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The state of diversity in global private markets: 2023

Private equity firms and institutional investors have intensified their focus on gender and ethnic diversity, but the road ahead remains long.

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Introduction

Over the course of 2022, the global private markets industry experienced a slowdown in fundraising and dealmaking because of rising interest rates and other factors. Despite the rocky year, private equity and alternative investments (hereafter referred to as "PE") remain significant in the global economy. The industry now manages $11.7 trillion in assets, up from $8.0 trillion the previous year.[1] The financial power of PE reinforces the importance of understanding the composition of its talent, particularly the professionals who decide how this capital is deployed.

[1] "McKinsey Global Private Markets Review: Private markets turn down the volume," McKinsey, March 21, 2023.

Building on McKinsey's 2022 report, this year's report examines the diversity of talent in PE firms. Specifically, we examine the gender breakdown in every region in our study and look at ethnicity and race in the United States and Canada (for more on the research and analysis, see sidebar "About the study").

This year's report centers on the following core research objectives:

1. understanding the current state of gender diversity globally and ethnic and racial diversity in the United States and Canada for the PE industry—specifically, which types of firms are leading and lagging on diverse talent

2. how institutional investors (IIs) influence the representation of diverse talent at PE firms, and the extent to which diversity matters to them

3. highlighting the specific challenges facing different minority groups and identifying actions that can help increase the diversity of talent in PE firms

This report finds encouraging signs of progress in recent years. Diversity on investment committees (ICs) has ticked up, and the reporting of diversity metrics to IIs continues to grow.

Still, gaps remain, particularly regarding gender diversity in senior investing roles and uneven rates of progress for different ethnic and racial groups across roles and types of firms. Given the current pace of progress, it will be several decades before the PE industry achieves gender parity at the principal and managing-director levels.

Even IIs, who we identified as catalysts for progress in private market firms because of their commitment to diversity, equity, and inclusion (DEI), seemed to bump up against structural limitations in how they could support smaller minority-owned PE firms.

As the industry moves forward, a continued focus on clear actions will be critical in accelerating progress toward a more diverse and inclusive future. In that spirit, this report closes with observations on what firms and leaders within the industry can do to ensure and accelerate progress.

About the study

In our second annual report, we build on the insights and findings from our inaugural report in 2022, as well as on prior McKinsey research on diversity in the workplace. This research explores diversity, equity, and inclusion (DEI) in the global private markets industry, with a focus on private equity and alternative investment firms—which we refer to collectively as PE firms—and institutional investors (IIs). We aim to make this the largest study of gender diversity and ethnic and racial diversity in the global private markets industry.

This survey covers 66 discrete PE firms and IIs around the world. We also conducted interviews with several industry leaders to supplement the survey data we received from their firms. Participating firms directly employ more than 60,000 people globally and range from megafirms with more than $100 billion in assets under management (AUM) to smaller funds with less than $5 billion in AUM. Collectively, participating PE firms manage more than $6 trillion, and participating IIs manage more than $5 trillion in AUM.

Given the limitations of data collection, this report largely focuses on gender diversity globally and ethnic and racial diversity in private market firms with offices in the United States and Canada. We recognize there are several other categories that contribute to employee diversity and hope to broaden the categories we examine in future research as private market firms collect more diversity data on their employee base.

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A global view on gender diversity in private equity and alternative investing

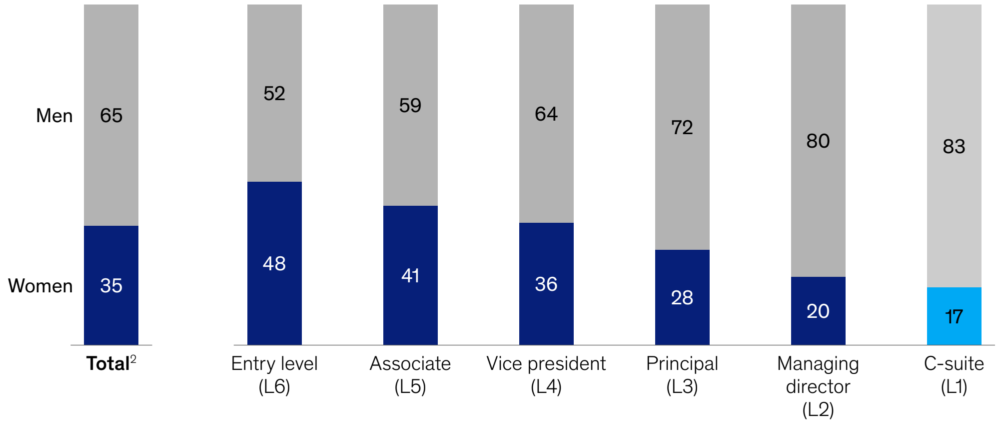
There is a popular assumption that PE is dominated by men, but the evidence reveals a more nuanced reality. As we noted last year, PE firms have almost achieved gender parity globally at the entry level. At the end of 2022, 48 percent of all entry-level roles in PE were held by women. The overall representation of women in PE has stayed relatively consistent, at 35 percent of all roles firmwide (Exhibit 1).

However, women in PE are still underrepresented in leadership positions, with only 20 percent representation in managing director (MD) roles (for more on job levels, see sidebar "Job levels in private equity"). As Kelley King, senior vice president and chief DEI officer at HarbourVest, explained, "Identifying and attracting early-career diverse

Exhibit 1

Full-firm data shows that the entry level (L6) is nearing gender parity, but women are underrepresented in leadership positions.

Gender representation by level in private equity firms globally,[1] % in role and level, EOY 2022



[1]Based on data provided by 41 private equity firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.
[2]Includes entry-level roles (L6) through managing director roles (L2).

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Job levels in private equity

The language we use to classify jobs in private equity (PE) has not changed from last year's. The six levels we identify apply to PE jobs in investing, operational, and other non-investing functions. 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 jobs at this level as VPs.

L5

Associates or managers. We refer to jobs at this level as associates.

L6

Entry level roles.

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

talent is not as challenging as finding later-career talent. As you ascend higher in the organization, the more patient and intentional firms need to be to reap the benefits of their DEI efforts."

Women are well represented in most non-investing roles, but gender parity remains distant in investing and operating roles

Disaggregating the data into investing, operating, and other non-investing roles (the latter of which we will refer to as non-investing roles) reveals that women hold only 33 percent of entry-level investing roles, compared with 44 percent of operating roles and 59 percent of non-investing roles at that level. Women are also underrepresented at the MD level (L2), with only 15 percent of MD-level investing roles (Exhibit 2).

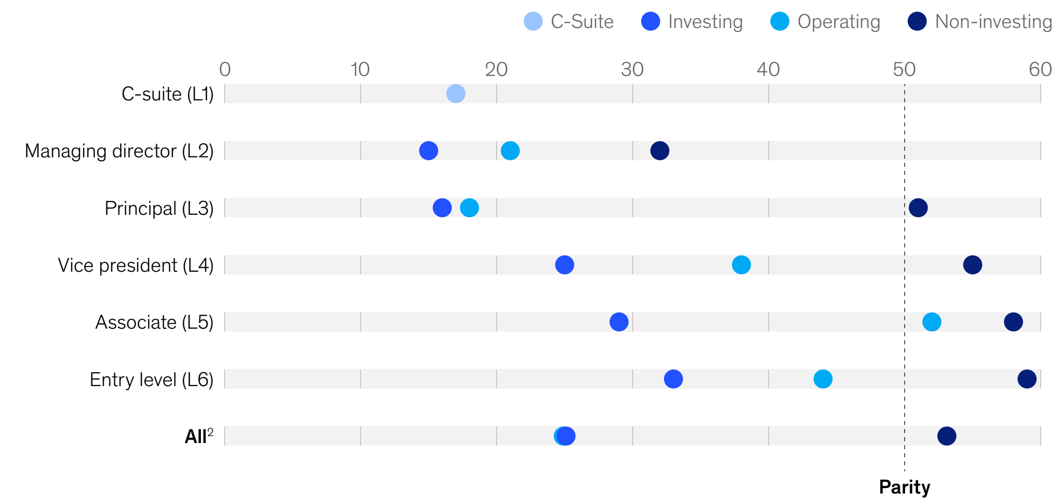
Women in PE have made modest gains in investing roles over the course of 2022. The share of C-suite roles held by women globally increased by 3.5 percentage points over the past year to 17 percent at the end of 2022. Similarly, women's representation in post-MBA investing associate (L5) roles improved by three percentage points. However, gender diversity at the managing-director level remained constant.

Women in PE are slightly less represented in operating roles than in investing roles, with women holding only 25 percent of all operating roles. Notably, women in operations have achieved gender parity at the associate level (L5), with 52 percent of roles. However, gender diversity undergoes a steep decline at higher levels, with women holding just 21 percent of MD-level (L2) operating jobs.

Exhibit 2

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

Women's representation by level and role type in private equity (PE) funds globally,[1]
% of women in role and level



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.
[2]Includes entry-level roles (L6) through managing director roles (L2).

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Progress is generally cause for optimism, but if the pace of progress doesn't accelerate, the path to gender parity in the industry will be long. At the current rate of progress, reaching gender parity in investing roles at the MD level (L2) would take more than six decades. Achieving gender parity at the principal level (L3) would take more than three decades (Exhibit 3).

While these numbers are sobering, the outlook is significantly brighter at the entry level. Based on current figures, the industry could reach gender parity at the analyst level (L6) and associate level (L5) within the next decade.

Women make up a larger share of investment committees

Last year, we reported that even when women make it to the MD level (L2), they still are not in the same positions of power as their male counterparts, as seen by their representation on ICs.[2] While the industry has made strides in women's representation on ICs in the past year, a gap persists: as of the end of 2022, women represented only 12 percent of IC members. This is lower than women's representation in the C-suite (17 percent) and investing roles at the MD level (L2) (15 percent). (For more on the role of ICs, see sidebar "The role of investment committees in private equity.")

Size matters for gender representation

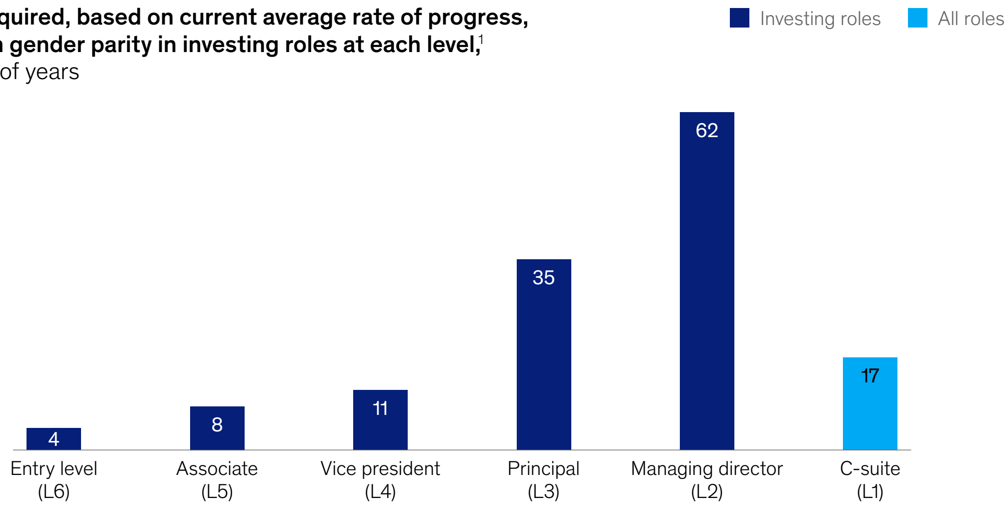
Fund size appears to play a role in a PE organization's level of gender diversity (Exhibit 4).

Leading the charge toward gender parity in investing roles are firms with more than $100 billion in assets under management (AUM), which are often referred to as megafirms. About 27 percent of megafirms' investing professionals are women, compared with the global benchmark of 25 percent. This can be attributed to an

Exhibit 3

Depending on the level, global gender parity in investing roles may take multiple decades to achieve.

Time required, based on current average rate of progress, to reach gender parity in investing roles at each level,[1] number of years



[1]Based on the average progress rate achieved in 2021 and 2022 and on women's representation as a percentage of total investing roles in each level at the end of 2022. Based on data provided by 66 PE firms. Responses cover more than 60,000 employees.

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[2] "The state of diversity in global private markets: 2022," McKinsey, November 1, 2022.

The role of investment committees in private equity

The role of investment committees in private equity has not changed. We include our original overview from the 2022 report below:

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.

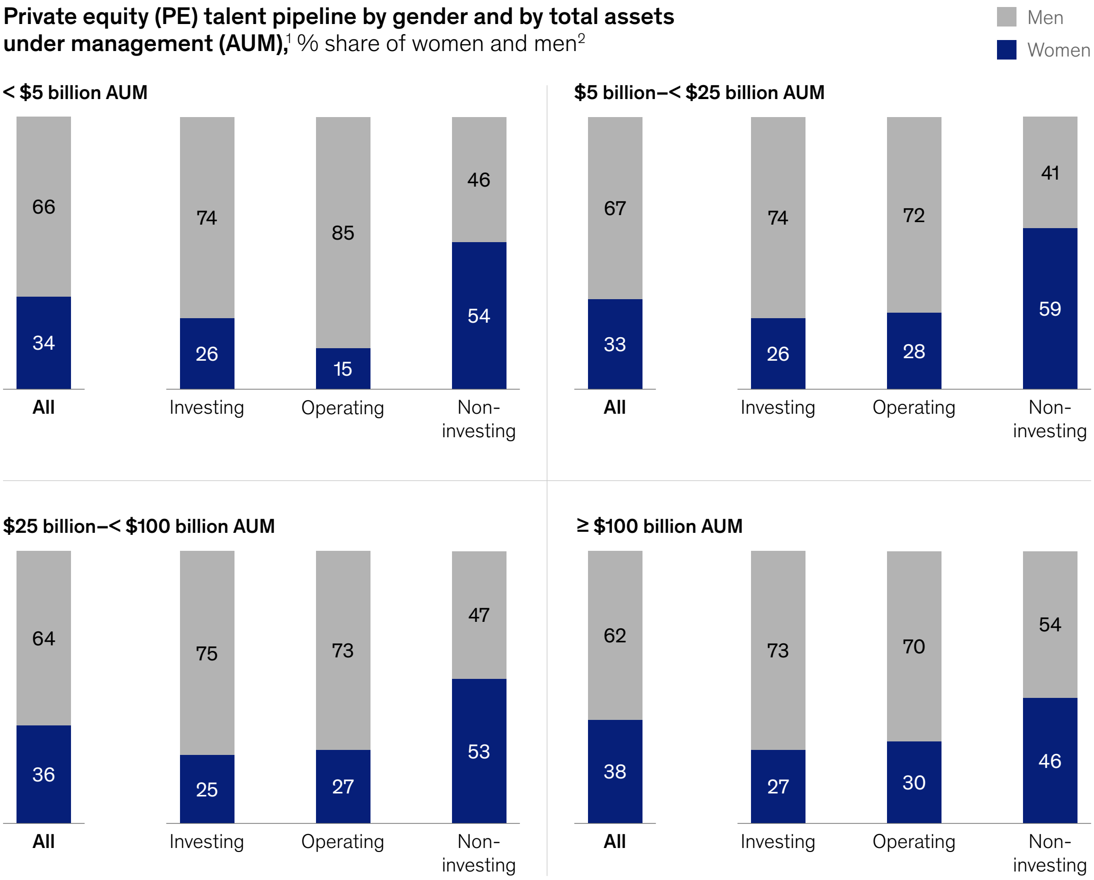
While several other operations—such as raising new funds or setting investment strategies—are of comparable importance, the discussions and decisions made in regular IC meetings form the intellectual backbone of PE firms. Therefore, who consistently sits at the IC table matters.

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

Exhibit 4

Firm size correlates to gender diversity of private equity organizations.

Private equity (PE) talent pipeline by gender and by total assets under management (AUM),[1] % share of women and men[2]



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.
[2]"All" includes entry-level roles (L6) through C-suite roles (L1); investing, operating, and non-investing include entry-level roles (L6) through managing director roles (L2).

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emphasis on fostering representation of women in entry-level positions, given that women hold a relatively high proportion of investing roles at the entry level (L6) and associate level (L5) at these larger firms.

The opposite trend holds true for funds with $5 billion to $25 billion in AUM. While these funds trail megafirms in their representation of women at the entry level (L6) and associate level (L5), they inch slightly ahead of larger funds when it comes to the share of women in the senior—that is, principal (L3) and MD (L2)—ranks (Exhibit 5).

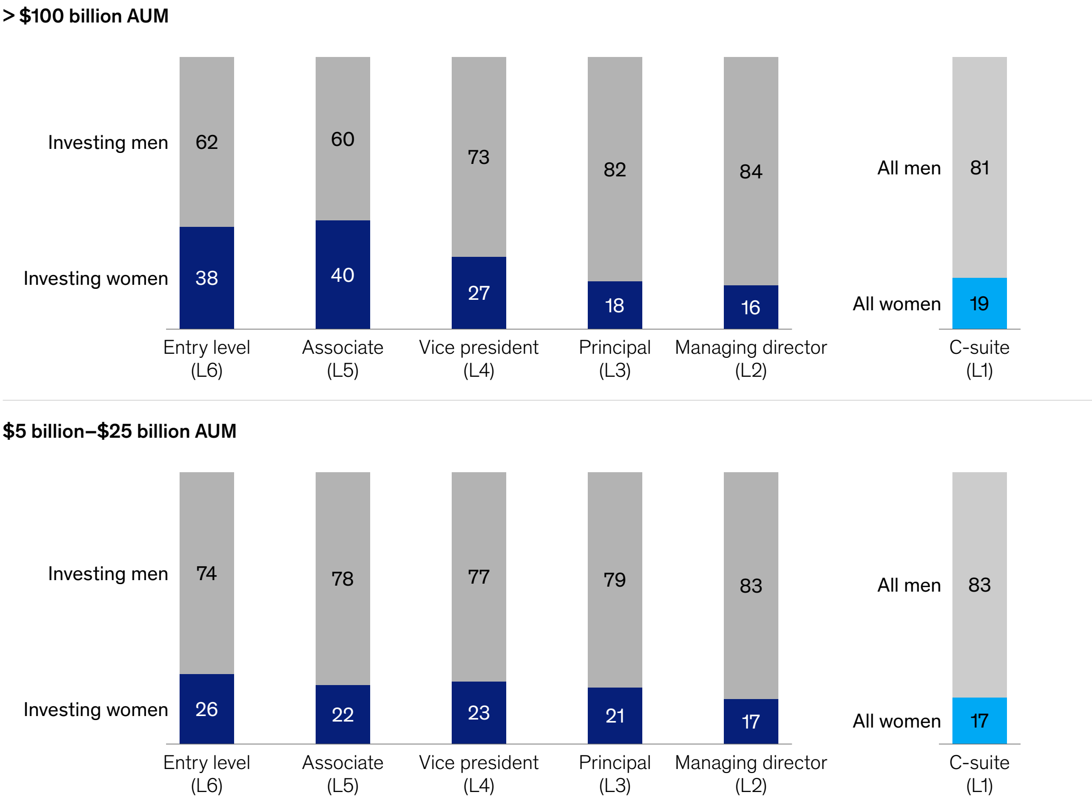
This data hints at the career trajectories of some women in the industry. Many women start their careers at larger firms, and some transition to smaller firms as their careers progress, specifically when they reach the principal and MD levels (L3 and L2). This is evident in the external-hiring rate of women into senior positions, an area in which smaller firms led. For example, funds with $5 billion to $25 billion in AUM hired women into jobs at the principal level (L3), at a rate 1.4 times that of megafirms.

Of course, more megafirms are acting on the knowledge that external hiring can rapidly boost diversity in the senior ranks. Some have started to adopt similar external-hiring practices to those of their smaller counterparts. “We have expanded our deep commitment to opening the aperture in our pipeline, growing and supporting our junior team members through mentorship and

Exhibit 5

Large firms have a greater share of women in junior roles, while smaller firms have a greater share at senior levels.

Private equity (PE) talent breakdown by gender and total assets under management,[1] % by level



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.

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sponsorship as they are coming up through the ranks," said Victoria Budson, partner and global head of DEI at Bain Capital. "And we have also furthered our external lateral hiring strategy to catalyze a more inclusive team."

Promotion rates: Women in investing face a longer road

In demanding PE careers, women find themselves navigating a longer route to reach the same milestones as their male colleagues. At almost every level, women in investing roles are promoted at significantly lower rates than men. Globally, men in investing roles are about 50 percent more likely, on average, to be promoted than their female colleagues, a trend that persists across all levels in investing roles (Exhibit 6).

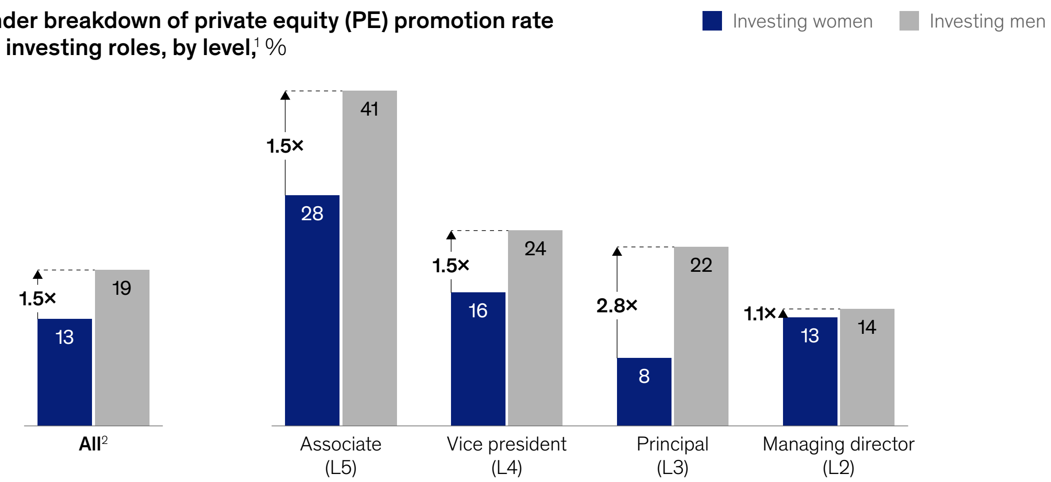
The largest gap affects promotions into the principal level (L3), with men 2.75 times more likely than women to be promoted. One contributor to this disparity may be limited sponsorship and mentorship for women at the vice president (VP) level. As the head of talent for a North American PE fund put it, "At that [middle] level is where we find

> **'We have also furthered our external lateral hiring strategy to catalyze a more inclusive team.'**
>
> –Victoria Budson, partner and global head of DEI at Bain Capital

Exhibit 6

At every level, women in investing roles are less likely than men to be promoted.

Gender breakdown of private equity (PE) promotion rate into investing roles, by level,[1] %



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16. Promotion rates are calculated by dividing the number of people promoted into the level during the year divided by the total number of employees at the lower level at the beginning of the year. Promotion rate is not calculated when the number of employees at the lower level is zero.
[2]Includes investing roles from the associate (L5) to the managing director (L2) level.

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a number of ethnic and racial minorities and women who have really felt like the levels they are at have a sticky floor. They found that it's really hard to get that next promotion. They feel left out. They haven't received the kind of mentorship and the kind of apprenticeship that they're really going to need or the sponsorship to get promoted."

The road to meaningful progress will likely be long. However, there's a bright spot: the promotion gap at the MD level (L2) shrank in 2022.

In 2022, women in investing left their firms at higher rates than men

The 2022 edition of McKinsey's and LeanIn.org's *Women in the Workplace* report identified the Great Breakup, in which senior women (L1–L4) in the United States and Canada were voluntarily leaving their jobs at higher rates than historic averages.[3] This trend was mirrored in PE. Continuing this trend through 2022, our study shows that attrition rates in investing roles continued to be higher for women than men (Exhibit 7).

For all investing positions, the global attrition rate is 16 percent for women, compared with 12 percent for men. The most notable gaps are at the associate and VP levels (L5 and L4), in which women's attrition rate is 1.4 times higher than men's.

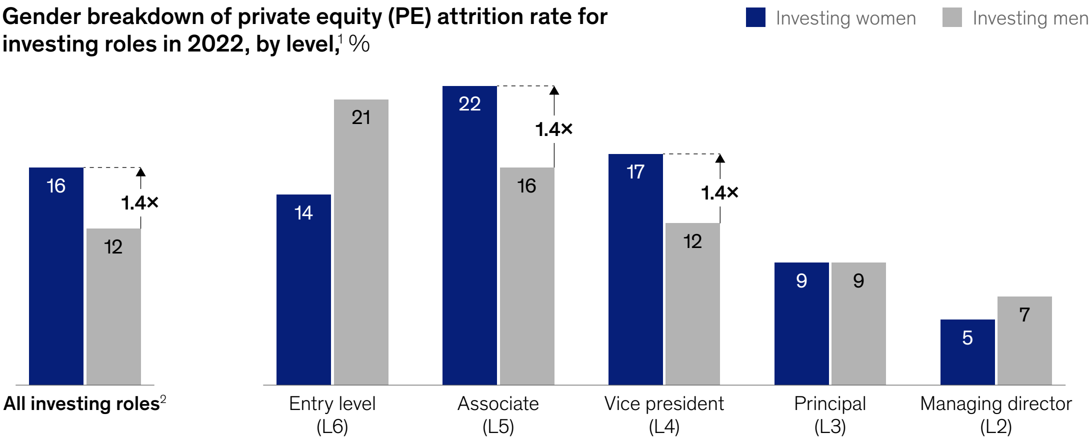
There is a silver lining. While women in investing had higher attrition rates than men at every level in 2021, data from 2022 shows that once women rise to the principal level (L3), on average, they are more likely than men to stay at their firms. This is also true for women in MD (L2) roles.

In 2022, firms with smaller AUM particularly struggled with attrition of women in investing. Women were almost twice as likely as men to leave firms with $5 billion to $25 billion in AUM. However,

Exhibit 7

Globally in 2022, midlevel investing women left at higher rates than their male colleagues.

Gender breakdown of private equity (PE) attrition rate for investing roles in 2022, by level,[1] %



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16. Attrition rate is calculated by dividing the total number of employees who left the firm during the year by the total number of employees at the beginning of the year in each level.
[2]Includes investing roles from the entry level (L6) to the managing director (L2) level.

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[3] *Women in the Workplace 2022*, LeanIn.org and McKinsey, October 18, 2022.

it is important to note that attrition rates vary from year to year and by region. For example, the attrition gap between PE investing and corporate America closed over the course of 2022; women in PE investing left at higher rates than their male colleagues, while women in corporate America left at slightly lower rates then men.

To offset these challenges, PE firms increasingly turn to external hiring to bolster gender diversity within their ranks. Despite the economic downturn and the slowdown in fundraising and deal flow, PE firms significantly increased external hiring in 2022 compared with the previous year. Except for the VP level (L4), on average for the industry, external hiring in 2022 was additive to women's representation in investing roles at PE firms globally (Exhibit 8).

Significant differences in representation between leading and lagging firms

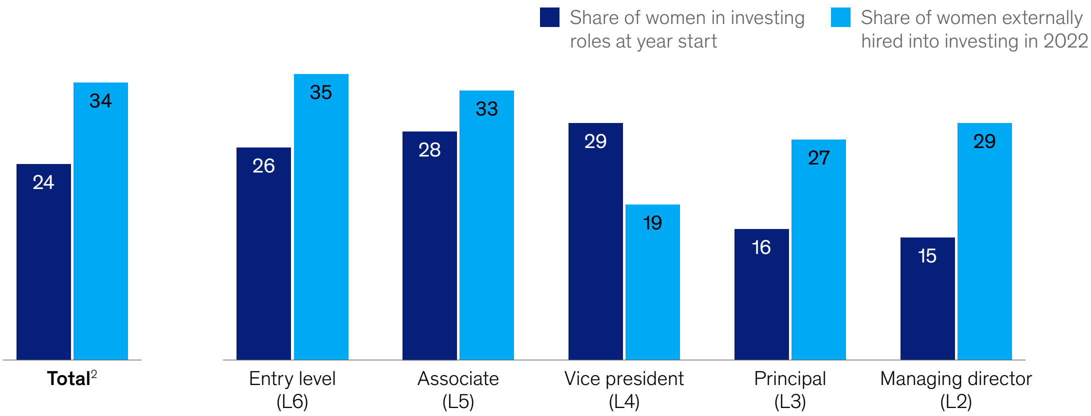
Some firms have made noteworthy strides on the diversity of their talent pool, so much so that the industry's global average of women in 15 percent of investing MD roles looks paltry by comparison. Leading firms had women in 45 percent of MD (L2) roles as of the end of 2022. These firms also had significantly higher proportions of women at every level and overall had women in 38 percent of their investing roles, compared with the global average of 25 percent.

Interestingly, firms that were leaders in gender diversity (as indicated by relatively high proportions of women in MD roles) also retained women at higher rates than the industry average. However,

Exhibit 8

Private equity firms globally use external hiring to boost gender diversity at senior levels.

Gender breakdown of private equity (PE) external hiring for investing roles, by level,[1] %



[1]Based on data provided by 41 PE firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.
[2]Includes investing roles from the entry level (L6) to the managing director (L2) level.

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firms that lagged on gender diversity showed significantly higher attrition in 2022 among women in investing. These firms in our sample did not have women in MD (L2) investing roles and had only 17 percent women in investing roles overall compared to the 25 percent global benchmark. Furthermore, these firms' attrition rates for women in investing were 1.7 times higher, at 27 percent, than the global average over the course of 2022 (Exhibit 9).

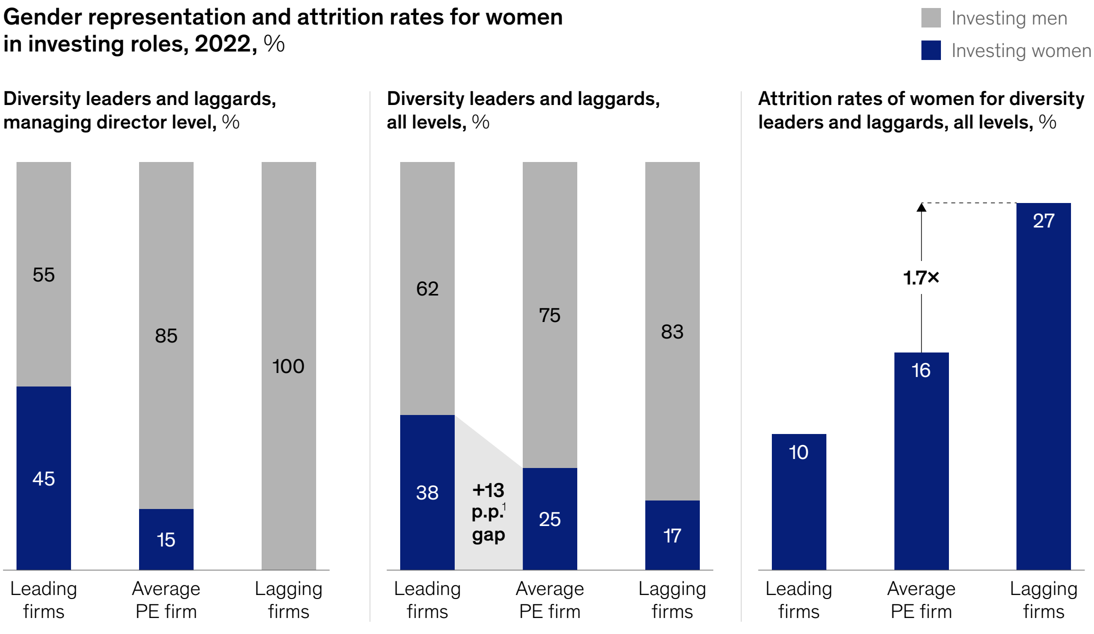
For investing roles, our findings suggest a correlation between the representation of women at the top and higher overall gender representation, as well as between lack of women at the top and their ability to retain women at all levels of investing roles.

Our findings on gender diversity over time also highlight the feasibility of substantial progress when decision makers deploy effective strategies. Indeed, the results of our study show that not all PE firms are equal when it comes to cultures that support diverse talent.

Exhibit 9

Globally, firms that lead in gender diversity at L2 also beat the industry benchmark for all investing roles.

Gender representation and attrition rates for women in investing roles, 2022, %



Note: Based on data provided by 41 private equity firms. Responses cover more than 22,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16. Industry leaders are defined as firms within the top 10% in terms of women's representation in investing roles at L2. Industry laggards are defined as firms within the bottom 10% in terms of women's representation in investing roles at the managing director level.
[1]Percentage points.

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02

A regional perspective on progress toward gender parity

In this section, we explore PE firms' progress toward gender parity by region.

The Americas: Leveraging external hiring to improve diversity at senior levels

Over the course of 2022, women in investing in the Americas saw modest growth in representation in senior positions of three percentage points. Despite these advances, a broader look reveals ongoing challenges. Specifically, women hold only 25 percent of all investing roles and become scarcer as the levels advance, accounting for 29 percent at the associate level (L5) but only 16 percent at the MD level (L2).

Let's look at how this happens throughout career paths. According to our research, men's promotion rates outpaced women's across all investing roles in the region over the course of 2022. In 2022, men in investing in the Americas were promoted 1.4 times as often as their female colleagues. The promotion gap is particularly evident for those being promoted into the mid- and senior-level roles of VP (1.8 times as likely to be promoted as women), principal (1.9 times), and MD (1.3 times).

Women's attrition also remains a hurdle in PE offices in the Americas. In 2022, women in entry-level investing roles (L6) had lower rates of attrition (13 percent) than their male colleagues (28 percent). However, women in investing at every subsequent level left their firms at significantly higher rates than their male colleagues. At the associate level (L5), the attrition rate was 1.4 times higher for women than for men; at the VP level (L4), it was 1.5 times higher for women than for men. The discrepancy doesn't stem from women not wanting to attain senior investing roles. In fact, women in investing who break through to the MD level (L2) showed lower attrition than their male colleagues in 2022.

Perhaps because of challenges related to senior-level promotion and midlevel attrition, PE firms in the Americas are actively using external hiring to improve gender diversity. Women represented 41 percent of external hires into the C-suite in the Americas, compared with only 20 percent in Europe. Additionally, women represented 22 percent of external hires into the MD level (L2) in the Americas, compared with only 11 percent in the Asia–Pacific region. While these rates are far from achieving parity, PE firms in the Americas were able to improve gender diversity through external hiring because of their initial levels of gender diversity.

Asia–Pacific: Promising representation at the top and entry level; midlevel attrition

With women holding 24 percent of all investing roles, Asia–Pacific offices lead the globe in women's representation at all levels except the associate level (L5) and principal level (L3). In particular, the region is leading in women's

Perhaps because of challenges related to senior-level promotion and midlevel attrition, PE firms in the Americas are actively using external hiring to improve gender diversity.

representation at the MD level (L2), in which it outperforms the global average by more than ten percentage points. This was driven by women's high promotion rate into the MD level (L2) over the past year. Nonetheless, the 12 percent share of women at the principal level (L3) indicates a broken rung at the vice president level (L4) and is an area in which the region underperforms the global average by four percentage points (Exhibit 10).

Part of what drives the drop in women's representation at the principal level (L3) in Asia–Pacific is men's promotion rate into L3 positions in 2022, which was more than double that of their female counterparts. This large gap in promotion rates between men and women at the principal level may also explain women's high attrition rate at the VP level (L4) compared with men. The result is an imbalanced pipeline from midlevel to more-senior investing positions. Targeted efforts will be necessary to repair the broken rung leading to senior-level investing roles in Asia.

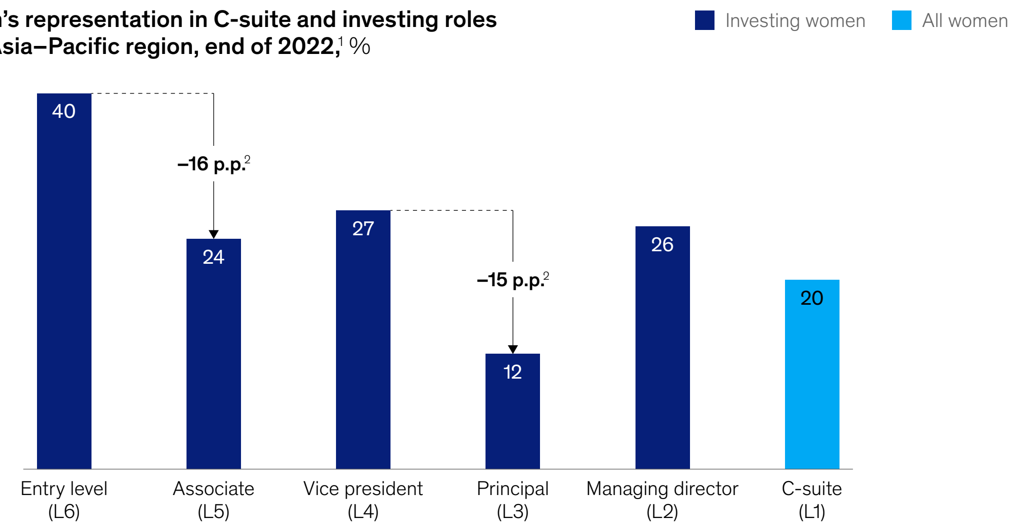
Women in the Asia–Pacific region also continue to have a high attrition rate compared with both men and women in other regions, which suggests that more effort is needed to address these challenges in the talent pipeline.

To be sure, PE firms in Asia made some strides over the past year. Similar to the Americas, Asia–Pacific firms seem to be using external hiring to improve gender diversity in midlevel investing roles. In 2022, 38 percent of external hires in principal-level (L3) investing roles were women, 11 percentage points higher than the global average. This signals that women are leaving firms for promotions elsewhere, and we would expect this pattern to continue until women's promotion rates to L3 in Asia–Pacific catch up to those of men.

Exhibit 10

Representation of women in Asia–Pacific experiences significant drop-offs at the associate and principal levels.

Women's representation in C-suite and investing roles in the Asia–Pacific region, end of 2022,[1] %



[1]Based on data provided by 16 private equity firms. Responses cover more than 2,000 employees in the Asia–Pacific region.
[2]Percentage points.

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Europe: Associate representation shows potential, but parity in advancement lags

At 23 percent, European PE offices have the lowest share of women in investing roles of all the regions. However, more women are represented in post-MBA associate (L5) investing roles in European offices than in any other region, which is promising for future gender diversity in the region. In contrast, Europe's share of women at the MD level (L2) is significantly lower than that of other regions and 26 percentage points lower than the share of women in the post-MBA associate level (L5) in Europe.

One sign of progress in Europe is that overall attrition rates for women decreased from 2021 to 2022, including substantial drops at the entry level (L6) and associate level (L5). It remains to be seen whether 2021 was simply an anomaly, with women leaving their firms at higher rates than men, or if the year-over-year change is a sign of improving diversity for European PE in the future. Another positive sign for Europe is higher hiring rates for women at the associate and principal levels (L5 and L3) compared with other regions, which helps strengthen the pipeline of women.

Despite these signs of progress, our data suggests that women face a glass ceiling in Europe when it comes to getting promoted into the principal and MD levels (L3 and L2). Men are promoted into the principal level (L3) at 6.2 times the rate of women, the largest gap across all regions and levels in our study of 2022 data.

Similarly, the promotion rate for men into the MD level (L2) is three times that of women. This disparity suggests a need to scrutinize promotion processes and sponsorship for women at these levels.

Despite the large disparities in promotion rates between men and women in Europe, there is reason for optimism. Women in the region have lower attrition rates than men at every level above VP (L4). For example, the attrition rate at the MD level (L2) in 2022 was 5 percent for men, compared with 1 percent for women. Similarly, men and women's attrition at the

principal level (L3) is roughly comparable at 10 percent and 9 percent, respectively.

While there is some overall progress, at the current pace of improvement, the region would take more than 60 years to reach gender parity at the MD and C-suite levels (L2 and L1), higher than any other region. This suggests that more concentrated efforts are needed to ensure that women continue to progress into senior roles in the industry.

Different regions have different timelines to gender parity

The timelines to achieving gender parity vary by region. For instance, despite advances, Europe still faces significant challenges related to women's representation at senior levels. At its current pace, Europe would require more than six decades to reach gender parity at senior levels.

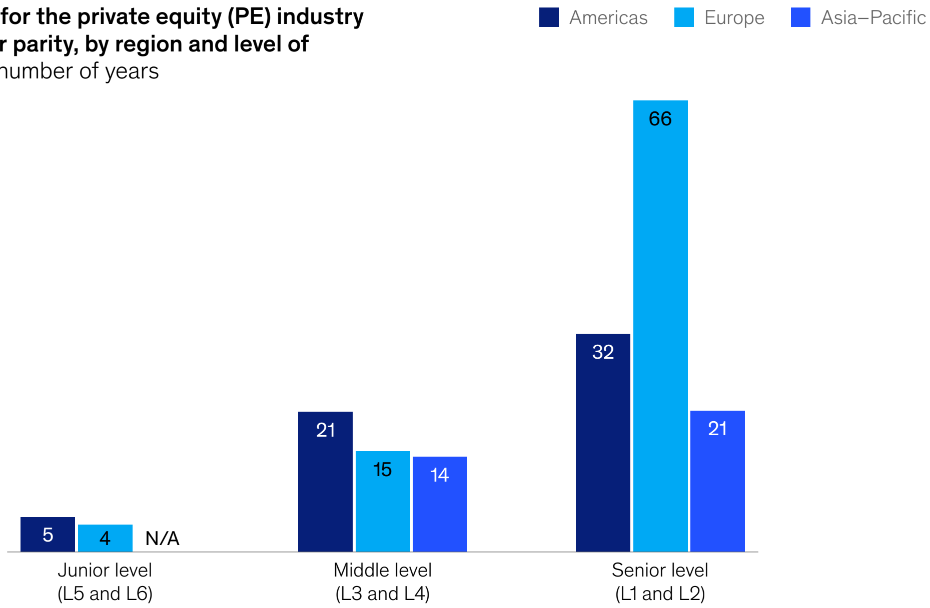
By contrast, based on the rate of recent progress, the Americas are the furthest from achieving gender parity at middle and junior levels for investing roles. The situation is notably different in the Asia–Pacific region, which has done the most to close the gender gap at middle and senior levels recently (Exhibit 11).

A concerning trend has emerged over the past two years: gender representation has seen a minor decrease in the Asia–Pacific region at the associate level (L5). Although this decline starts from a relatively high base, it indicates the need for ongoing efforts to maintain a diverse talent pipeline that can help the industry achieve gender parity.

Exhibit 11

The time it will take for private equity to reach gender parity varies by region.

Length of time for the private equity (PE) industry to reach gender parity, by region and level of investing role,[1] number of years



[1]Based on the average progress achieved in 2021 and 2022 and on women's representation as a percentage of total investing roles in each level at the end of 2022. Based on data provided by 66 PE firms. Responses cover more than 60,000 employees. Unique firm count by region: Americas = 37, Europe = 24, Asia–Pacific = 16.

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03

Ethnic and racial diversity in private equity

In this section, we discuss the overall state of ethnic and racial diversity in PE investing roles in the United States and Canada. We then examine what the data suggests about the experiences of people of color—defined as people of Asian descent; Black people; Hispanic, Latino, mestizo people; Indigenous people; and people of multiple ethnicities or races—in the industry.

A push for diversity at the top, but challenges linger

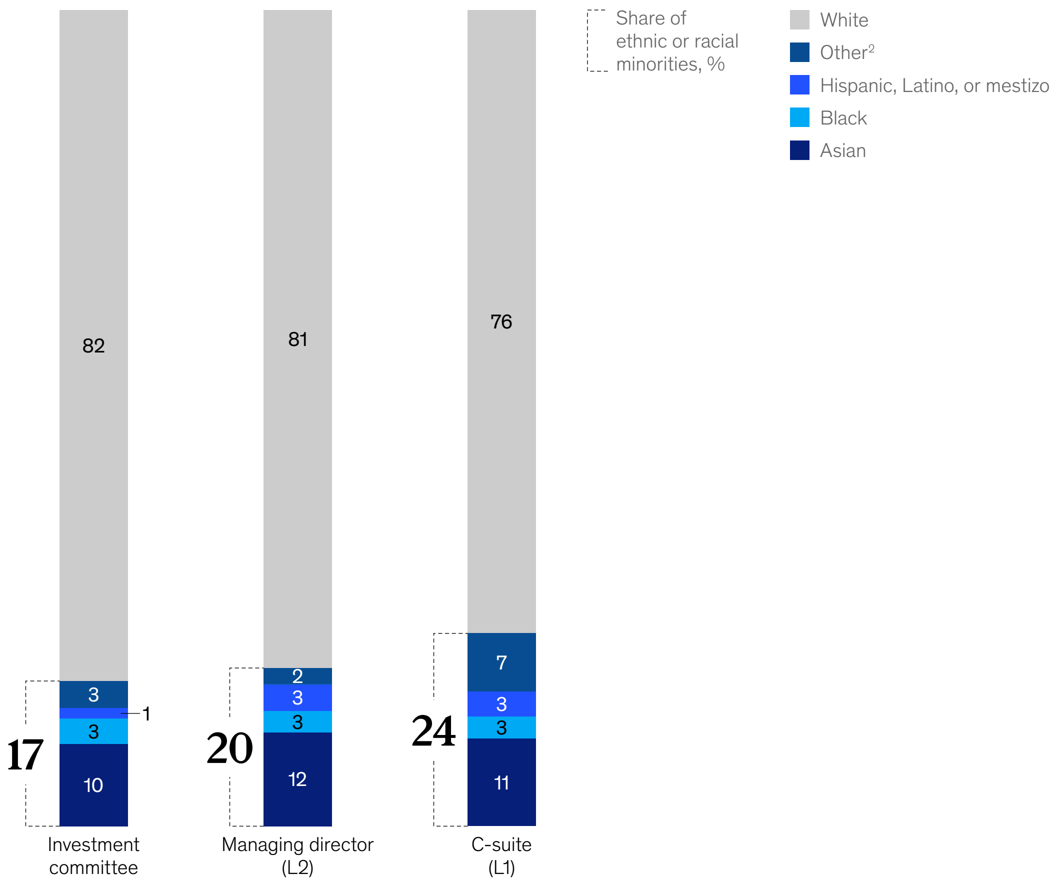
Consistent with our past findings, ethnic and racial minorities in PE face similar underrepresentation as women. At nearly every level, investing roles have lower ethnic and racial diversity than non-investing and operating-partner roles.

Our research data from the United States and Canada shows that ethnic and racial minorities represent only 20 percent of MD-level investing professionals (Exhibit 12). For context, people who identify as ethnic and racial minorities account for 30 percent of the Canadian population and 41 percent of the US population.[4] However, we found positive progress in ethnic and racial diversity in ICs in 2022. Ethnic and racial minorities represented 18 percent of IC members, nearly matching the ethnic and racial diversity of MDs (L2) that year.

Exhibit 12

As of 2022, the makeup of investment committees in the United States and Canada more closely reflect the diversity of managing directors.

Ethnic and racial composition of private equity (PE) senior leadership in the US and Canada,[1] %



Note: Figures may not sum to 100%, because of rounding.
[1]Based on data provided by 33 PE firms. Responses cover more than 14,000 employees in the US and Canada. Benchmark only includes data for the US and Canada.
[2]Includes multiple ethnicities and races, as well as indigenous people.

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[4] "QuickFacts: United States population estimates," US Census Bureau, July 1, 2022; "The Canadian census: A rich portrait of the country's religious and ethnocultural diversity," Statistics Canada, October 26, 2022.

The improvement in the diversity of talent in ICs over the course of 2022 may be the result of new requirements for PE firms to disclose C-suite- and IC-level diversity data to prospective investors. The chief HR officer of a midsize PE firm headquartered in North America referred to this as "a standard part of the due diligence questionnaire these days."

White investing professionals

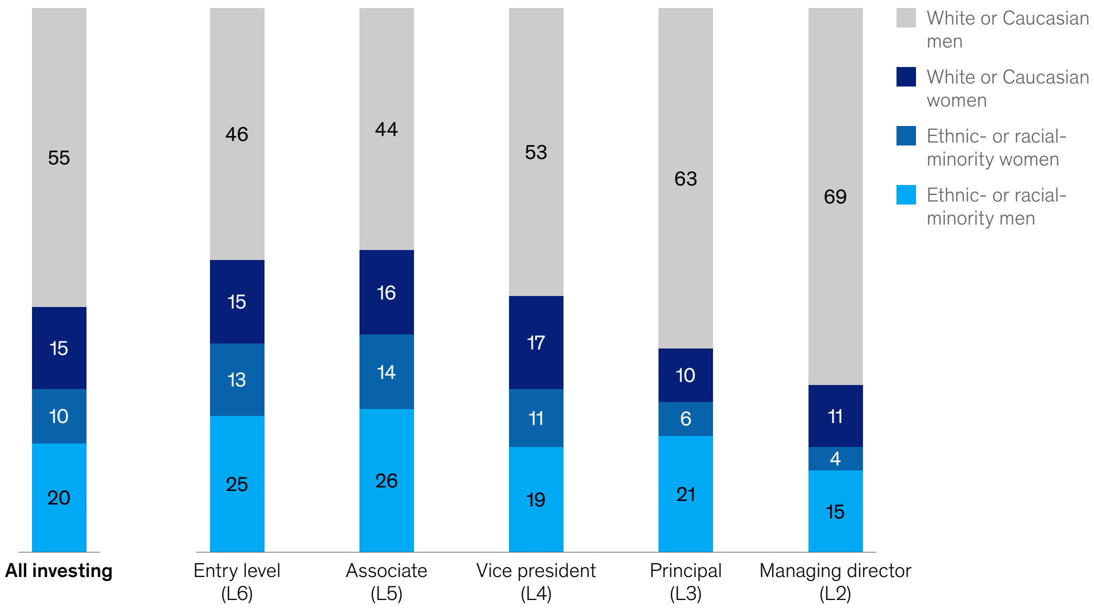
White professionals make up the majority of investment professionals at every level and successively increase in share from associate level (L5) to MD level (L2) (Exhibit 13).

Investment professionals who identify as White held 70 percent of all investing roles and 80 percent of MD roles. As of 2022, White men made up the majority of White PE professionals at 79 percent, with 86 percent at the MD level. By contrast, women who identify as ethnic and racial minorities were the least represented group among investment professionals across all levels. White professionals lead promotion rates into every level except principal (L3). The difference in promotion is most drastic at the MD level (L2), in which White professionals were more than 2.3 times more likely to be promoted than any other race or ethnicity. And once they make it to the top, White professionals had the lowest rates of attrition, trailing only Hispanic and Latino investing professionals in attrition rates at the principal level (L3) and MD level (L2).

Exhibit 13

White professionals make up the majority of investment professionals in the United States and Canada.

Intersection of gender, ethnicity, and race in the private equity (PE) talent pipeline,[1] % of investing roles



Note: Figures may not sum to 100%, because of rounding.
[1]Based on data provided by 33 PE firms. Responses cover more than 14,000 employees in the US and Canada. Benchmark only includes data for the US and Canada.

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Asian investing professionals

With 20 percent of all investing roles, Asians are the racial minority with the highest representation in PE investing roles in the United States and Canada. Though Asian investing professionals hold 27 percent of all associate (L5) roles, their representation drops significantly at each of the next levels in PE investing: Asian representation drops by nine percentage points from the associate level (L5) to VP level (L4) and six percentage points from the principal level (L3) to MD (L2) (Exhibit 14).

Black professionals

Black professionals are among the most underrepresented ethnic and racial minorities in PE investing roles. Black professionals make up only 3 percent of professionals at the MD and C-suite levels (L2 and L1) and hold less than 5 percent of investing roles at every level (Exhibit 14).

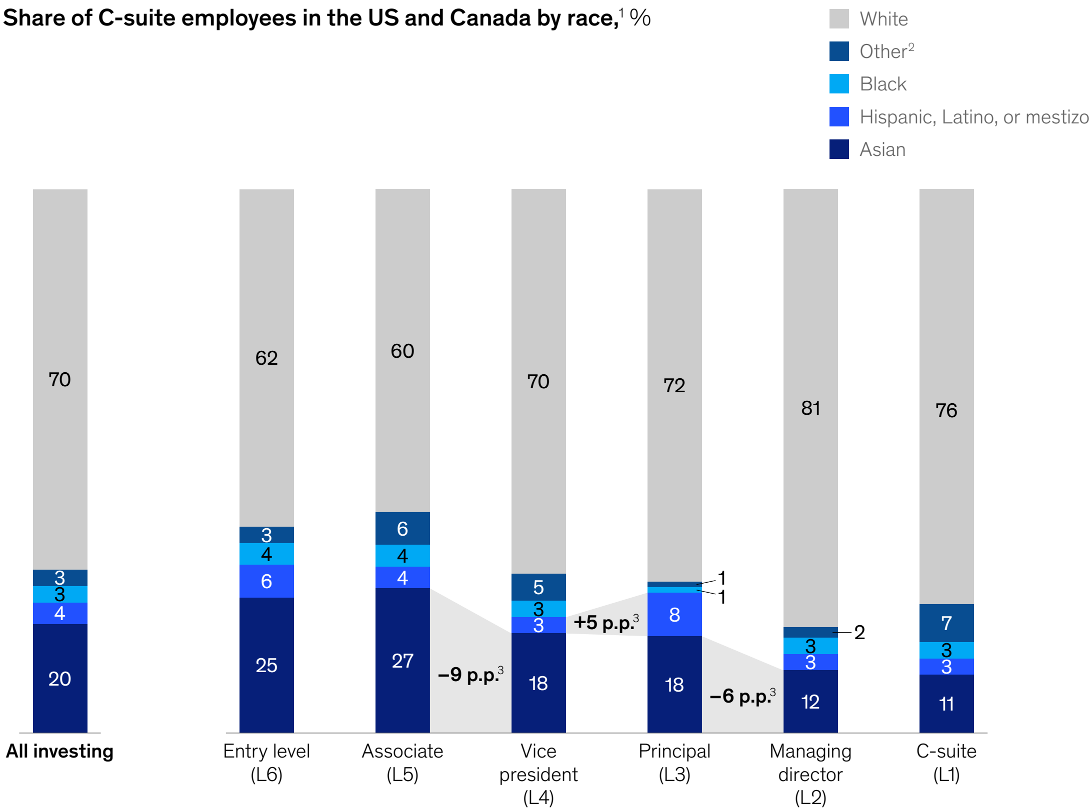
Black professionals hold only 3 percent of all investing roles and are the only ethnic or racial minority that does not experience a drop between overall representation and MD representation. These low numbers point both to PE firms' inability thus far to build a pipeline of Black talent and to Black professionals' ability to stay in the industry once they're in the door after the post-MBA associate level (L5).

Overall, Black investing professionals' representation suffers from the lack of a robust pipeline into PE and a continuous outflow of the most junior Black professionals; they have the

Exhibit 14

In the United States and Canada, Asian, Black, and Hispanic investing professionals remain underrepresented in private equity.

Share of C-suite employees in the US and Canada by race,[1] %



Note: Figures may not sum to 100%, because of rounding.
[1]Based on data provided by 33 private equity firms. Responses cover more than 14,000 employees in the US and Canada. Benchmark only includes data for the US and Canada.
[2]Includes multiple ethnicities and races, as well as indigenous people.
[3]Percentage points.

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highest attrition rates at the entry level (L6) and are more than 50 percent more likely to leave than their White and Asian colleagues. And while there were modest improvements—about two percentage points—in the share of Black professionals year over year in top investing roles (L2) and the C-suite (L1), data about early-career Black investing professionals underlines the long-term challenge of attracting and developing Black talent in the industry.

Unlike other ethnicities and races, Black professionals in the C-suite (L1) and at the MD level (L2) are approaching or have exceeded gender parity. Forty-one percent of Black professionals in the C-suite are women. This is partially the result of high promotion rates for non-White women into C-suite roles, which is more than double the promotion rate of White men. Black women have also succeeded in top investing roles, with women accounting for 69 percent of Black professionals at the MD level (L2). In roles below the MD level (L2), the gender breakdown among Black professionals generally matches that of the industry as a whole, with women holding less than 25 percent of investment roles.

Hispanic, Latino, and mestizo professionals

Similar to Black professionals, Hispanic, Latino and mestizo (hereafter "Hispanic") investing professionals are underrepresented, holding about 4 percent of all investing roles. At the MD and C-suite levels (L2 and L1), the number is just 3 percent (Exhibit 14).

But there is cause for optimism: the share of Hispanic professionals at the principal level (L3) is much higher, at 8 percent. This increase is driven, in part, by a higher promotion rate into principal (L3) roles for Hispanic professionals in 2022 compared with their White and Asian colleagues. Hispanic professionals also accounted for 8 percent of all principal-level external hires in 2022.

Past the principal level (L3), Hispanic professionals are more likely than others to stay, with the lowest attrition of any ethnicity or race between the principal level (L3) and the C-suite (L1). The growing representation of Hispanic investing professionals at L3 could result in better representation in MD (L2) and C-suite (L1) roles in the coming years if firms can continue to retain Hispanic talent.

To be sure, proportional representation of Hispanic professionals in PE requires significant progress. Unlike Black women, Hispanic women have not seen increases in representation at top levels. Overall, Hispanic women make up only 26 percent of all Hispanic investment professionals. However, at the MD level, Hispanic women are only 3 percent of all Hispanic L2 professionals.

External hiring as a tool to enhance ethnic and racial diversity

PE firms seem to be using external hiring to boost ethnic and racial diversity in their organizations (Exhibit 15). In 2022, 33 percent of external hires at the MD level (L2) and 31 percent at the principal level (L3) were ethnic or racial minorities.

Despite improvements at the principal and MD levels (L3 and L2) compared with 2021, the share of external hires who were ethnic and racial minorities dropped at L6, L5, and L4. Notably, it fell by 12 percentage points at the VP level (L4). This drop in hiring at lower levels in 2022 compared with 2021 may be a sign that commitments to improve ethnic and racial diversity are not yet firmly integrated into the industry's ways of working. Indeed, diversity officers and chief HR officers have shared that diversity initiatives are often the first to have their value questioned in times of economic uncertainty. The managing director of global human resources at one firm said, "Economic uncertainty, combined with the fact that the industry as a whole hired larger classes in the last few years, will likely impact the talent funnel, resulting in fewer promotions in the near term."

Firms with more ethnic and racial diversity at the top tend to have more-diverse talent pools

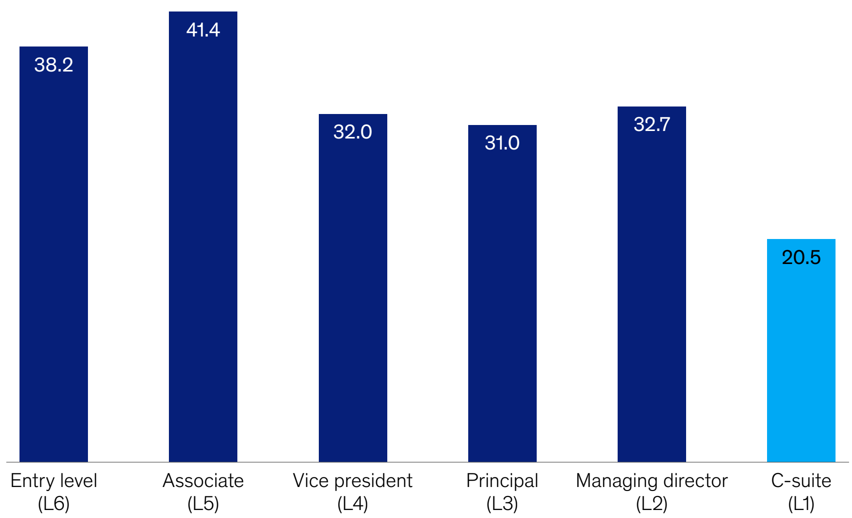
Not all PE firms have struggled to attract and develop talent from ethnic and racial minorities. Leading firms have reached or are nearing representative levels, with 42 percent of investing talent identifying as ethnic or racial minorities, compared with 30 percent of the Canadian population and 41 percent of the US population (Exhibit 16).

Lagging firms, on the other hand, have almost no ethnic and racial diversity at senior levels. These challenges at the top are reflected throughout the organization, with only 23 percent of investing professionals at lagging firms identifying as ethnic and racial minorities.

Exhibit 15

Private equity firms are using external hiring to increase their ethnic and racial diversity.

Share of non-White employees in external hires in the US and Canada, by level,[1] %



[1]Based on data provided by 33 private equity firms. Responses cover more than 14,000 employees in the US and Canada. Benchmark only includes data for the US and Canada.

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‘Economic uncertainty, combined with the fact that the industry as a whole hired larger classes in the last few years, will likely impact the talent funnel, resulting in fewer promotions in the near term.’

–Managing director of global human resources

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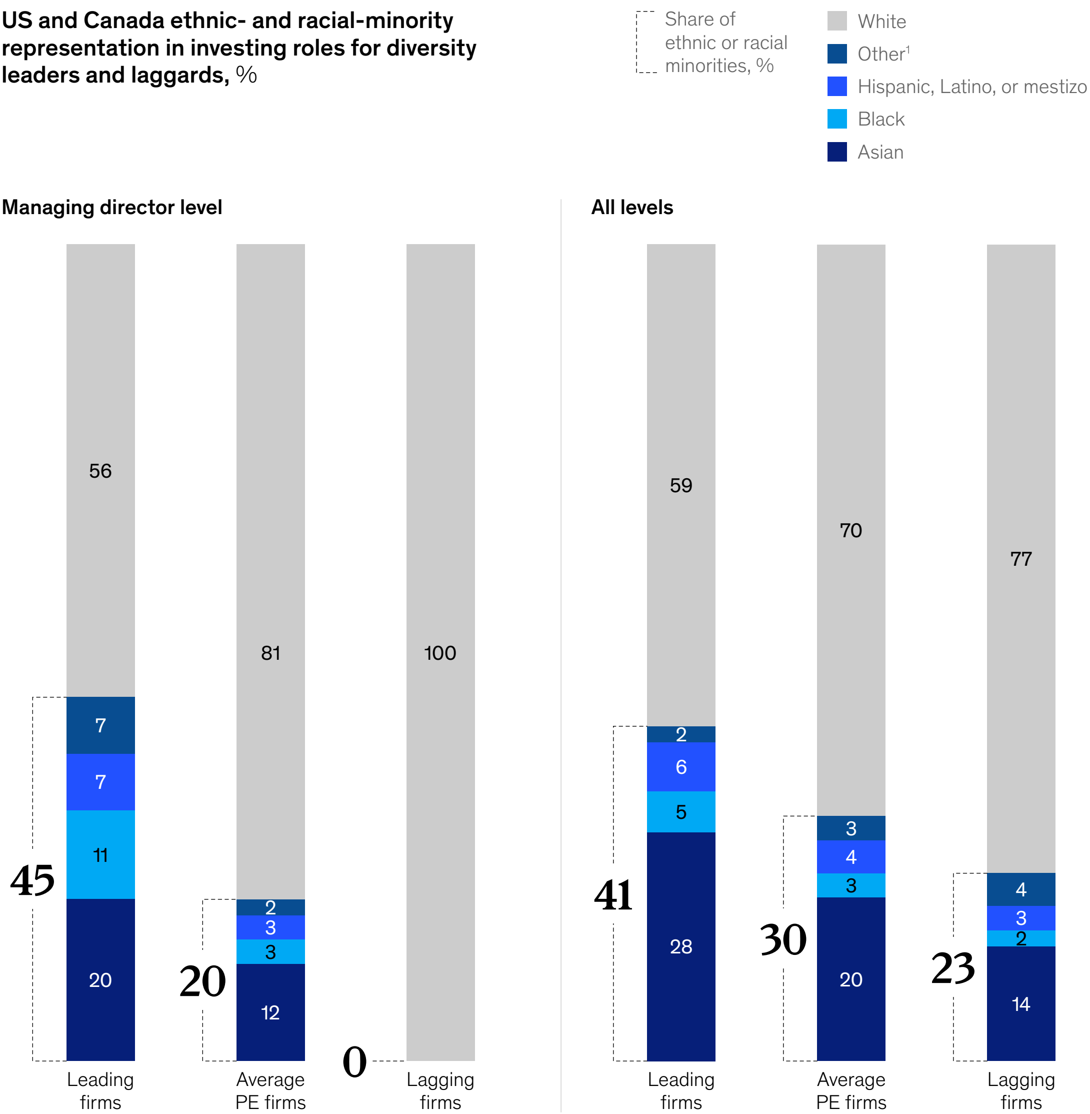
Exhibit 16

Private equity firms that lead in ethnic and racial diversity at L2 also beat the industry benchmark for all investing roles.

US and Canada ethnic- and racial-minority representation in investing roles for diversity leaders and laggards, %



Note: Based on data provided by 33 private equity firms. Responses cover more than 14,000 employees in the US and Canada. Figures may not sum to 100%, because of rounding. All investing roles are defined as L2–L6. Industry leaders are defined as firms within the top 15% of companies in terms of ethnic- and racial-minority (including Asian) representation in investing roles at L2. Industry laggards are defined as firms within the bottom 15% of companies in terms of ethnic- and racial-minority representation in investing roles at L2.
[1]Includes multiple ethnicities and races, as well as indigenous people.

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Firms that lead the industry in ethnic and racial diversity have demonstrated that significant progress is possible, but there is still work to be done to make the majority of PE offices in the United States and Canada more representative. Black and Hispanic professionals remain underrepresented, even at firms that lead on ethnic and racial diversity. Fourteen percent of the US population is Black, and 19 percent is Hispanic,[5] but even at leading firms, only 11 percent of MDs are Black, and 7 percent are Hispanic.

[5] "QuickFacts," July 1, 2022.

04

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Institutional investors as drivers of progress on diversity

For anyone familiar with the undercurrents of private equity and alternative investing, it goes without saying that IIs play a pivotal role in shaping the industry. Thanks to the volume of capital they control, whatever matters to IIs also matters to PE firms (for more, see sidebar "Institutional investors in the private market ecosystem"). One thing IIs care about now is the diversity of PE firms' investing leadership along the dimensions of ethnic and racial diversity and gender diversity. IIs have gone so far as to say that all else equal, they would allocate more capital to more-diverse deal teams.[6]

[6] "The state of diversity," November 1, 2022.

DEI has become politicized in North America, but global IIs are likely to continue to request information on the diversity of talent in leadership positions. This year, we investigated the specific factors IIs consider and the importance of DEI metrics when they decide how much to allocate and to whom.

Institutional investors are asking more about DEI metrics

When making funding decisions, IIs increasingly take PE firms' DEI practices into account.

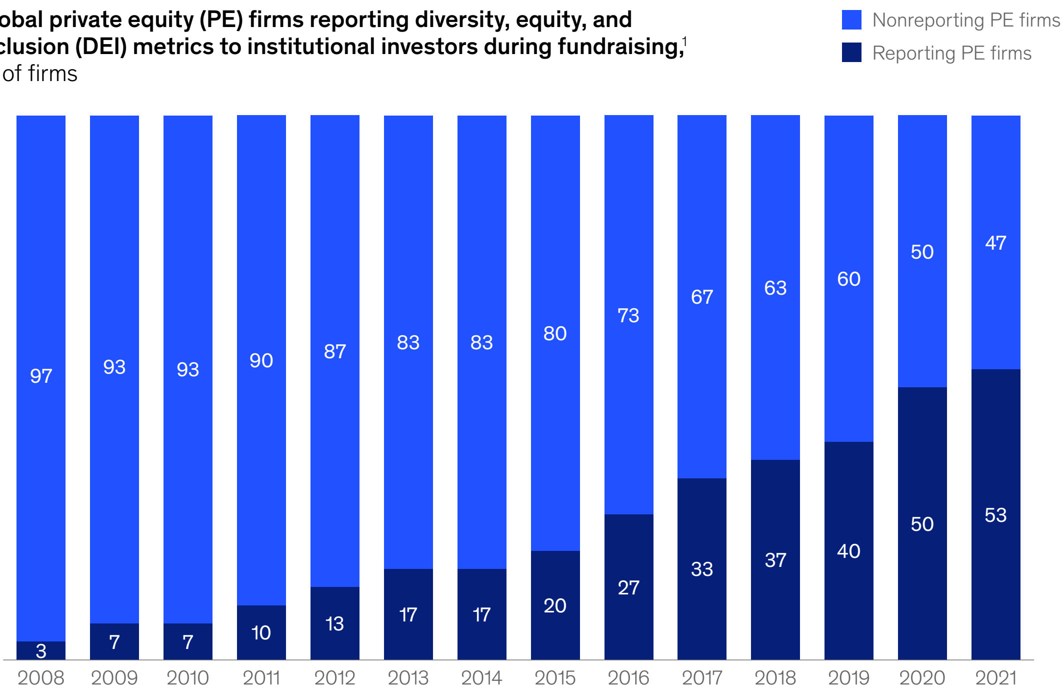
Our study found that during fundraising, 53 percent of PE funds reported DEI metrics to IIs, a stark increase from just 3 percent in 2008 (Exhibit 17). IIs are broadening their view of DEI beyond the investment team and increasingly ask about DEI metrics within portfolio companies and their boards (Exhibit 18). This growing interest from IIs has encouraged PE firms to systematically track and report on these metrics, fueling momentum toward diversity and inclusion in the industry. As a partner at a North American PE fund put it, "Data requests from LPs [limited partners] on diversity and inclusion have gone from zero in the 2000s to everyone asking about it today."

When it comes to the specific DEI data IIs use when making investment decisions, ethnic, racial, and gender diversity within a PE firm's investment team tops the list. But IIs don't stop there: they also pay close attention to qualitative measures,

Exhibit 17

Institutional investors are increasingly asking about diversity, equity, and inclusion metrics.

Global private equity (PE) firms reporting diversity, equity, and inclusion (DEI) metrics to institutional investors during fundraising,[1]
% of firms



[1]Share of PE firms reporting DEI metrics calculated by dividing count of PE firms that have shared DEI metrics during fundraising within year of reference or in years prior by total count of reported PE firms in the 2008–21 period. Sample size is 30 PE firms. Question: "For your last fundraise, did you include DEI metrics of your Investment team, portfolio boards, or portfolio management?"

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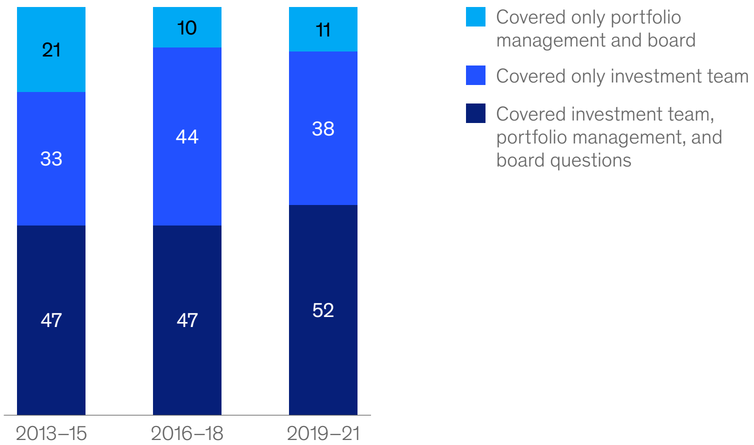
Exhibit 18

Approximately half of firms provide diversity data about their investing team, portfolio company, C-suite, and board.

Scope of diversity, equity, and inclusion (DEI) questions asked by institutional investors to private equity firms during fundraising,[1] % of firms asked for DEI metrics



Note: Figures do not sum to 100%, because of rounding.
[1]Share of PE firms reporting DEI metrics calculated by dividing count of PE firms that have shared DEI metrics during fundraising within year of reference or in years prior by total count of reported PE firms that have reported DEI metrics to institutional investors in the 2013–21 period. Question: “For your last fundraise, did you include DEI metrics of your investment team, portfolio boards, or portfolio management for this segment?”

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When it comes to the specific DEI data IIs use when making investment decisions, ethnic, racial, and gender diversity within a PE firm’s investment team tops the list.

such as firms’ public commitment to DEI goals and their membership in DEI consortiums or councils. Furthermore, many IIs ask about PE firms’ concrete diversity and inclusion programs. Svetlana Alabina, HR manager at Eurazeo, a midsize PE firm headquartered in France, noted, “There is a rising demand from LPs to have DEI data on the PE firms they invest in. Their questionnaires to PE firms have evolved to be more detailed over time.”

Notably, some IIs track PE firms’ year-over-year improvements in diversity and inclusion as part of their DEI assessments. Forward-looking IIs have started to move beyond simply tracking DEI metrics and are beginning to set minimum thresholds on some metrics.

Structural barriers for PE firms owned by ethnic and racial minorities and women

IIs are continuing to gather data on diversity inclusion. But are their allocations consistent with their stated priorities?

Institutional investors in the private market ecosystem

The role of institutional investors in the ecosystem has not changed. We include our original overview from the 2022 report below:

"Institutional investors" (IIs) is a broad term used to describe the 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 and alternative investment (what we refer to in this report as 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 that participated in last year's study said they would be willing to give more capital to more-diverse deal teams.[7] However, IIs face challenges in making that promise a reality. As of 2021, PE firms owned by ethnic and racial minorities and women managed only 6 percent of total AUM in PE.[8] If diversity is high on IIs' priority list, why don't minority-owned funds receive more capital?

Let's look at the variety of factors that go into investment decisions. Our study found PE firms' historical investment performance was the most important factor, followed closely by the team's experience. DEI metrics rank among the top ten factors in IIs' decision criteria, with 33 percent of respondents putting it in the top five.

The hurdle for minority- and women-owned funds is not their track record or the investing team's experience. The challenges are structural and make it harder for IIs to allocate to these firms. For instance, compared with their competitors, minority- and women-owned firms are smaller and newer on average. In the current macroeconomic environment, IIs are relying more on existing long-term relationships with general partners to weather the cycle, leaving even fewer slots for these firms to compete over. To connect with these firms, IIs would have to go through brokers or adjust their minimum allocation rules to directly invest in smaller raises.

[7] Ibid.
[8] *Knight diversity of asset managers research series: Industry*, Knight Foundation, December 2021.

Pooja Malik, founding partner and CEO of Nipun Capital, observed, "CIOs [chief investment officers] want to allocate funds to minority-owned firms. However, there are currently structural barriers in place within the institutional processes of evaluating firms that don't let intent become reality. For example, when participating in an RFP [request for proposal], the RFP process typically requires a minimum AUM of $1 billion to $2 billion, which puts smaller funds at a disadvantage. There is also a higher perceived risk to smaller funds. A prerequisite to increasing diversity is to allow minority-owned firms and funds an opportunity to participate in the selection process."

As IIs continue to shape the future of private equity, their influence will be vital in ensuring that DEI remains top of mind. Through thoughtful capital allocation and continued focus on DEI metrics, IIs have the power to drive meaningful change in the sector, making PE more inclusive, more diverse, and ultimately more successful.

'The RFP process typically requires a minimum AUM of $1 billion to $2 billion, which puts smaller funds at a disadvantage. There is also a higher perceived risk to smaller funds. A prerequisite to increasing diversity is to allow minority-owned firms and funds an opportunity to participate in the selection process.'

–Pooja Malik, founding partner and CEO, Nipun Capital

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05

From aspiration to action: Tangible steps toward a more diverse future

Our study highlights that to achieve a more diverse, equitable, and inclusive industry, firms require additional internal actions and practices as well as external pressures. Strategies to retain and promote diverse talent within PE firms would need to coexist with a collaborative commitment from IIs to demand DEI metrics and support women- and minority-owned funds. Our discussion focuses on specific actions and regional considerations that can accelerate the path to greater diversity of talent within investing roles in private markets globally.

Must-haves: A focus on retaining diverse talent and practices that accelerate the path to equity

PE firms have made initial progress in diversifying their entry-level talent pipelines. To establish a more inclusive culture and move toward gender parity, those efforts would need to extend to the senior ranks. It's important for practices that promote diversity and inclusion to be embedded in every level of the organization. DEI should not be seen as just a recruitment initiative.

Key practices to implement include the following:

- analyzing attrition and promotion rates by gender, ethnicity, and race where possible, along with other measures of diversity, to shed light on firms' effectiveness in retaining and promoting diverse talent
- developing intentional sponsorship and mentorship programs that can guide diverse talent, especially in midlevel roles
- establishing employee resource groups (ERGs) for diverse talent to offer safe spaces for interaction, discussion, and mutual support
- implementing more flexible HR policies, such as remote work, to cast a wider net for talent and improve inclusion for professionals from diverse backgrounds
- hosting unconscious-bias and conscious-inclusion training to minimize the impact of unconscious prejudices on decision-making processes
- creating intentional on-ramps and off-ramps for employees as they transition to and from parental leave or extended time off to help normalize these journeys

These initiatives go beyond recruitment and are crucial in building an inclusive environment that not only welcomes diverse team members but also enables them to flourish and ascend the ranks. By committing to these practices, PE firms can nurture diversity throughout their organizations, from the entry level to top leadership.

The chief DEI officer at one global PE firm recognizes the necessity of these practices. "Hybrid and remote models of working is a challenge many companies are thinking through," the officer

'PE firms tend to have a bias toward people who come to work in the office. […] Training managers to be able to manage and motivate employees in hybrid and remote environments is a must.'

—Chief DEI officer at a large global PE firm said. “PE firms tend to have a bias toward people that come to work in the office. At the same time, the ability to support a work–life balance is a strong retention and recruitment tool. Training managers to be able to manage and motivate employees in hybrid and remote environments is a must.”

As we’ve found, external hiring is a proven way to advance parity in the short term. Funds have worked toward diverse talent pools by asking external recruiters to provide candidate pools with ethnic, racial, and gender diversity. Sarah Pillmore, managing director and head of talent and HR at SVP Global, explained, “[We are] looking for a balanced slate when interviewing candidates. Our recruiters have signed up for this and are contractually required to track this. I think you know that what gets measured gets done. So I think having this practice of asking to get a balanced slate at the start has led to increased diversity in our hires.”

Region-specific strategies for diversity
As we have established, different regions face different challenges related to diverse talent. While the Americas wrestle with high attrition rates at the associate level (L5), Europe is dealing with disparities in promotion rates at the principal level (L3), and Asia–Pacific would need to find a way to address the high attrition rates for women who reach the VP level (L4).

In the Americas, external hiring has been a driver of progress at the MD level (L2), but attrition remains a problem that needs to be resolved; attrition rates for men of color and women of all ethnicities and races were still higher than those for White men. ERGs for diverse talent and intentional sponsorship programs are two strategies that have proved effective so far for PE firms in the Americas that have outperformed their peers in retaining diverse talent.

European offices are beginning to see a more diverse talent pool at the associate level than other regions. But so far, they've struggled to translate that progress to greater gender parity at higher levels in investment roles. The head of environmental, social, and governance and impact at a global megafirm said, "Our EMEA [Europe, the Middle East, and Africa] offices have had more women opt out than other regions. Drop-off is sooner, too; we see it occurring in the analyst-to-associate jump rather than associate to vice president."

The industry would need to give special attention to nurturing and promoting the women who are already within the talent pool if they are to ever achieve gender parity. Firms that have been successful at doing this in Europe have emphasized sponsorship for women and other underrepresented groups in their talent pools. Kerryann Benjamin, chief diversity officer and head of talent development at KKR, said, "We found that our culture, high level of engagement of our leaders, and approach to mentorship and sponsorship leads to better retention."

The Asia–Pacific region can continue its current movement toward gender parity by effectively addressing attrition, especially for midtenure women. Firms in the region could further leverage external hiring to diversify their investing teams, especially in the short term. However, the promotion of female employees, particularly to the principal level (L3), is critical for these new hires to have sustained impact.

Harnessing institutional investors' influence to propel DEI in PE

IIs' most obvious influence on PE comes from their power to standardize key diversity metrics and their ability to partner with—and level the playing field for—women- and minority-owned firms.

Critical actions IIs can undertake include the following:

— consistently requesting a limited set of DEI metrics in a standardized format from PE firms, allowing IIs to capture key data points, including the differences in diversity between investing and non-investing roles

— digging more deeply into PE firms' statistics by moving beyond snapshots of overall figures and understanding the progress firms are making in categories of diversity such as gender and ethnicity and race

— actively engaging with minority- and women-owned firms, understanding the unique challenges they face in the fundraising process, and collaborating to give them the support they need to compete effectively for capital

IIs have the power to continue to drive sectorwide commitment to diversity. Adopting the measures above, fostering partnerships, and advocating for standardization and transparency can ensure a fair playing field for all industry participants. In other words, IIs can continue to serve as a catalyst for a more diverse, equitable, and inclusive PE sector.

The road toward equity in PE is long, but a continued focus on actions that could accelerate progress can put the industry's aspirations within reach. IIs can continue to reinforce the industry's commitment to DEI, and by acting on these commitments, PE firms can hone the edge that comes with diversity.

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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

This report draws on data gathered from 66 institutions (54 private equity [PE] firms and 12 institutional investors [IIs]) in total over the past two years. This year's participants include 48 institutions (41 PE firms and 7 IIs) in the Americas, Asia–Pacific, and Europe. The previous year's analysis draws on data collected for the 2021 report gathered from 42 institutions (31 PE firms and 11 IIs). In addition, more than 300 PE employees responded to a survey about their workplace experiences.

Participating companies have offices in Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Denmark, Finland, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, Norway, Peru, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, the United Arab Emirates, the United Kingdom, the United States, and Uruguay.

We divided those offices into three regions:

1. *The Americas:* Argentina, Brazil, Canada, Chile, Colombia, Mexico, Peru, the United States, and Uruguay

2. *Asia–Pacific:* Australia, China, Hong Kong, India, Indonesia, Japan, Singapore, and South Korea

3. *Europe:* Denmark, Finland, France, Germany, Greece, Ireland, Israel (which we decided to group with Europe), Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Arab Emirates, and the United Kingdom

In places with a sufficient number of respondents, the following nonexhaustive subregions were created:

1. Canada, Mexico, the United States (North America)

2. Ireland, the United Kingdom

3. France, Greece, Italy, Spain

4. Belgium, Germany, Luxembourg, the Netherlands, Switzerland

5. Australia, New Zealand

6. China, Hong Kong, Taiwan

7. India, Indonesia, Japan, Singapore, South Korea (other Asia)

The data used for the analysis on ethnicity and race came from 33 firms operating in the United States and Canada, representing about 16,500 employees in the regions. These firms collectively operate in 15 countries. However, firms' regional HR policies and the number of employees outside of the United States and Canada limited our ability to access data outside of the United States and Canada.

Survey process

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

Respondents submitted data about their firms' talent pipelines. IIs 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 II decision-making data was collected between May 2023 and June 2023 and reflected firms' talent pipeline data, as well as personnel changes across levels and in and out of the firms (that is, changes due to promotion, external hiring, and attrition) from January 1, 2022, through December 31, 2022. While we worked with each company to ensure that submissions were complete and accurate reflections of 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, the EES surveyed employees on their workplace experiences between May 2023 and June 2023.

Interviews with leaders at II and PE firms occurred between June 2023 and July 2023 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

We collected data from 194 talent pipelines. The number of talent pipelines exceeds 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, and therefore, multiple offices in one country would be aggregated into one talent pipeline for that country. We ensured 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 indexes were initially calculated for each participating company. We then used a simple average of participating companies to create regional and subregional industry benchmarks. Data was aggregated at the level of each respective benchmark. The global benchmark is a weighted average of the regional benchmarks based on head count.

Definitions of job levels

Companies categorized their employees into six levels based on the following standard definitions, taking into account reporting structure and salaries for investing roles, operating-partner roles, and non-investing roles. The levels and definitions provided for investing, operating-partner, 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 employees report directly 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 investment committee, the subgroup of investing leaders that makes firmwide strategic decisions for PE funds. This group is made up of people drawn from the L1 and L2 ranks.

Metrics and analytics

Our talent pipeline data covered representation for men and women in aggregate and in investing, operating-partner, 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 2022. Respondents had the option of providing ethnicity and race data on staff in investing, operating-partner, and non-investing roles. Nonbinary gender was excluded from analyses due to a low response rate. 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 or 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 race or ethnicity who left 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.

Country, subregional, and regional benchmarks are aggregated for each respondent at the level of the benchmark. A simple average of the respondents is used to establish the benchmark. Global benchmarks are a weighted average of the regional benchmarks.

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