that they view themselves as the conscience of the private market industry.

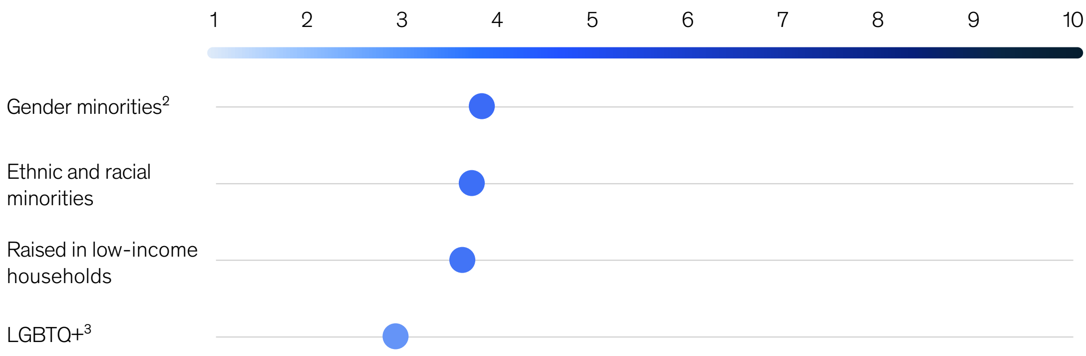
As key players in private markets, and given the amount of capital IIs allocate annually to PE firms, IIs could be a real catalyst for change on topics such as diversity of talent in PE—if they decide this matters. Based on our study, it seems they do.

The consensus among IIs is that the state of diversity in PE today is poor. IIs believe that PE firms have significant opportunity to improve the representation of underrepresented groups on their investing teams, specifically on the dimensions of gender, ethnicity and race, socioeconomic background, and sexual orientation (Exhibit 1).

Exhibit 1

Institutional investors surveyed think private equity firms can be more diverse.

Institutional investor perception of representation of groups within the private equity deal team, by group,[1] average score of respondents, scale of 1–10



[1]Question: "Thinking about private equity investment teams across the industry, how well do you feel that the following groups are represented?" Scale of 1–10, where 1 = not at all represented and 10 = very well represented.
[2]Gender minorities include women and nonbinary individuals.
[3]LGBTQ+ includes lesbian, gay, transgender, and queer individuals.

Institutional investors in the private market ecosystem

"Institutional investors" (IIs) is a broad term used to describe a range of types of companies that manage assets of groups, typically by allocating capital to various investment vehicles to grow value over time. Here, we use the term II to include, among others, state or local pensions (for example, for teachers or police), sovereign wealth funds, private family offices, foundations, endowments, real estate funds, lenders, growth or expansion funds, hedge funds, and venture funds.

These IIs often directly allocate capital to various private equity (PE) firms when they are raising funds for a new tranche of investments. These funds often have specific themes (for example, buyout)—and, at times, even a strategic focus (which could be based, for instance, on industry or geography)—for the companies they will deploy this capital to.

Since PE funds raise significant capital from IIs, they are motivated to align their actions and strategies to IIs' priorities, especially during capital raises. Data PE funds provide during fundraising can range from past funds' performance to the talent composition of investment teams and firms' investment committees.

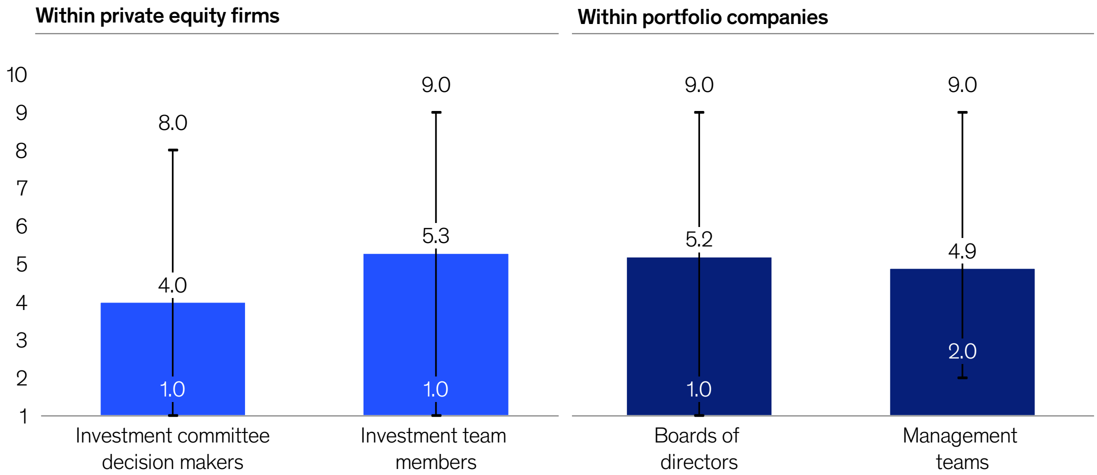
IIs signaled that PE firms could do more to diversify their investment committees (ICs) and the management teams at the helm of portfolio companies where they hold majority ownership. When asked about their satisfaction with PE firms' actions to improve talent diversity within their firms and among portfolio companies, IIs' responses varied (Exhibit 2).

On average, II's were lukewarm on the actions being taken, with a wide range of perspectives at each end. IIs were most satisfied with actions PE firms are taking to improve diversity on their investment teams. The lowest level of satisfaction was related to the diversity of PE firms' ICs, which draw from the ranks of managing directors (MDs), and the C-suite. When it comes to PE firms' approach to their portfolio companies, IIs' satisfaction is lowest on management team diversity, with a slight increase in satisfaction with actions taken to improve board-level diversity.

Exhibit 2

Institutional investors' views vary on how satisfied they are with the actions PE firms are taking to improve their diversity and the diversity of their portfolio companies.

Institutional investor satisfaction with actions taken by private equity firms to improve diversity, by group,[1] average score of respondents, scale of 1–10



[1]On a scale from 1-10, 1 = highly dissatisfied and 10 = highly satisfied.

The consensus among IIs is that the state of diversity in PE today is poor.

Institutional investors' preference for diverse teams and allocation decisions

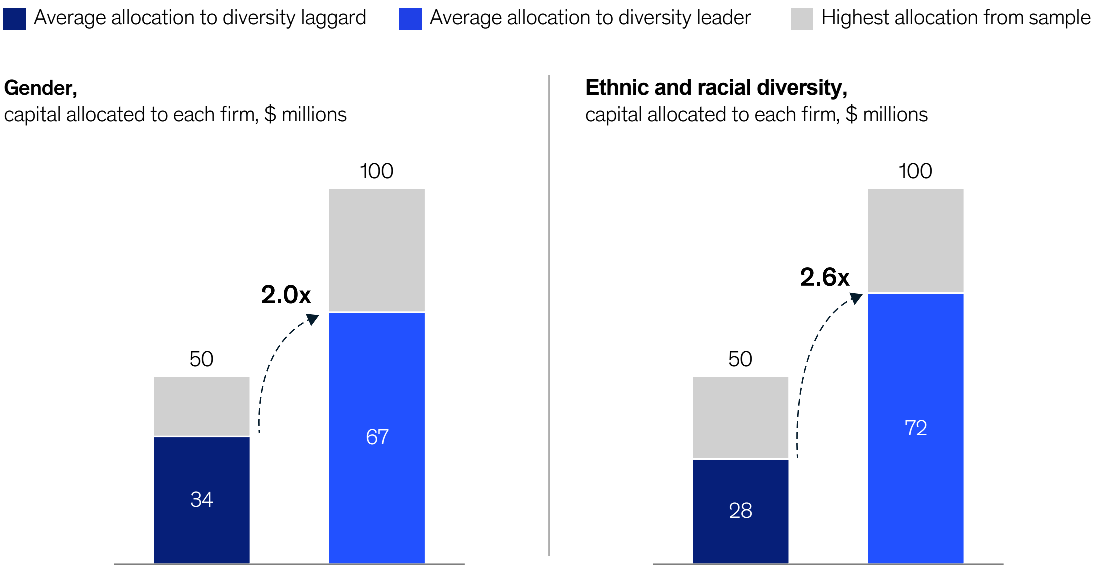
While the sample size of IIs was small, our data suggest that the diversity premium can be significant in some scenarios. We asked ten chief investment officers or their equivalent, representing IIs with assets under management (AUM) ranging from $20 billion to $460 billion, to allocate $100 million between two hypothetical PE funds. When the hypothetical firms had identical metrics except for the investing team's diversity, IIs would allocate, on average, twice as much capital to the deal team with more gender diversity and 2.6 times as much to the team with more ethnic and racial diversity (Exhibit 3).

Not only would the more diverse deal team receive more money (all else equal), the data also suggested that a penalty may exist for lagging behind peers on talent diversity: one out of the ten IIs reported that they would not allocate any funding to the less diverse PE fund when the alternate funds' historical performance was the same.

Exhibit 3

All else equal, participating institutional investors tended to allocate capital to more diverse private equity firms.

Institutional investor (II) capital allocation to leaders and laggards



Data from our survey also suggest that IIs prefer firms that they have allocated funding to in the past. However, diversity can boost the amount of capital allocated to unfamiliar firms when two firms have the same historic performance. IIs allocated an average of 1.3 times as much capital to unfamiliar funds with more gender diversity than to funds they previously allocated to but that had less gender diversity on their deal teams (Exhibit 4).

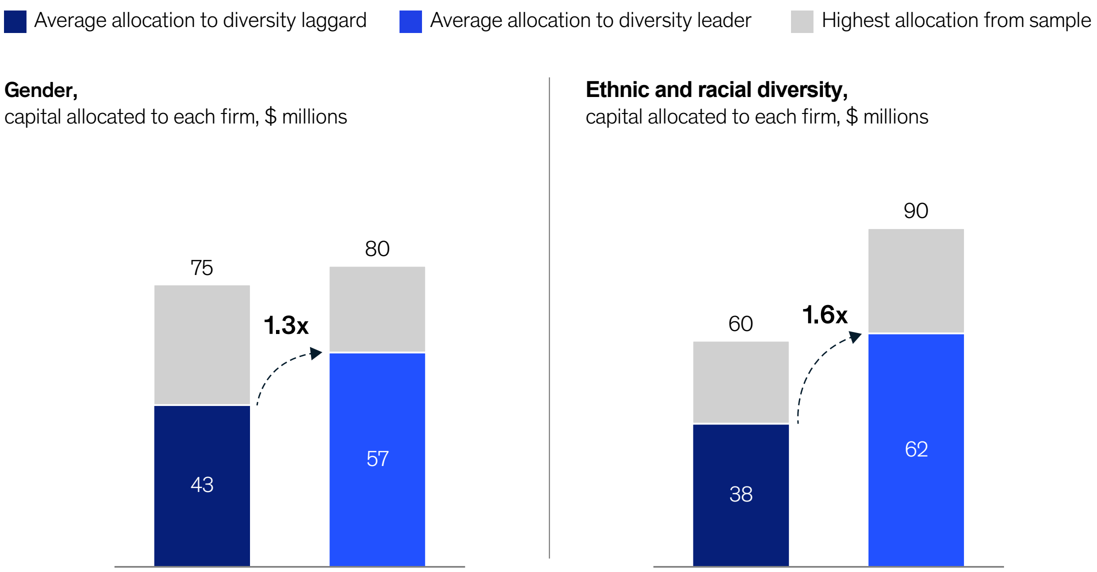
Similarly, firms with higher levels of ethnic and racial diversity enjoyed a diversity premium even when they were unfamiliar to an II. Unfamiliar but more diverse firms were awarded an average of 1.6 times as much capital as familiar firms with less diversity. However, IIs' preference for firms they have allocated to in the past was significant enough that no respondents said they would allocate 100 percent of their capital to the less familiar firm on the basis of the deal team's greater diversity.

However, a minority of respondents—about 40 percent regarding gender and 40 percent regarding ethnicity and race—allocated the same amount of capital to PE funds, seemingly without regard to the level of diversity on those deal teams. This seems to suggest that some CIOs preferred to diversify their investments across firms rather than by the demographic diversity of investment teams.

Exhibit 4

Institutional investors allocated more to the more diverse PE firm when historical performance was the same and they had not previously allocated to the more diverse firm.

Institutional investor (II) capital allocation to leaders and laggards



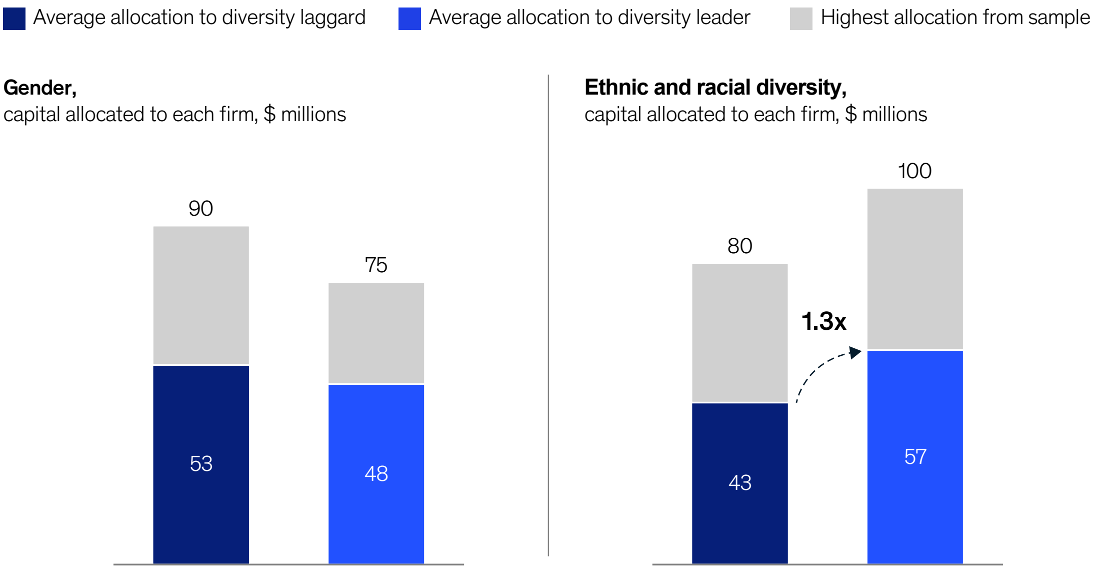
Surprisingly, in a scenario where the diversity leader lagged on historic performance, 40 percent of IIs still allocated more capital to the PE firm with greater gender diversity, in spite of its lower historic returns; 50 percent of IIs allocated more to the firm with lower historic returns but higher ethnic and racial diversity (Exhibit 5).

Given the data challenges of gathering and comparing apples-to-apples metrics from all firms, it is too soon to quantify the extent to which this is occurring today in IIs' actual allocating. However, responses from surveyed IIs suggest that diversity matters to these firms and that they are willing to allocate accordingly if PE firms provide comparative diversity data and historic fund performance.

Exhibit 5

Institutional investors tended to allocate more to the more diverse firm when it had allocated to both funds before and the diversity leader had lower historic returns.

Institutional investor (II) capital allocation to leaders and laggards



PE firms are increasingly sharing diversity metrics with funders

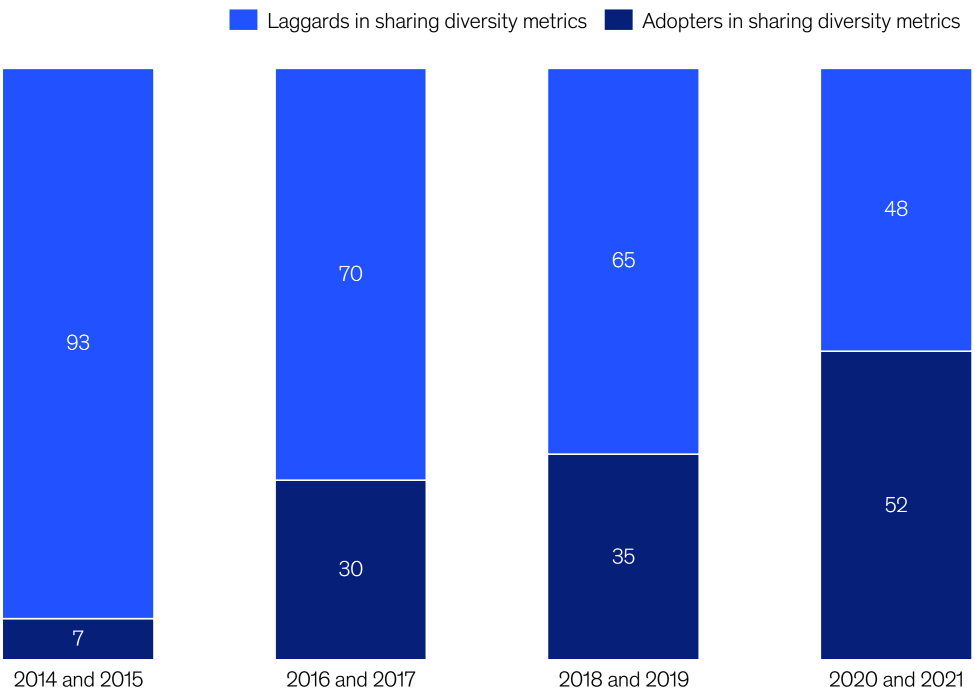
IIs are increasingly asking for and receiving diversity data from PE firms seeking to raise funds. Moreover, once a PE firm begins to provide diversity data as part of fundraising, the firm is likely to continue providing diversity data for subsequent funds' capital raises.

Data show that the share of all firms that provided DEI metrics to IIs during fundraising jumped from about 35 percent in 2018–19 to 52 percent in 2020–21 (Exhibit 6).

Exhibit 6

More private equity firms are sharing diversity data during fundraising.

Global private equity (PE) firms reporting diversity metrics to institutional investors during fundraising, average % of reported PE firms in two year period[1]



[1]Share of PE firms reporting diversity metrics calculated by dividing count of PE firms that have shared diversity metrics during fundraising within year of reference or in years prior by total count of reported PE firms in 2013–21; includes the total of early and late majority and early adopters in sharing diversity metrics. Question: "For your last fundraiser, did you include diversity metrics of your Investment team, portfolio boards, or portfolio management for this segment?"

> "We used to get a lot more requests on emissions and environmental metrics than on diversity. But there has been an uptick in DEI requests, and we share what we are doing and talk about the initiatives we have in place."

Director of environmental, social, and governance (ESG) engagement of a US-headquartered PE firm

The director of environmental, social, and governance (ESG) engagement of a US-headquartered PE firm said, "We used to get a lot more requests on emissions and environmental metrics than on diversity. But there has been an uptick in DEI requests, and we share what we are doing and talk about the initiatives we have in place."

Even if PE firms' DEI metrics are modest, for now, IIs seem satisfied if the PE firm can share its plans for improving DEI performance. One director of ESG at a small US-headquartered PE firm said, "Sometimes talking about what you are doing on DEI feels more important to [institutional investors] than the actual metrics. We always share details on the programs we have in place in addition to the template of metrics." A combination of quantitative and qualitative data helps IIs evaluate PE firms more holistically. PE executives note that diversity metrics take time to improve. As the head of HR for a US PE firm noted, "It's going to take time to move these numbers. From entry-level, the fastest possible course up through our firm to MD [managing director] within the investing track is eight years, and that's if you are on the fastest career trajectory possible."

The main challenge for both the IIs and PE firms is a lack of standardized metrics, which makes the reporting process unwieldy and labor-intensive for PE firms. The lack of standard, defined DEI metrics in the private markets industry complicates IIs' efforts to compare firms' DEI practices. PE firms submit lengthy and often allocator-specific forms that ask for varying types of data. Meanwhile, IIs receive a large volume of data—a mix of facts, metrics, and narrative that is difficult to compare across PE firms.

Standardizing diversity metrics will take time. However, it is clear that IIs are increasingly considering PE investing teams' diversity metrics and initiatives in capital allocation decisions. Will Goodwin, head of direct investments at New Zealand Super Fund, said, "When we look to allocate, we ask PE funds for statistics on DEI, such as gender pay gap and representation. In our opinion, programs like parental leave are just good hygiene and table stakes these days."

As the head of DEI at a midsize US PE firm said, "I am a big proponent of the need to streamline and consolidate what we are asked to report. It is hard for organizations like ours to respond to so many requests for different data in different forms." As a result, PE firms often send the metrics they have available. Meanwhile, IIs are left to wade through a mix of data from multiple PE firms that is difficult to compare and therefore often not able to be used in allocation decision making.

"I am a big proponent of the need to streamline and consolidate what we are asked to report. It is hard for organizations like ours to respond to so many requests for different data in different forms."

Head of DEI at a midsize US PE firm

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Gender diversity in global private equity

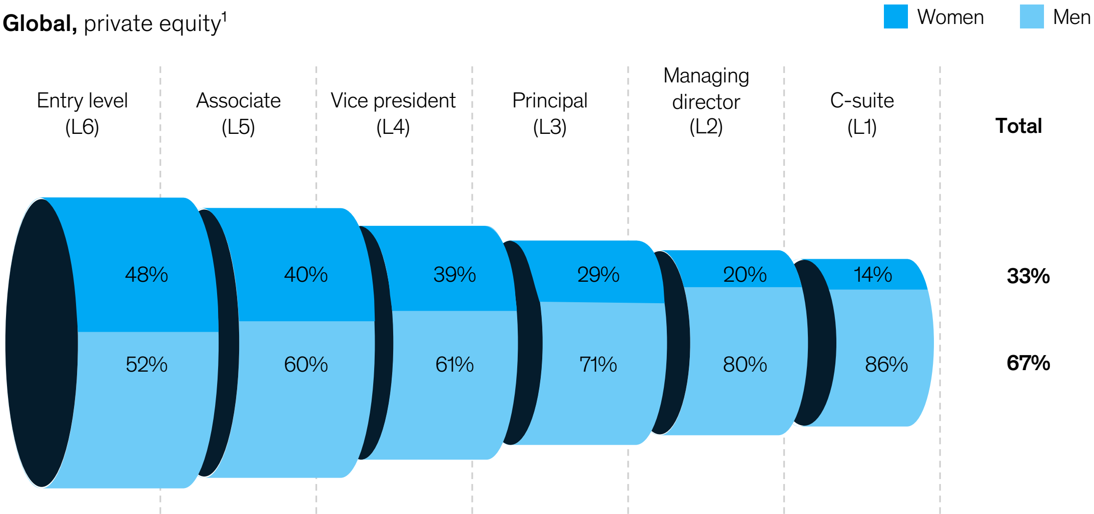
In this section, we discuss the current state of gender representation in the industry, particularly in investing roles in different regions. Although there is a popular assumption that the PE world is completely male dominated, the evidence does not always bear this out. Globally, PE firms have almost achieved gender parity in entry-level roles (Exhibit 7).

On average, as of the end of 2021, 48 percent of all entry-level roles—and 33 percent of all roles—in PE globally are filled by women (for more on job levels, see sidebar "Job levels in private equity"). However, women in PE are still underrepresented in leadership positions—dropping from 48 percent at entry level (L6) to only 20 percent at managing director (MD) roles (L2).

Exhibit 7

Full-firm data show that the entry level (L6) is nearing gender parity.

Global, private equity[1]



[1]Based on data provided by 31 private equity firms. Responses cover more than 11,000 employees. Unique firm count by region: Americas = 26; Europe = 16; Asia–Pacific = 11.

Job levels in private equity

We classify jobs in PE into six levels. For most of these levels, we include multiple possible job titles. In descending order of seniority, the roles are as follows:

L1

C-level executives or fund heads. We refer to this level as the C-level or C-suite.

L2

Managing directors or partners. We refer to jobs at this level as managing directors.

L3

Principals, directors, or senior vice presidents. We refer to jobs at this level as principals.

L4

Vice presidents or senior managers. We refer to these jobs as VPs.

L5

Associates or managers. We refer to these jobs as associates.

L6

Entry-level roles.

For the sake of simplicity, we will refer to each level with only one title.

Combining investing and non-investing roles obscures important nuances

Statistics such as the one about near gender parity at the entry level are based on a full-firm perspective that combines investing staff with non-investing staff. However, the firmwide data on gender representation obscure important nuance. While the ratio of non-investing to investing staff varies based on the size of the firm, full-firm gender diversity tends to be higher than gender diversity in investing roles. Indeed, disaggregating this figure into investing and non-investing employees reveals that only 34 percent of entry-level investing roles are held by women, compared to 57 percent in non-investing entry-level roles, and that women in PE are still underrepresented in leadership positions—dropping from 34 percent at entry-level investing (L6) to only 12 percent at MD investing roles (L2).

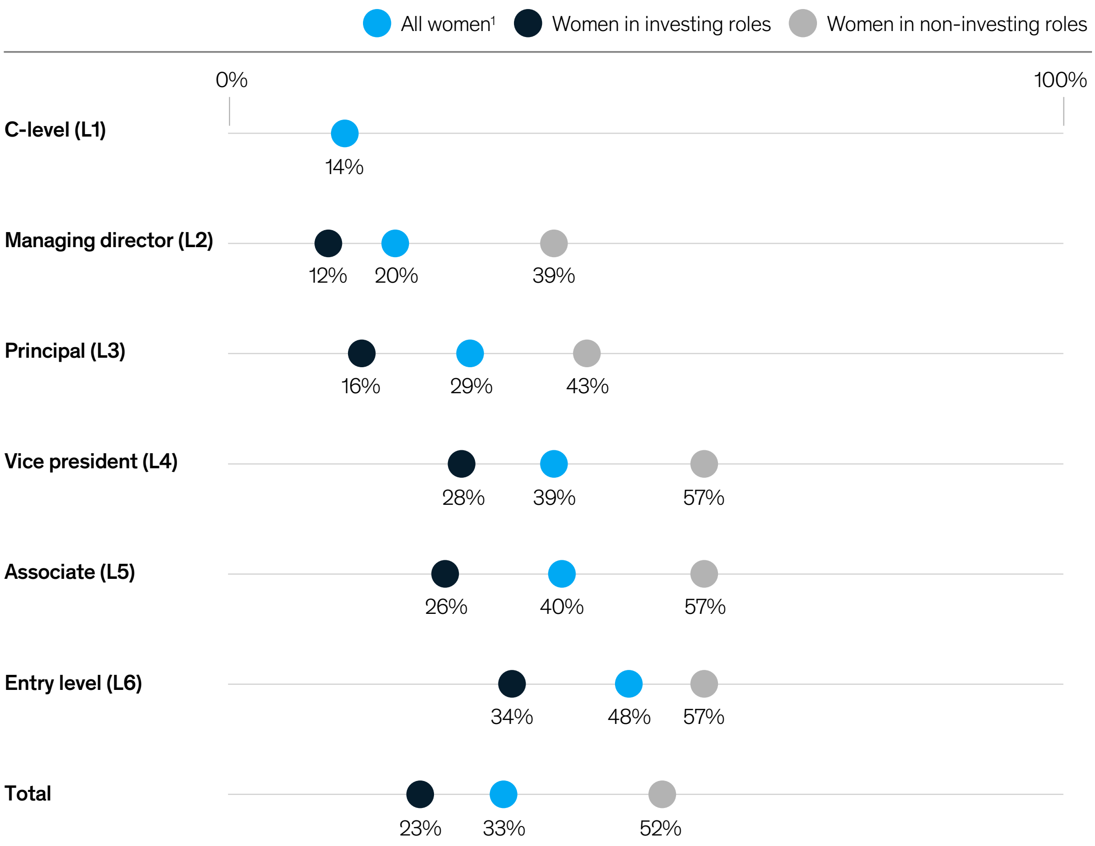
Overall, women's representation within PE is driven by women in non-investing roles at all levels: women hold 52 percent of non-investing roles and only 23 percent of investing roles overall (Exhibit 8).

Among responding firms, 39 to 57 percent of non-investing roles—from the entry level (L6) up to the MD level (L2)—were held by women, compared to only 12 to 34 percent of investment roles.

It is valuable to examine investing roles separately because in PE firms—and many other types of private market firms—an unspoken hierarchy often exists. Examining the gender composition for investing and non-investing staff separately can help illuminate a firm's cultural dynamics.

Exhibit 8

Women are more represented in non-investing roles at every level.



[1]Based on data provided by 31 private equity firms. Responses cover more than 11,000 employees. Unique firm count by region: Americas = 26; Europe = 16; Asia–Pacific = 11.

Positive strides in gender diversity for PE investing over 2021

Over the course of 2021 alone, global PE made modest strides toward diversifying gender representation in investing roles.

In investing roles, the share of women employees grew by two percentage points in 2021, driven mostly by a nine percentage point increase in women at the entry level.

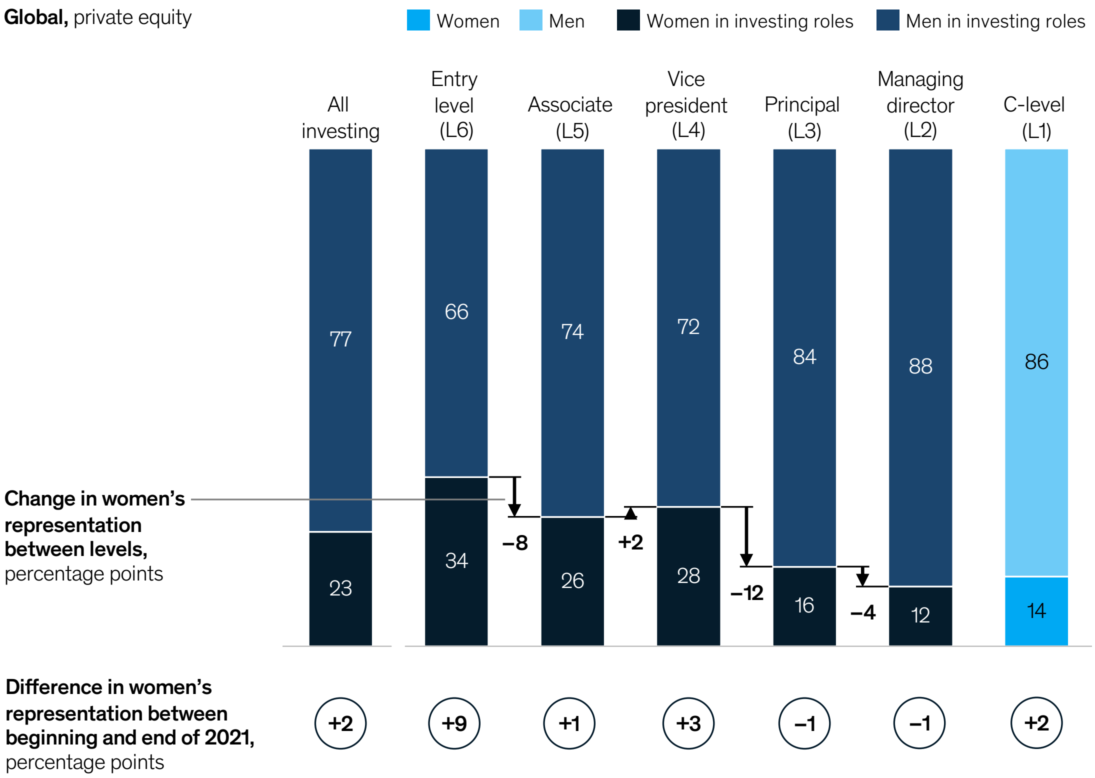
However, women in PE continue to face obstacles to their career advancement. The share of minorities (on the dimensions of gender, ethnicity and race, or an intersection) within PE investing teams declines with seniority (Exhibit 9).

Globally, women shift from representing slightly more than a fourth of investing associates (L5) to just over one out of every nine investing professionals by the MD level (L2).

Exhibit 9

Women in investing tend to lose ground as they ascend the ranks.

Private equity talent pipeline by gender,[1] %



[1]Based on data provided by 31 private equity firms. Responses cover more than 11,000 employees. Unique firm count by region: Americas = 26; Europe = 16; Asia–Pacific = 11.

Remaining challenges for senior-level women

One consequence of the observed downward trajectory in representation is that even senior-level women struggle to break into "the room where it happens" in PE: today, women are only 9 percent of IC members (which typically draws from L1 and L2 employees), despite making up about 12 percent of MD-level investment staff (L2) and 14 percent of C-suite roles (L1) (Exhibit 10).

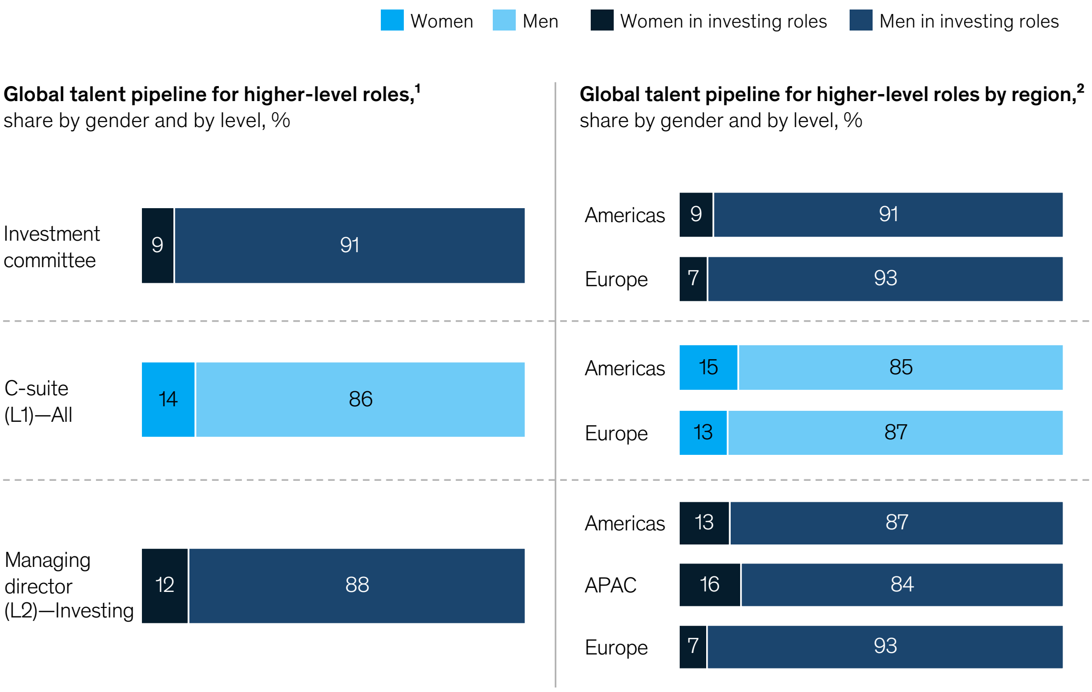
The fact that women's representation on investment committees (ICs) is lower than their presence in these senior ranks (L1 and L2) may reveal an unspoken cultural dynamic in which women are still not in the same positions of power as 91 percent of their male counterparts, even at the MD or C-suite levels. (For more on the role of ICs, see sidebar "The role of investment committees in the private equity industry.")

A possible outcome—and contributor—to senior-level women's challenges is lower job satisfaction. Analysis of job satisfaction data from employees who participated in our survey suggests that White or Caucasian (hereafter "White") women in middle management and senior executive positions have the lowest job satisfaction of all intersectional (that is, gender and ethnic/racial) groups in their investing level. Indeed, White women in senior investing positions are 13 percent less satisfied than their male counterparts and 1.4 times more likely to leave in the next year. They are also the least likely to say that they feel their voices are valued by their organizations. This sentiment persists among women in entry-level investing roles, who report being 3 times more likely to leave than their male counterparts.

Globally, gender diversity in investing, particularly at the senior levels of PE firms, has room for improvement. Yet even today there is a significant

Exhibit 10

Women comprise 9 percent of investment committees globally.



[1]Based on data provided by 31 private equity firms. Responses cover more than 11,000 employees. Unique firm count by region: Americas = 26; Europe = 16; Asia–Pacific = 11.
[2]Asia-Pacific investment committee and C-suite details unavailable due to insufficient number of organizations reporting data for investment committee and C-suite.

The role of investment committees in the private equity industry

In private equity (PE), investment committees (ICs) are where investment decisions happen. Firms often take pride in their IC process. ICs engage in intellectual debate and make decisions about potential assets to purchase, prices to pay, the level of EBITDA growth needed over the holding period, and how to create that value.

While several other operations—such as raising new funds or setting investment strategies—are of comparable importance, the discussions and decisions made in regular IC meetings form the intellectual backbone of PE firms. Therefore, who consistently sits at the IC table matters.

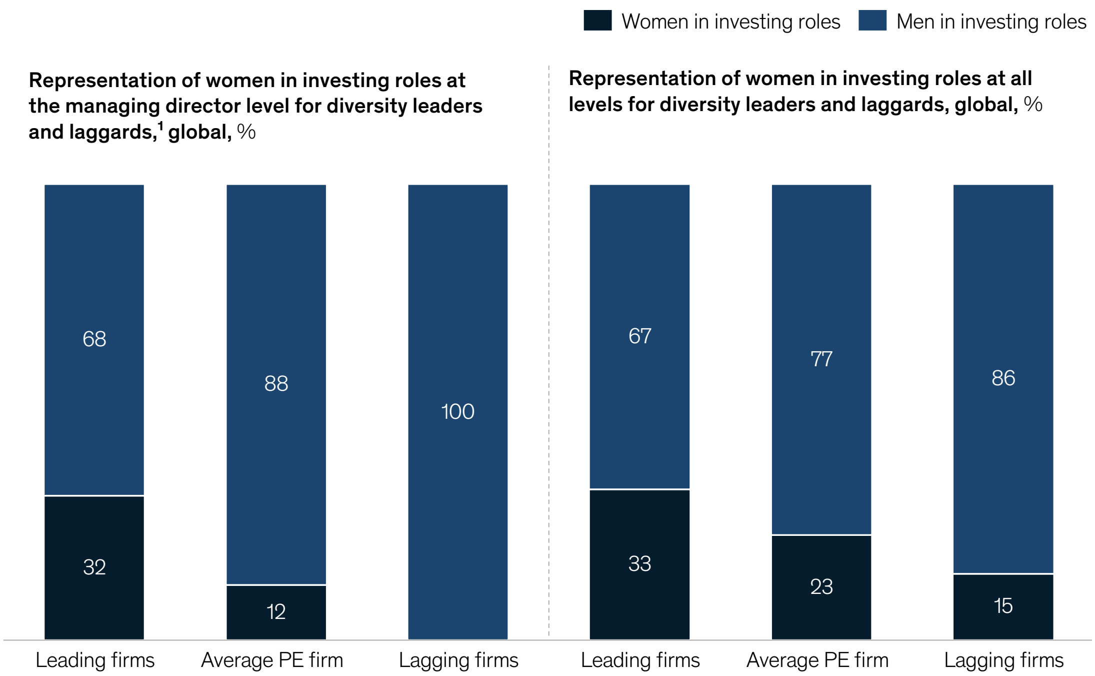
Standing IC members are generally invited from the C-suite (L1) and MD (L2) ranks.

spread among PE firms that lead on gender diversity and those that trail. When looking at the MD level (L2), the top 10 percent of PE firms on gender diversity average 32 percent investing women MDs, while the bottom 10 percent of firms in 2021 had no investing women MDs (Exhibit 11).

What's more, female representation at the top seems to affect gender diversity throughout the organization: PE firms that lead on percent of women MDs also had significantly higher shares of total investing women versus the industry as a whole—a difference of ten percentage points higher than the industry average of 23 percent.

Exhibit 11

Globally, private equity firms that lead on diversity at the managing director (L2) level also beat the industry benchmark for all investing roles.



Note: Figures may not sum to 100%, because of rounding.
[1]"Diversity leader" is defined as the top 10% of PE firms by representation of women in investing roles at the managing director level (L2) globally. "Diversity laggard" is defined as the bottom 10% of PE firms by representation of women in investing roles at the L2 level globally.

PE firms that lead on percent of women MDs also had significantly higher shares of total investing women versus the industry as a whole.

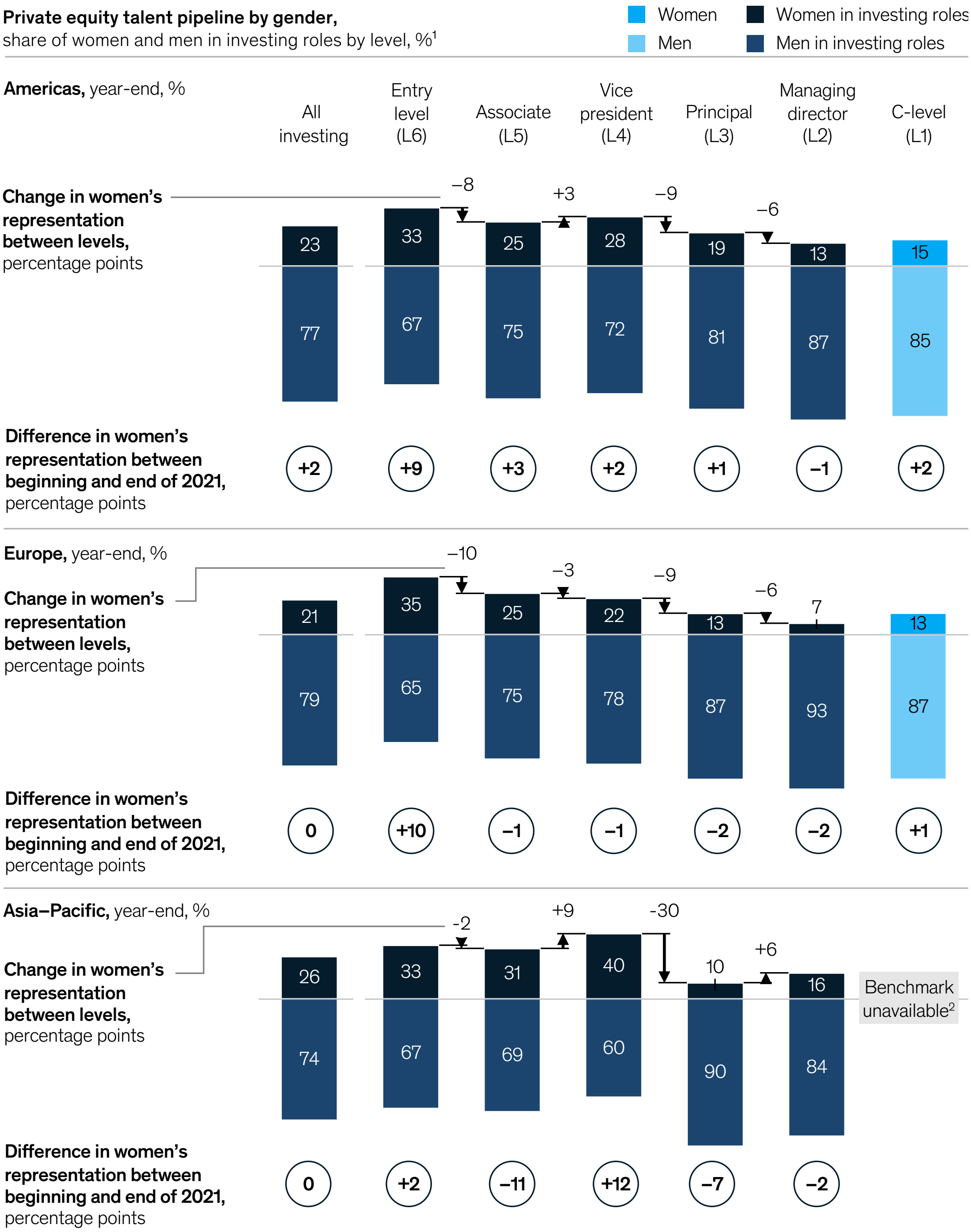
Regional differences in gender diversity

While the dynamics of the PE industry as a whole may affect the number of investing women, regional variations also exist, affecting different levels within the PE hierarchy (Exhibit 12).

The Americas have the highest share of women in the C-suite and possibly the least obstacles to female advancement, with the smallest drop-off in share of women from associate (L5) to MD (L2); Asia–Pacific (APAC) leads the regions in women's representation in the middle of the corporate ladder (L4); and Europe leads slightly on entry-level investing roles (L6).

Exhibit 12

Gender diversity in private equity varies by region.



[1]Based on data provided by 31 private equity firms. Responses cover more than 11,000 employees. Unique firm count by region: Americas = 26; Europe = 16; Asia–Pacific = 11.
[2]Benchmark data not available due to low number of reporting companies.

PE offices in the Americas have a low share of women in entry- and associate-level investing roles

PE offices in the Americas lead the regions on many dimensions of diversity. Americas offices boast the highest share of women in top-of-the-house roles: the share of women in the equivalent of the C-suite is 15 percent. Moreover, of the regions, offices in the Americas have the smallest drop today (12 percentage points) between the share of women in investing at the associate level (L5, at 25 percent) and the MD level (L2, at 13 percent).[3] However, the region also ties with APAC for the lowest share of women at the entry level (L6), and with Europe for the lowest share at post-MBA associate (L5) levels.

Like the rest of the world, gender parity on promotions is lacking and there is often higher promotion rates among men in investing roles. In the Americas, the promotion rate for men into VP, principal, and MD or partner ranges from five to 12 percentage points higher than for women.

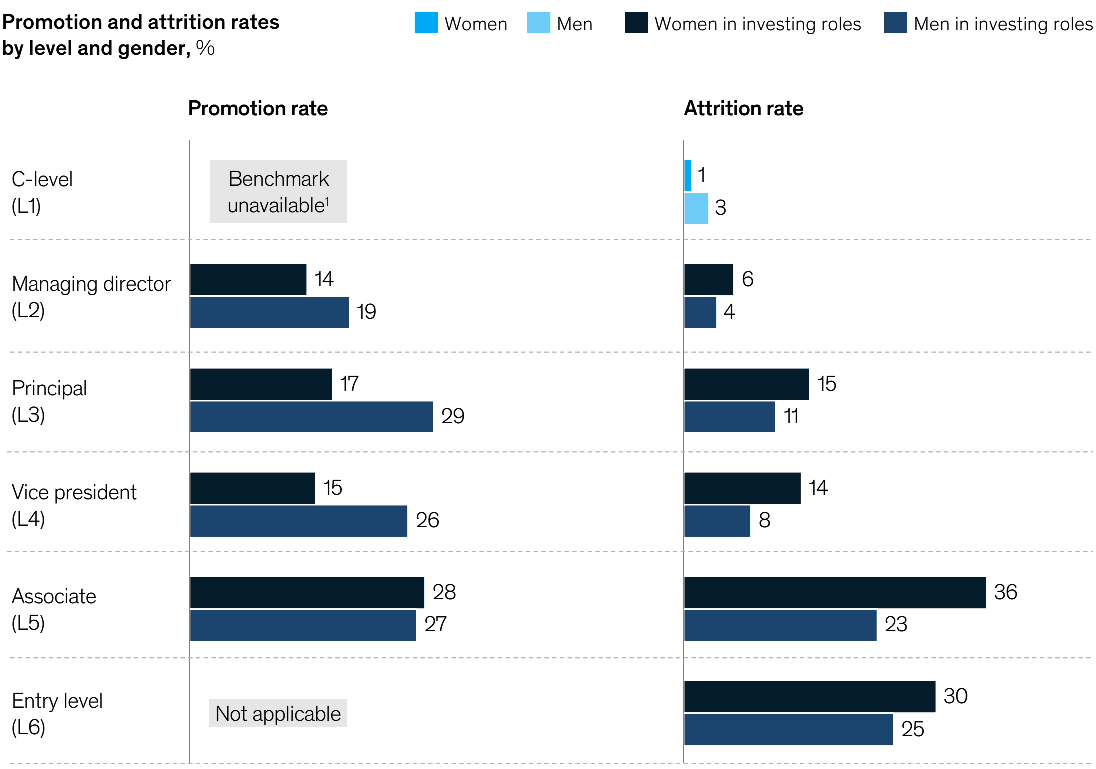
Moreover, the Americas are losing more women than men at all levels other than the C-Suite. Women's attrition in the Americas is most noticeable at the associate and VP levels, where the attrition rate for women is 13 and six percentage points higher, respectively, than for men (for more, see sidebar "Understanding promotion rates, attrition rates, and external hiring shares") (Exhibit 13).

While American PE does comparatively well with retention and promotion of investing women at junior levels, this small base of women entering the profession may constrain progress in the ability to advance a greater share of women to MD over time.

Exhibit 13

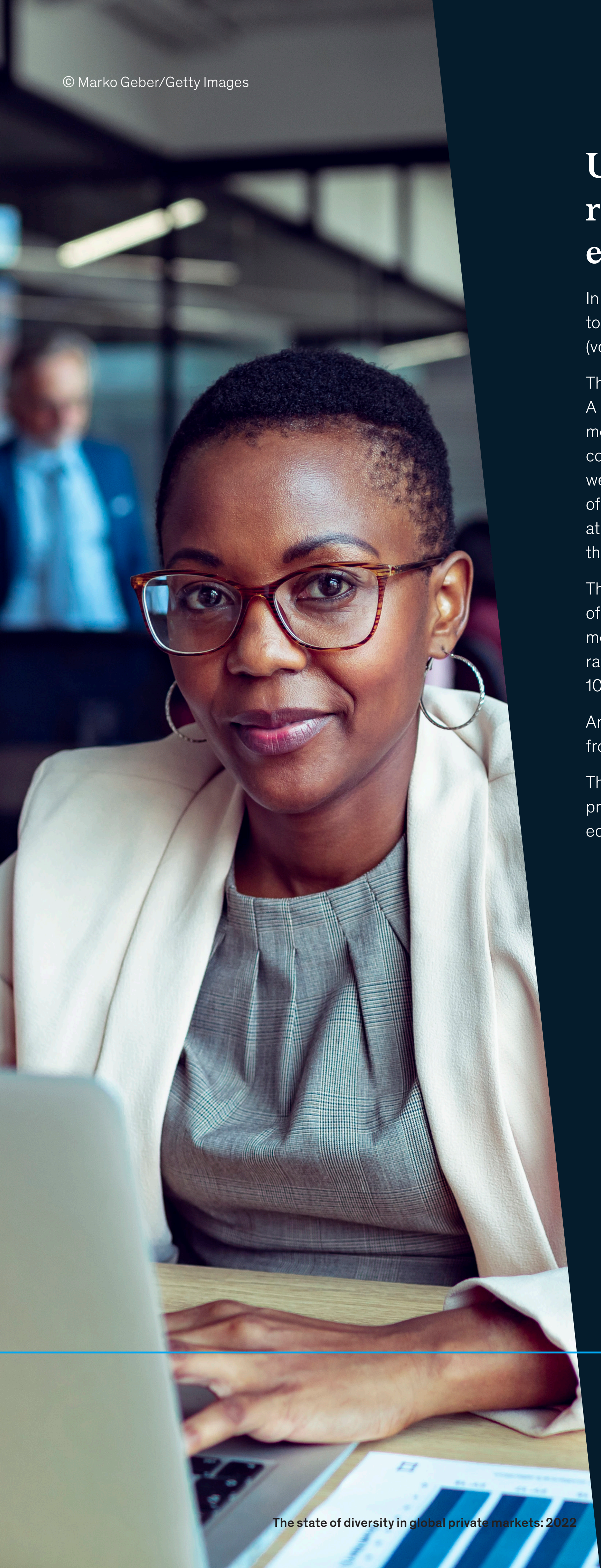
The attrition rate in the Americas is higher for women than for men at almost every level, the reverse for promotion rates.

Promotion and attrition rates by level and gender, %



[1]Benchmark data not available due to low number of reporting companies.

[3] In PE, unlike in some other corporate cultures, associate level (L5) is a significant entry point for post-MBA investing professionals. A far greater percentage of L5 individuals remain at firms to L2, as compared to L6 in PE, which on the Investing side is seen more as a two- to three-year position. Therefore, in this report L5 to L2 is often used as an anchor to show representation longitudinally.



Understanding promotion rates, attrition rates, and external hiring shares

In this report, we use rates and shares to quantify the extent to which people of different groups are promoted, leaving (voluntarily and involuntarily), and externally hired.

The promotion rate reflects promotions into the level. A promotion rate of 0 percent indicates that there were members of the group at the beginning of the year who could have been promoted into the next level, but none were promoted over the course of 2021. Meanwhile, a rate of 100 percent suggests that everyone at the lower level at the start of 2021 was promoted into the next level over the course of 2021.

The attrition rate is a ratio underscoring how many members of a group left over the course of 2021 relative to how many members were in that group at the start of 2021. An attrition rate of 0 percent means no one left, while an attrition rate of 100 percent means everyone left.

An external hiring share of 0 percent indicates that no one from a given group was externally hired.

These measures indicate movement in and out of roles—promotion, attrition, and hiring—and do not measure equitable representation.

APAC offices have the highest share of women in mid-level roles

APAC leads in share of women investors at post-MBA associate (L5) and VP (L4) ranks. Representation for women at the associate level (L5) in APAC offices is 31 percent, five percentage points higher than the global benchmark, and representation for women at the VP level (L4) is 40 percent, 11 percentage points higher than the global benchmark.

In every region, there is a sizable step down in the share of women at or above principal (L3). However, 2021 data show a "broken rung" in the career progression for women in APAC offices, with the share of women plunging by more than 30 percentage points in the step up from VP (L4) to principal (L3); that is a 4.2 times drop in the percentage of women advancing to principal (L3) in APAC offices. This broken rung for women from VP to principal was made more severe by a promotion gap between women and men (2 percent of women versus 20 percent of men from the available pool promoted) in 2021 and attrition of women at the L3 level in APAC (Exhibit 14).

Though most pronounced in APAC, the plunge between midlevel roles and more senior roles is also visible in Europe and the Americas. In both Europe and the Americas, women in investing lost nine percentage points of share in the step up from VP to principal and six percentage points from principal to MD. As a result, women make up 13 percent of MD roles in the Americas and 7 percent in Europe. However, different factors influenced these drops in representation over the course of 2021 in European and American offices. In the Americas, the drop in share from VP to principal, similar to APAC, was affected by a gap in promotion parity into the principal level (17 percent of women VPs versus 29 percent of men VPs were promoted). In Europe, while men were still promoted at a higher rate than women, the gap to parity was smaller (18 percent of women VPs versus 22 percent of men VPs were promoted).

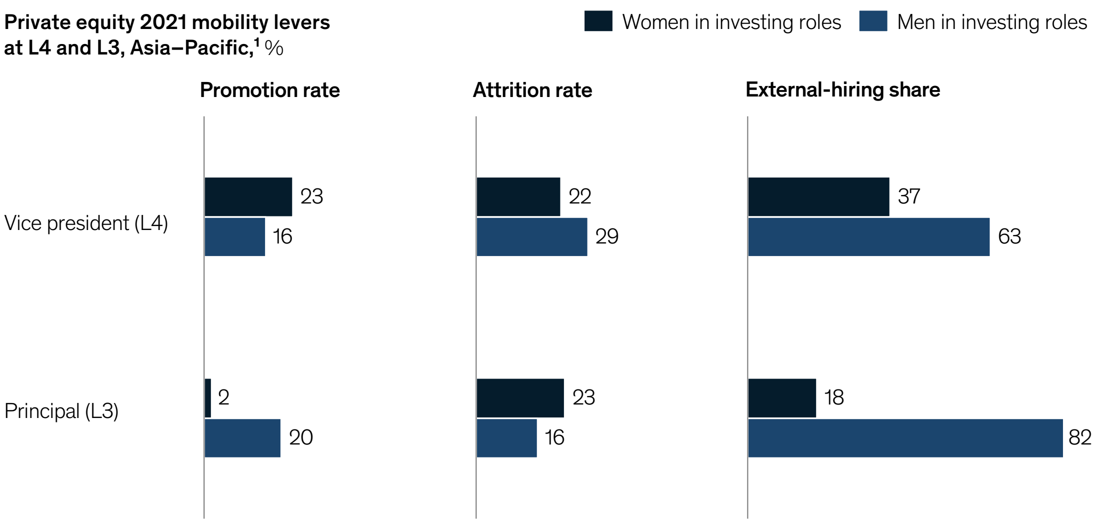
European offices have the highest share of women at entry-level investing

Europe leads the regions, though marginally, in women in entry-level investing jobs, with 35 percent. However, women in Europe at the MD level (L2) have the lowest representation—7 percent—compared to all other regions and the steepest decline from post-MBA associate level, with a 17 percentage point drop from L5 to L2. Given that more than a third of entry-level investing staff are women, European PE offices have a real opportunity to increase their gender diversity at higher levels by analyzing sponsorship throughout the funnel and promotion rates of women out of the entry-level investing role.

Exhibit 14

Rates of promotion and attrition and the share of external hires from vice president to principal is higher for men than for women.

Private equity 2021 mobility levers at L4 and L3, Asia–Pacific,[1] %



However, there are positive signs. In 2021, Europe had the smallest gap compared with other regions between promotion rates for men and women at the mid-level to senior ranks. Even though promotions still favor men, in Europe, the difference in promotion rates between men and women into VP and principal roles is less than four percentage points.

Perhaps surprisingly, in Europe in 2021, four times as many women MDs in investing left their firms as men did. It is possible, though, that they were not leaving the industry, given that external hiring into the MD role was also higher in Europe (and APAC) than in the Americas.

Key levers affecting diversity

Promotion, attrition, and hiring, are important elements of diversity at every level of PE. While these three levers are not exhaustive, they are the most common and accessible ones for decision makers.

When it comes to promotions, with a few exceptions, globally men were promoted at higher rates in all regions in PE investing in 2021. The exceptions were in APAC into VP (L4) and MD (L2), where promotion rates for the available pool of women associates and principals were at or above 20 percent, as compared to their male peers who saw a 16 and 6 percent promotion rate into the respective levels. The Americas also promoted men and women into the associate level (L5) at roughly parity (about 27 percent) in 2021.

While our data set showed that APAC had more favorable promotion rates for investing women in a few areas, investing women in APAC also had the largest gaps to promotion parity at other levels—namely into associate (L5) (where 57 percent of men but only 18 percent of women were promoted) and into principal (L3) (20 percent men but only 2 percent women). Also, the Americas in 2021 promoted men into VP and principal roles with gaps in the rate of promotion of ten to 13 percentage points, as previously described.

In terms of attrition and external hiring—while our data set does not track individuals across companies and therefore is unable to say if individuals leaving their firms are the same that are being hired into similar or senior levels at other PE firms, we noted a few trends in the past year. In both Europe and the Americas, women at every level left at higher rates than their male counterparts, and external hiring in PE investing roles for women in those regions and APAC was lower than men across the board. While attrition rates for investing men and women generally decline with seniority, about 11 to 12 percent of investing women principals and MDs in European offices (and 20 percent in APAC offices) left their firms in 2021. As previously discussed, the lack of gender diversity at the top seems to influence the retention of diversity at all levels of the investing team, so this exodus of senior-level women in 2021 may warrant attention from the industry (Exhibit 15).

Chief human resources officers (CHROs) are focused on recruiting women for these senior roles, but they admit it can be challenging. Elizabeth Urdang, CHRO at L Catterton, said, "Our firm has been focused on increasing diversity in all functions for many years. One thing we have learned is that when working with search firms we need to explicitly ask for diverse talent for our open roles. If we tell the search firm anything different, if we give them any wiggle room to bring us non-diverse talent, then we don't get any diverse talent at all."

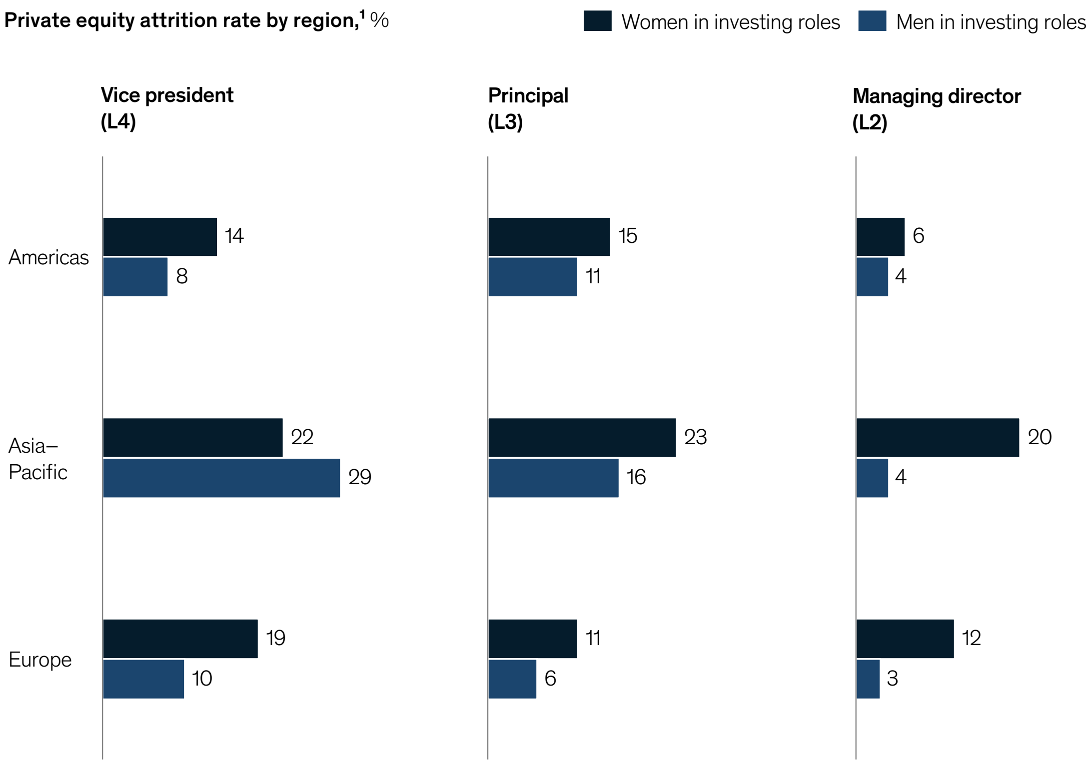
PE firms globally are also using MBA recruitment as an opportunity to increase the representation of women (and other minority populations) in investing at the associate (L5) level. The CHRO of one small to midsize PE firm said, "We do a good job on gender diversity, but that doesn't mean we can take the eye off the ball. Looking more broadly, we are partnering with business schools and their LGBTQ+ clubs and their Black investing clubs to find new ways of attracting diverse talent."

Given the time it takes to apprentice and promote individuals from associate up to MD, these shifts over a course of one year do not explain the entirety of the composition we see in PE investing. However, it is a window into the levers at a PE firm's disposal and a helpful indication of the direction these firms are taking on diversity of their talent. (For a nuanced look at women in investing roles at firms headquartered in the Americas and Europe, see sidebar "The relationship between headquarter location and culture.")

Exhibit 15

Attrition is generally higher for women in private equity than for men.

Private equity attrition rate by region,[1] %



The relationship between headquarter location and culture

A firm's culture matters.[1] We examined whether differences exist between American and European firms, regardless of office location.

Our survey found that PE firms headquartered in the Americas tend to have higher shares of women in their investing teams compared to PE firms headquartered in Europe. Though our sample size is small, APAC firms may have the highest representation of women in investing roles.

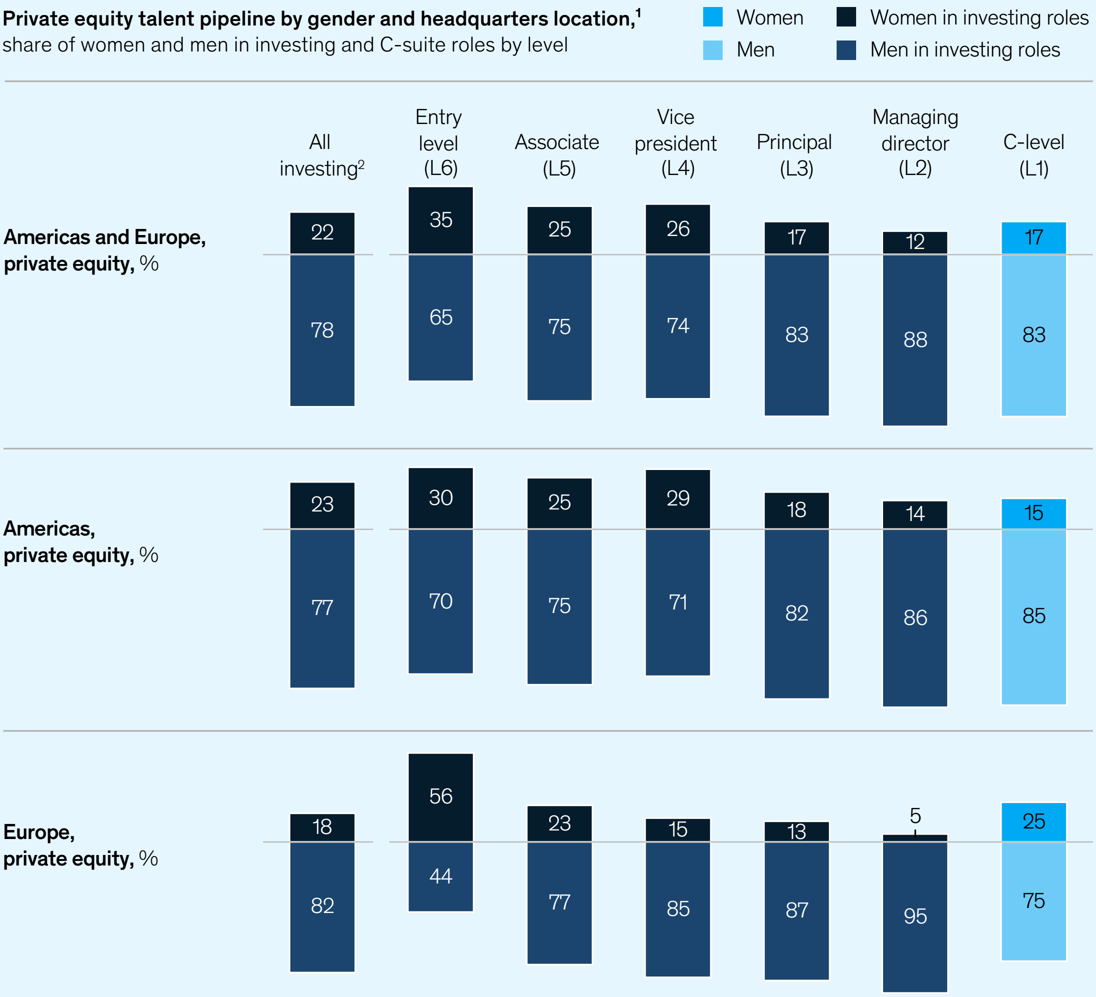
Twenty-three percent of investment professionals (from L6 to L2) are women at American-headquartered firms. At European-headquartered firms, the number is 18 percent. This is a result, in part, of the large broken rung for European-headquartered firms from the entry level (L6) into the associate (L5) level, where women lose 33 percentage points in share (Exhibit).

However, women's representation is strongest at the top of the house in European-headquartered firms, where one in four C-suite executive equivalents is a woman. Firms headquartered in Europe have nearly double the share of women at the L1 level—25 percent, compared with 15 percent at firms headquartered in the Americas. This progress may stem from external factors such as the new European Union requirement that 40 percent of non-executive board seats at public companies be held by women by 2026.[2]

Exhibit

Firms headquartered in the Americas have a higher share of women in investing roles than those in Europe.

Private equity talent pipeline by gender and headquarters location,[1] share of women and men in investing and C-suite roles by level



[1]Based on data provided by 30 private equity firms. Responses cover more than 9,000 employees. Unique firm count by headquarter location: Americas = 23; Europe = 7.
[2]Investing total includes entry level (L6) through managing director (L2).

[1] "Is it time to reexamine your culture?," McKinsey, March 26, 2022.
[2] Natalie Huet, "EU strikes deal to impose 40% quota for women on boards of large companies by 2026," Euronews, updated June 8, 2022.

03

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A view of ethnic and racial diversity in private equity

For our analysis on ethnic and racial diversity in PE, we leveraged data from the PE firms with offices in Canada and the United States due to the ease and frequency with which offices in those geographies collected these data. We will discuss the overall state of ethnic and racial diversity in PE investing then dive into how Asian, Black, and Hispanic, Latino, and mestizo professionals fare in the industry.

Ethnic and racial successes and challenges parallel those of women in the industry

Our research suggests that over the course of 2021, ethnic and racial minorities in the industry have experienced similar successes and challenges as women in the PE industry. Specifically, non-investing roles have higher shares of ethnic and racial diversity than investing roles do. Thirty-three percent of non-investing roles (compared to 30 percent of investing roles) were held by ethnic and racial minorities in the Canadian and US offices of PE firms at the end of 2021.

Based on data from PE firms' offices in Canada and the United States, like women, ethnic and racial minorities (including people of Asian descent) in investing compose only 9 percent of IC members even though they make up almost 17 percent of MDs (L2). Women of color only hold about 1 percent of IC roles even though they are four times as prevalent at the L2 level (Exhibit 16).

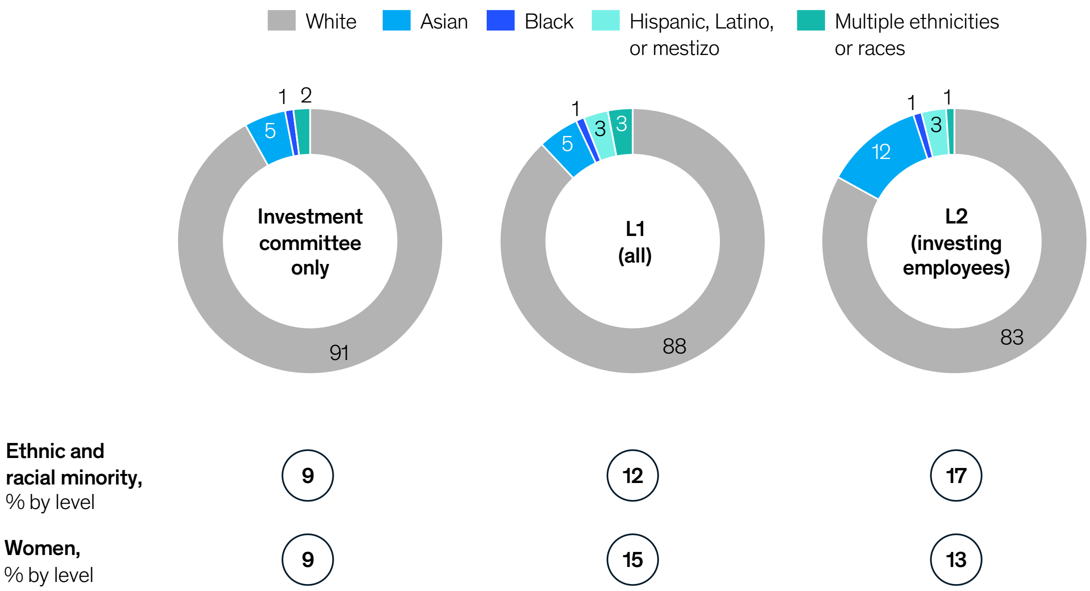
The experiences of ethnic and racial minority investing professionals differed from that of investing women in a few ways. In Canada and the United States, ethnic and racial minorities' representation in entry-level investing roles was six percentage points higher than for women at that level: 40 percent of entry-level investing staff identified as ethnic and racial minorities, while 34 percent identified as women. At the top of organizations, women see a two percentage point boost in representation between the MD level (L2) and the C-suite (L1). However, ethnic and racial minorities have a harder time making the same jump, losing five percentage points between the two levels (from 17 percent to 12 percent).

Over the course of 2021, the share of investing roles in Canada and the United States held by people who self-identified as White declined by one percentage point to 70 percent. The share of investing professionals of Asian and Hispanic descent stayed roughly constant at 21 percent and 4 percent, respectively. Black investing staff gained one percentage point in share to end the year at 3 percent.

Exhibit 16

People from ethnic and racial minority groups are less represented at the top levels in private equity.

Representation of ethnic and racial minority employees in Canada and the United States,[1]
by ethnicity and race, % by level



Note: Figures may not sum to 100% because of rounding.
[1]Based on data from 24 firms. Responses cover about 7,500 employees in Canada and the United States.

White professionals in PE

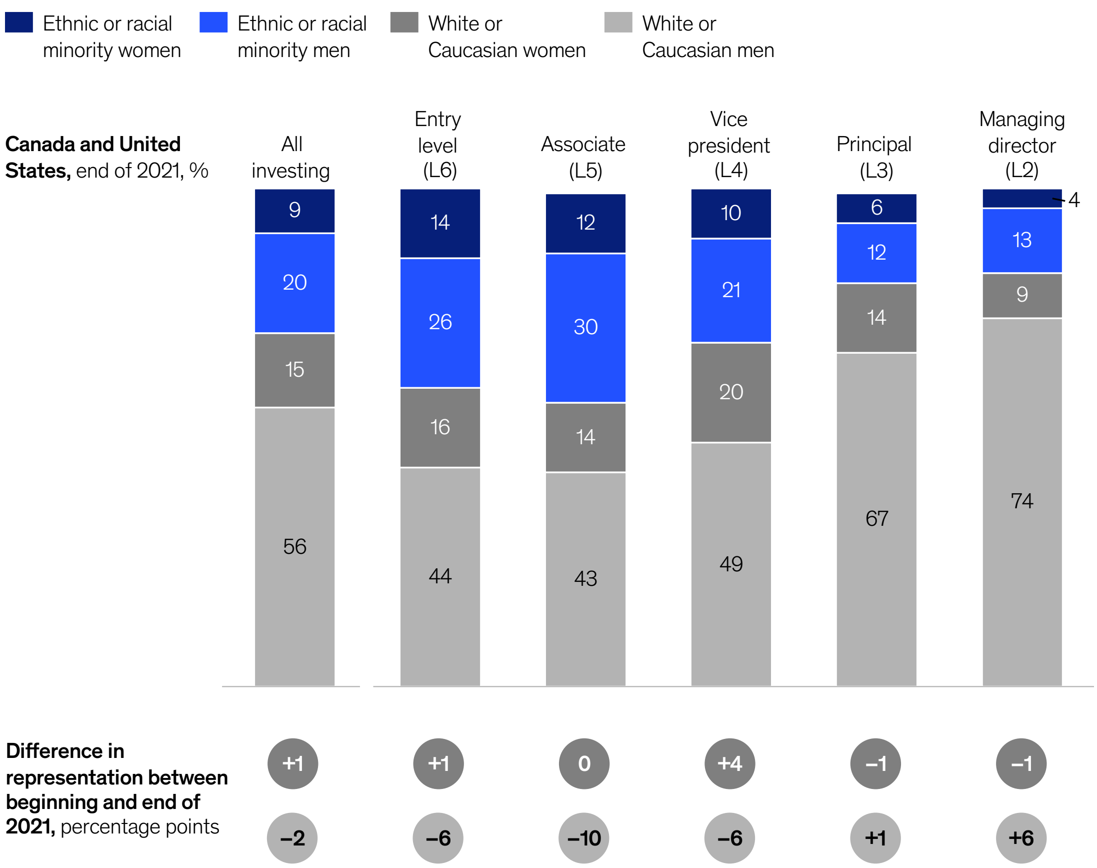
White professionals remain the largest group in investing roles in Canada and the United States, and they gain ground at successive job levels from associate to the C-suite (Exhibit 17).

Data for 2021 show that people who self-identified as White held 70 percent of all investing jobs and 58 percent of Associate (L5) investing roles. From associate to MD (L2), representation of White professionals in investing increases by 25 percentage points. White men are the most represented group in investing roles, particularly at more senior levels, with White men being more than eight times as prevalent as White women at the MD level (L2) today.

Exhibit 17

White professionals—particularly men—are the most represented group in investing roles.

Private equity talent pipeline by intersection of gender and ethnicity and race,
share of intersectionality in investing roles by level, %[1]



Note: Figures may not sum to 100% and may be +/– 1 p.p. from elsewhere in the article due to rounding.

[1]Racial or ethnic minorities includes investing Black, Asian, Hispanic, and multi-ethnic employees; based on data provided by 24 private equity firms in Canada and the United States. Responses cover about 7,500 employees.

Asian professionals in PE

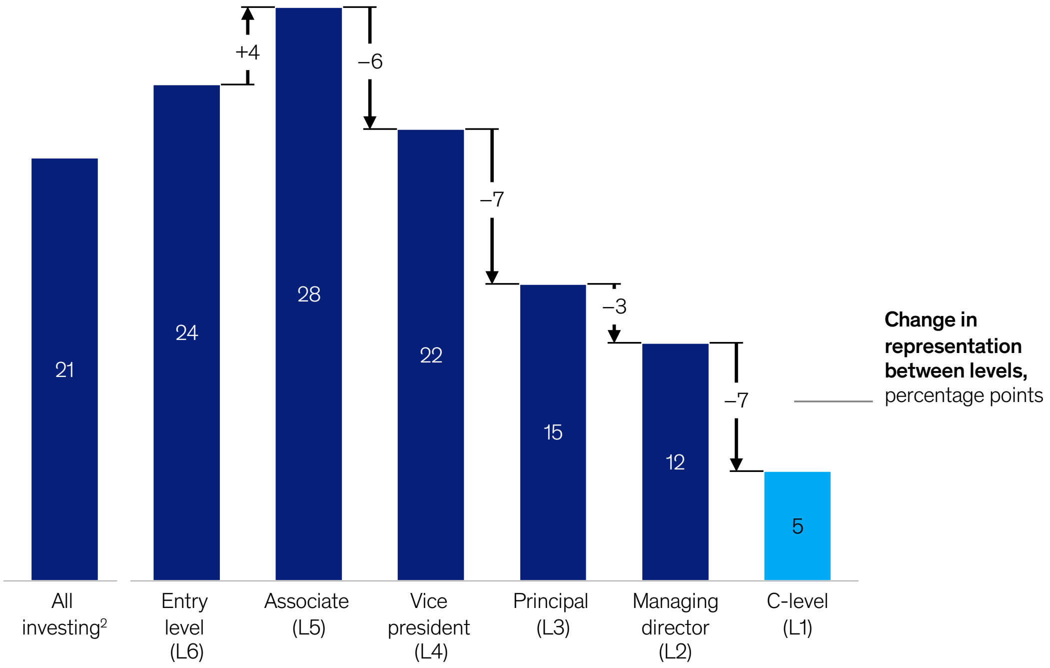
Asian professionals are the largest racial minority in PE investing roles. They hold 28 percent of all associate-level investing roles in PE offices in Canada and the United States. However, the share of Asian investing professionals declines to 12 percent by the MD level (Exhibit 18).[4]

Asian professionals' share of investing roles remains around or above 22 percent until it drops seven percentage points from the VP (L4) into the principal level (L3)—and even further thereafter to 12 percent of MDs and 5 percent at the C-suite level. It also should be noted that Asian professionals are the only ethnic or racial minority group whose percent composition declines substantially from L2 to L1[5]: White, Black, and Hispanic, Latino, and mestizo representation increases or remains relatively constant from MD to C-suite levels.

Exhibit 18

Asian professionals lose ground after the associate level.

Canada and the United States, Asian C-suite and investing employees, end of 2021, %[1]



Note: Share at each level and percentage point changes between levels are calculated and rounded separately.
[1]Based on data provided by 24 private equity firms in Canada and the United States. Responses cover about 7,500 employees.
[2]Includes entry level (L6) through managing director (L2).

[4] Michael Chui, Kweilin Ellingrud, Ishanaa Rambachan, and Jacking Wong, "Asian American workers: Diverse outcomes and hidden challenges," McKinsey, September 7, 2022.
[5] Ibid.

Black and Hispanic, Latino, and mestizo professionals in PE

On the surface, Black and Hispanic, Latino, and mestizo (hereafter "Hispanic") professionals have similarly low representation across PE investing. Professionals from both groups have low representation in all levels of PE Investing, starting with 4 to 7 percent of entry-level and post-MBA associate cohorts. Both groups also lose roughly three to four percentage points between the post-MBA and MD levels (L5 to L2). With 3 percent Hispanic and 1 percent Black principals (L3), PE lacks Hispanic or Black role models in the leadership ranks for more junior professionals. One PE CHRO commented, "If I were a Black person looking at PE, I don't think I would see a lot of people who look like me, and I don't know if I would want to work there." Despite the low numbers of Hispanic and Black principals, each group retains the low share through the top leadership ranks, with 3 percent and 1 percent of leaders, respectively, in MD and C-suite roles (Exhibit 19).

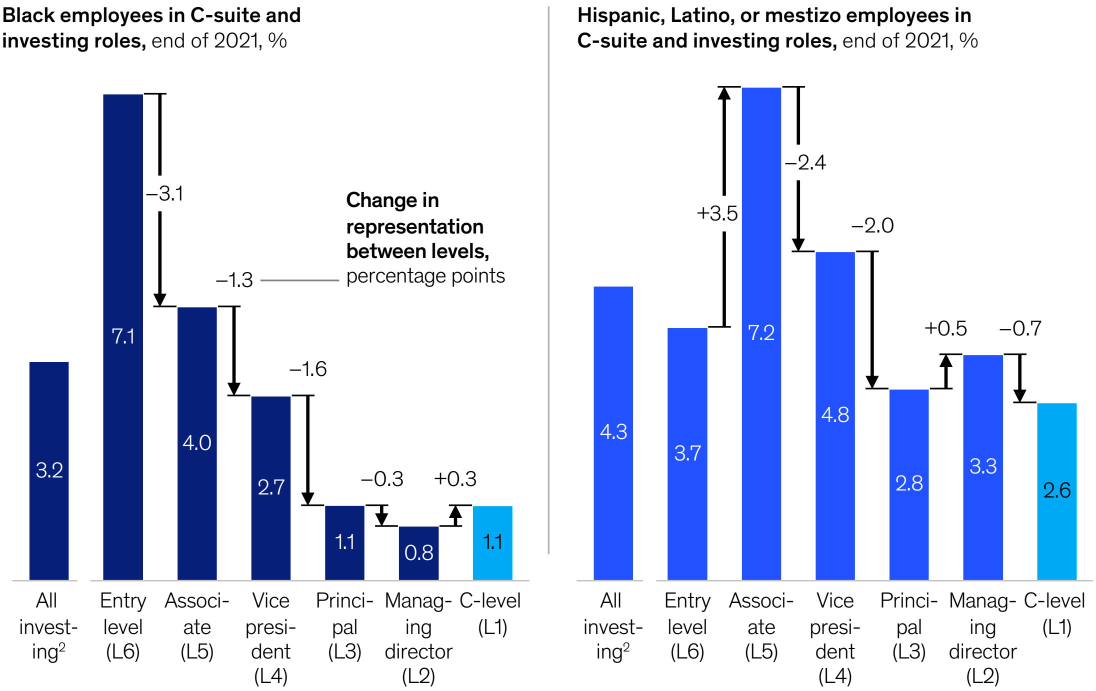
Looking more closely at the trends reveals some differences in the Black and Hispanic experience in PE.

Black professionals make up 7 percent of entry-level investing roles—close to double the share of Hispanic professionals. This number drops sharply, to 4 percent, for the associate (L5) class in offices in Canada and the United States. Black gender composition seems to mimic the overall PE investing gender story only at the post-MBA and VP levels, where Black women are just under a third of all Black investing professionals. As of year-end 2021, only 1 percent of all PE MDs (L2) in these offices were Black, with representation from Black women significantly lacking. The share of Black women does increase slightly in the C-suite, but there, Black representation (for both men and women) is still only a little over 1 percent of all reporting firms in Canada and the United States.

Exhibit 19

Black and Hispanic, Latino, and mestizo employees have low representation in senior investing roles.

Private equity talent pipeline by race,[1] share of Black and Hispanic, Latino, or mestizo employees in C-suite or investing roles in Canada and United States, by level, %



[1]Based on data provided by 24 private equity firms in Canada and the United States. Responses cover about 7,500 employees.
[2]Investing total includes entry level (L6) through managing director or partner (L2).

The Hispanic experience in PE investing also begins with low representation (4 percent) in entry-level investing roles. However, unlike Black investing professionals, this number grows to 7 percent at the post-MBA associate (L5) rank. Thereafter, there is a higher Hispanic presence compared to Black presence at senior levels of PE firms, with 2.5 times and 3.9 times as many Hispanic principals and MDs, respectively. And yet, despite holding 3 percent of MD and C-suite roles, Hispanic representation on ICs was less than 1 percent. The gender imbalance for Hispanic professionals in PE investing is larger than it is for Black professionals: Hispanic women only account for about 16 percent of Hispanic professionals from post-MBA to principal (L5 to L3), dropping by nine percentage points to 7 percent of all Hispanic MDs. While it is clear that PE firms can improve talent attraction of Hispanic and Black professionals, the data show there is the most room to improve in attracting post-MBA Hispanic women, in particular; firms are also falling short in retention, and promotion of Black and Hispanic women at the principal and MD levels.

However, this analysis speaks to the industry averages on ethnicity and race in Canada and the United States. Of course, there is a spectrum of PE firms: the top firms are close to doubling the industry average share for ethnic and racial minorities at the MD level, with 32 percent, while 98 percent of MDs at the least diverse firms are White and Caucasian (Exhibit 20).

As we saw with gender, diversity at the top does have an impact on the ability to retain diverse talent throughout the deal team. While the industry average for ethnic and racial minorities was 30 percent, industry laggards on MD-level ethnic and racial diversity were around eight percentage points below that industry average, with ethnic and racial minorities holding 22 percent of positions across the entire investing team.

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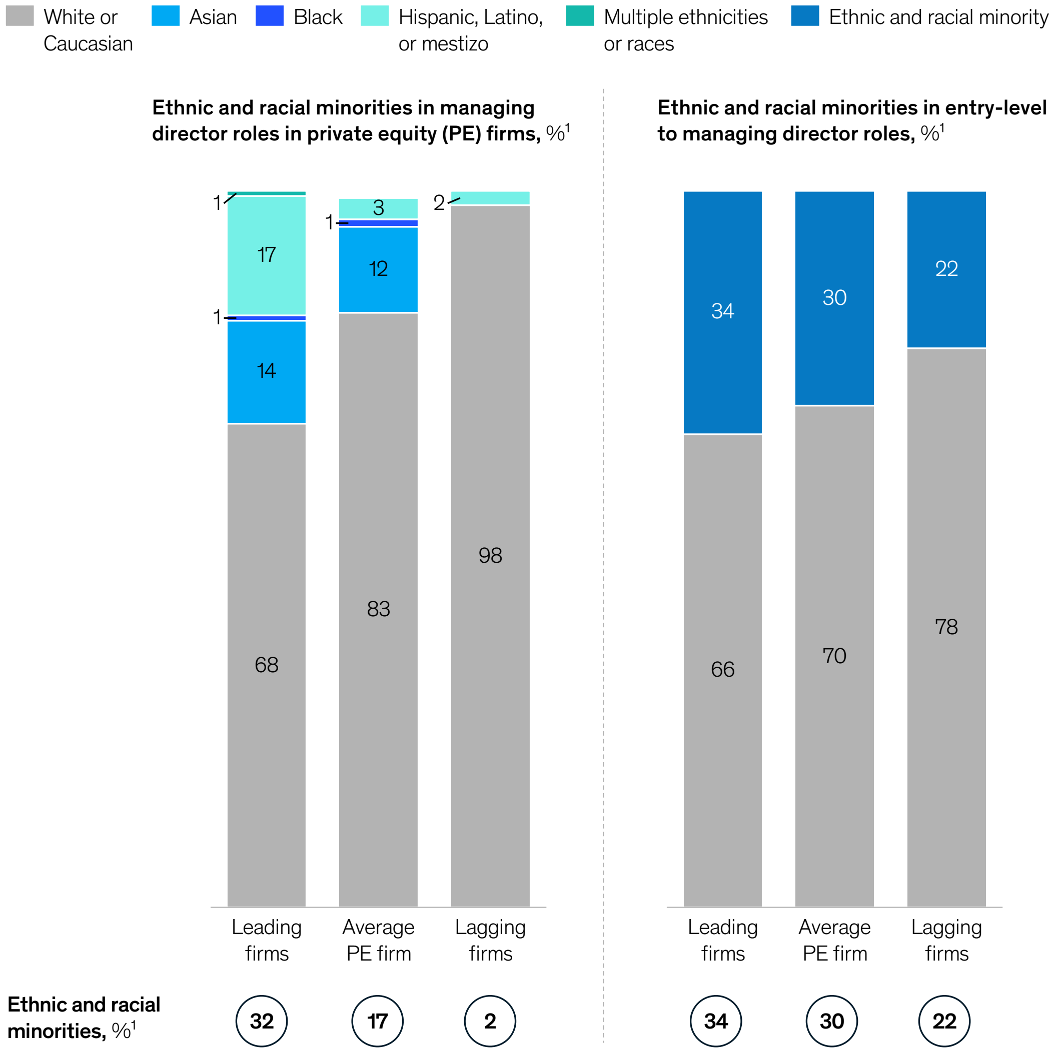
Exhibit 20

In Canada and the United States, private equity firms that lead on ethnic and racial diversity in L2 roles also beat the industry benchmark for all investing roles.



Note: Figures may not sum to 100%, because of rounding.

[1]Based on data provided by 24 private equity firms in Canada and the United States. Responses cover about 7,500 employees; leading firms are the top 12.5% of companies on % of ethnic and racial minorities (including people of Asian descent) in managing director roles, and lagging firms are the bottom 12.5% of companies on % of the metric. Average PE firm is the average of the entire data set.

04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Charting a path to a more diverse, equitable, and inclusive future

“What we need are consistent metrics and industry benchmarks so that firms can track representation and progress. Without these tools, we all operate in a vacuum.”

Jerilyn Castillo McAniff, Head of D&I at Oaktree Capital Management, L.P.

Our findings suggest a few critical areas for leaders who want to improve the diversity of talent in the industry:

Evaluate IC diversity. PE firms should take a critical lens to the diversity of their investment committees to understand if and why they are not more reflective of the makeup of their C-Suite and MDs.

Consider region-specific obstacles to diversity. Offices in the Americas could strive for gender parity in hiring and attract more Black and Hispanic talent for post-MBA investing positions. PE firms may need to take a critical look at possible causes, such as barriers to entry or an unattractive culture, that results in low levels of representation of Black and Hispanic professionals even at entry levels of firms’ deal teams. For the current talent pool, firms could continue to improve promotion parity of women, Asian professionals, and Hispanics professionals into VP, principal, and MD roles.

APAC offices can mend the broken rung from VP to principal by evaluating barriers to apprenticeship, sponsorship, and promotion of women, as well as by working to reduce MD and principal attrition.

European offices may reduce the loss of women from L5 to L2 and leverage the breadth of their women colleagues at L6, by striving for promotion parity for that first step up from entry level to Associate level, as well as in external hiring for mid-tenure levels (L5 to L3). Examine the office culture with an eye towards potentially improving retention of investing employees.

Gather more intersectional diversity data. PE firms’ CHROs and Heads of DEI should push to improve the granularity of the data collected around the world, where possible, and devise solutions with these intersectional groups in mind.

IIs can use standardized—and simplified—diversity metrics to evaluate PE funds. This will likely require collaboration among IIs. Furthermore, if not already asking, IIs should consistently require diversity metrics from all PE firms that approach them during fundraising.

Jerilyn Castillo McAniff, Head of D&I at Oaktree Capital Management, L.P., a global investment manager specializing in alternative investments, said, “What we need are consistent metrics and industry benchmarks so that firms can track representation and progress. Without these tools, we all operate in a vacuum. We can all do our part by participating in relevant industry studies and benchmarks, which gather data, track trends, and highlight key themes. Making progress will be a collective effort.”

Increasing the diversity of PE Investing teams takes time. While there are no quick fixes, the value to be gained by taking effective action could motivate sustained focus on the goal. Creating an equitable and inclusive culture will be the key to retaining a diverse workforce over time. Maria Pejter, head of HR for A.P. Moller Holdings, a privately held European investing company, shared, “By humanizing the culture a bit more, we will be able to make private equity firms a place to spend a career for reasons beyond just money. By doing that, you may automatically get more diverse talent, including at the most senior levels.”

Building a more diverse set of leaders at the helm of the private markets industry requires sustained, nuanced, long-term effort. However, this research shows that progress is being intentionally made across several PE firms, and rewards come with that diversity, with IIs continuing to prioritize and seek diverse talent for further allocation of funds.

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We are appreciative of McKinsey and LeanIn.org's Women in the Workplace study, which has informed the creation of this work.

Appendix

Methodology

Survey participants

This report draws on data gathered from 42 companies—31 private equity firms and 11 institutional investors in the Americas, APAC, and Europe. In addition, more than 300 private equity employees also responded to a survey about their workplace experiences.

Participating companies have shared data for their offices in Australia, Belgium, Brazil, Canada, Finland, France, Germany, Greater China, India, Indonesia, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, Singapore, South Korea, Spain, Sweden, the United Kingdom, and the United States.

We divided those offices into three regions:

1. The Americas: Brazil, Canada, Mexico, and the United States.
2. APAC: Australia, Greater China, India, Indonesia, Japan, Singapore, and South Korea.
3. Europe: Belgium, Finland, France, Germany, Israel, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and the United Kingdom.

The data used for the analysis on ethnicity and race came from 24 firms operating in Canada and the United States, representing about 7,500 employees in the regions. These firms collectively operate in 17 countries. However, firms' regional HR policies and the number of employees represented outside of Canada and the United States limited our ability to access data outside of Canada and the United States.

Survey process

Respondents were sourced to represent a global set of firms of diverse sizes (as measured by assets under management and location). They opted into McKinsey's survey by responding to invitations from McKinsey & Company or by indicating their interest through a public sign-up form.

Respondents submitted data about their firms' talent pipelines. Institutional investors also provided data on how they make allocation decisions. While all participants were required to complete either the talent pipeline or decision-making survey for their responses to be counted, the separate employee experience survey (EES) was optional.

These data sets represent point-in-time snapshots and reflect companies' responses and employees' experiences at the time that the survey was taken. Talent pipeline and institutional investor decision-making data were collected between June and August 2022 and reflected firms' talent pipeline data, as well as personnel changes across levels and in and out of the firms (that is, due to promotion, external hiring, and attrition) from January 1, 2021 through December 31, 2021. While we worked with each company to ensure that submissions were complete and accurately reflected the stated figures, McKinsey did not independently validate the data submissions but instead worked with each firm's executive sponsor and day-to-day contact. After the surveys were completed, we grouped companies by type to create peer groups with which to develop benchmarks.

Additionally, employees were surveyed in the EES between July and September 2022 on their workplace experiences.

Interviews with leaders at institutional investing and PE firms occurred between September and October 2022 and provided supplemental commentary on the experience of investing and non-investing employees at their firms, as well as shared industry trends and key initiatives and challenges faced by the industry when pursuing DEI efforts.

Talent pipelines

Overall metrics

We collected data from 127 talent pipelines from our respondents. The number of talent pipelines exceed the number of respondents because many respondents shared multiple talent pipelines within their firms to reflect their multiple geographies. We gathered talent pipeline data by country for each firm so that multiple offices in one country would be aggregated into one talent pipeline for that country. We ensured that the sample size was large enough to allow us to report metrics on workforce composition and mobility.

All pipeline metrics such as representation, rates, shares, and indices were initially calculated for each participating company. We then used aggregate data to create regional industry benchmarks. The global benchmark is a weighted average of the regional benchmarks, based on headcount.

Definition of job levels

Companies categorized their employees into six levels based on the following standard definitions, taking into account reporting structure and salaries for both investing roles and non-investing roles. The levels and definitions provided for both investing and non-investing roles were as follows:

— *L1—C-level executives or fund heads.* These employees are responsible for the direction and focus of the organization and oversee management and coordination across multiple corporate functions. Board members are not included unless they are also employees.

— *L2—Managing directors or partners.* These are direct reports to the C-suite and fund heads.

— L3—Principals, directors, or senior vice presidents. These employees oversee activities for subunits of their organizations (often functions or business units) and act on directions from top leaders.

— *L4—Vice presidents or senior managers.* Investing VPs or non-investing senior managers oversee activities for subunits of an organization, generally reporting to L3 leaders.

— *L5—Associates or managers.* These employees oversee day-to-day activities for smaller teams or initiatives. These are generally post-MBA investing roles and non-investing manager roles.

— *L6—Entry level roles.* These employees support day-to-day corporate activities. At this level, these roles are for pre-MBA investing analysts and non-investing junior staff.

Somewhat apart from this structure is the IC, the subgroup of investing leaders that makes firm-wide strategic decisions for PE funds. This group is made up of people drawn from the L1 and L2 ranks.

Metrics and analytics

The talent pipeline data we gathered covered representation for men and women in aggregate and in investing and non-investing roles. Respondents also reported on the number of men and women who were hired, who were promoted, and who left the company voluntarily and involuntarily during 2021. Respondents had the option of providing ethnicity and race data on staff in investing and non-investing roles. Responses provided as “other/not reported/prefer not to answer” have been excluded from all analyses on gender and ethnicity and race.

Promotion rates and attrition rates were calculated for women and men (as well as for ethnicity and race, where applicable) at each level.

— Promotion rates were reported as the percent of a subgroup promoted into that level. They were calculated by dividing the number of promotions of that gender or ethnicity and race into the level over the course of the year by the number of employees of that gender or ethnicity or race in the available pool (that is, the level below) at the start of the year.

— Attrition rates were reported as the percent of a subgroup to leave that level. They were calculated by dividing the number of individuals of each gender or ethnicity and race who leave the company at a given level over the course of the year by the number of employees of that gender or ethnicity or race in that level at the start of the year.

The share of external hires at each level was calculated as the percent of external hires brought into a level from a given gender or ethnicity or race.

Institutional investors’ decision-making survey

We surveyed CIOs and their equivalents at ten institutional investors around the world about their perceptions on the state of diversity in the private markets and the extent to which they, as institutional investors, request diversity data from PE firms that are conducting fundraising.

Respondents were asked to allocate $100 million between two funds based on diversity profile, historic fund performance, and whether they had allocated to each private equity firm in the past. Responses were aggregated as an unweighted pooled average across companies for each of the six scenarios.

One firm in each scenario was a diversity leader. The other was a diversity laggard. The scenarios were:

1. The institutional investor has allocated to both firms before, and the firms had the same historic returns. The firms differed on gender diversity.
2. The institutional investor has allocated to both firms before, and the firms had the same historic returns. The firms differed on ethnic and racial diversity.
3. The institutional investor has not allocated to the diversity leader before, and the funds had the same historic returns. The firms differed on gender diversity.
4. The institutional investor has not allocated to the diversity leader before, and the funds had the same historic returns. The firms differed on ethnic and racial diversity.
5. The institutional investor has allocated to both firms before, and the diversity leader had lower historic returns. The firms differed on gender diversity.
6. The institutional investor has allocated to both firms before, and the diversity leader had lower historic returns. The firms differed on ethnic and racial diversity.

On gender diversity, industry laggards reported that 10 percent of their investment professionals were women. Industry leaders reported 50 percent.

On ethnic and racial diversity, laggards reported that 5 percent of investment professionals were ethnic and racial minorities. Industry leaders reported 30 percent.

PE firms with higher fund performance had firm-wide average historic returns of 14 percent for most recent similar funds. Firms with lower fund performance had firm-wide average historic returns of 12.8 percent for most recent similar funds.

The employee experience survey

More than 300 employees of private equity firms chose to participate in the optional employee experience survey. The survey was fielded July through September of 2022. Other than demographic questions such as role, age, and family status, the survey questions asked about job satisfaction, perceptions of diversity, and other workplace experiences. Where practical, the survey offered respondents a ten-point response scale. The survey results were reported as an unweighted pooled average of responses for respective sub-groups across the participating companies.

Diversity metric reporting

Twenty-three participating PE firms shared the vintage year for their top three funds and indicated if they provided diversity data during the fundraising for that fund. The share of PE firms providing diversity metrics was calculated by dividing the count of PE firms that indicated that they have—during that year or previously—provided diversity data during fundraising by the total count of PE firms.

Interview process

We supplemented the survey data with qualitative data drawn from interviews with 15 executives at participating PE firms and institutional investors, conducted in September and October 2022. We selected interview subjects to gather responses from firms of different sizes (as measured by AUM) and geographies.

In the interviews, we asked leaders about their observations about the experiences of gender and ethnic and racial minority employees at their firms, industry trends around DEI, and important initiatives and challenges facing DEI efforts in the industry.

All interviews were confidential unless subjects explicitly consented to revealing identifying information. For this reason, some quotes we use are anonymized. Further, some quotes have also been edited for clarity.

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