David Swensen, Chief Investment Officer
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Dear Mr. Swensen,

I hope this finds you safe.

I was encouraged to see your October announcement about your efforts to bolster the inclusion of women and people of color in the 70 firms that manage Yale's endowment, and of your own staff. Your instruction to the firms that manage much of Yale's $30 billion dollars to take a systemic approach to diversity, recruit more professionals of color and report their numbers to you is important.

The Diverse Asset Managers Initiative has long looked to Yale, and you, to lead in this area, and we are appreciative of these moves.

University endowments have long lagged on diversity. But, given your stature, and the number of CIOs trained by you and your methods, we are confident that your willingness to publicly acknowledge that it's time for change will be a significant step forward.

Your move follows that of your protege Princeton's Andrew Golden, and Georgetown's Michael Barry's, and of course you can read the tea leaves; pressure for reporting like you are calling for is coming from more places, including elected officials. The California Assembly had to pass a law to get the University of California to track and report for its enormous endowment and pension fund. And, because we couldn't get data voluntarily from you and your peers, the Diverse Asset Managers Initiative worked with members of Congress to ask for it. Thus far 24 of the top 25 University endowments answered Congress, including you.

The era of opacity around diversity is ending. We must move on to a productive period of how, not whether, to work with minority- and women-owned or run asset management firms.

As we move to this phase, and begin to understand why the continued exclusion of high-performing women and people of color negatively affects returns, we'd like to offer some thoughts.

Thus far your, and many of your peers', communications about why and how you look at diversity is unintendedly harmful. As we enter more public conversations about fiduciary responsibility, race, gender and risk, we'd like to engage with you about constructive ways to think, and certainly talk, about why you are moving forward.

Two suggestions about language: Talk more about maximizing performance, and less about social justice; and accept that there is a demand - not a supply - problem.

Those of you entrusted with assets have the duty to maximize performance. A mountain of research shows that failing to work with diverse talent sacrifices returns. We have, hiding in plain sight, high-performing women, Blacks, Latinos and Asian-Americans managing assets, in every asset category, at every level of experience. Meet and work with them.

Here are step by step recommendations for you and others who want to lead on this:

First, track and report your diversity numbers. Transparency is necessary for change. The Wall Street Journal article announcing your decision notes that you plan to ask your "managers for relevant data on diversity annually." That's a great step.

Release the data publicly. And go granular - generic 'minority' categories mask the fact that foreign-owned emerging firms are frequently the lion's share of total numbers, or that Asian-Americans are often present in strong numbers as employees - but oddly not owners - of color. There is no shame in reporting low numbers when everyone's numbers are low. Put out the numbers, then we can start honest conversations about what is going on.

Second, don't buy into the myth that the lack of diversity is due to a lack of available talent. The WSJ piece explains that you "held off on systematic efforts to encourage more diversity at those firms in part because of a belief it resulted from an insufficient pipeline of diverse candidates entering asset management."

In 1980, we had a supply problem for asset managers of color. In 2021, we don't. There is a critical mass of women and people of color in every single asset category in which you are interested, no exception. To be clear, we all want more women and people of color coming into the profession, and many are working on that. But asset allocators must give serious consideration to the seasoned, professional cohort of minority and women managers who already have multiple funds under their belts. Generation after generation focusing on an insufficient pipeline, while not having any sanction for long-standing firms that won't hire from this pipeline, is insidious.

An effective way to hugely increase the pipeline would be to sanction an elite all-white or all-male-owned or managed asset management firm because they refuse to hire and retain diverse talent. If you see something, say something. Rhetorical interest in diversity with no sanction for lack of it is a worst-case scenario. Make your expressions of concern about the failure to retain women or people of color publicly clear. The pipeline will quickly expand.

Next, reconsider your criticism of “intra-industry poaching” of minority talent, which you call a zero-sum game that fails to grow the field. That is short-sighted. If I am a white owner of a firm that values my diverse talent, and that talent gets poached, I double down on either retaining that talent, or recruiting more. Agreed it is a zero-sum game in the short-term for the absolute number of diverse talent. But medium- and long-term it’s a crucial incentive for white owners to get more diverse talent into the system, and to value and promote the diverse talent already in their firms. Valuing Latino professionals as they should be -- which is what “poaching” is -- will bring more Latinos into the system.

Third, avoid framing the employment of Black and Latino asset managers as a civil rights issue. The WSJ article notes that the “Black Lives Matter movement has had a galvanizing effect” on you and your team, and reminded you of the civil-rights activism and Vietnam protests of the 1960s.

Your nostalgia for these events offers a glimpse to your politics, which we share, but are unintentionally problematic for fighting the very bias you say you are trying to undo.

Discussing diversity as a civil rights issue re-entrenches the underlying prejudice that caused the lack of diverse representation in asset management in the first place: the sad bias that minority managers don’t produce strong returns, but it doesn’t look good to keep them out. Too many asset allocators believe that there is a tradeoff between the right thing to do - inclusion - and performance. We hear this constantly. Conversations around minority managers turn instantly to risk-adjusted returns. According to quantitative studies, the bias is factually incorrect. Talking about working with people of color as a social justice issue is a devastating rhetorical playing field.

The exclusion of women and people of color from asset management because of their identity is wrong. We applaud your efforts to counter this sad historical fact.

We offer this suggestion as a way to balance the tension between talking about social justice and performance. Looking back, the exclusion of people of color from your talent pool is a social justice issue; it is largely bias that got us white hegemony. But looking forward, the inclusion of people of color is about performance and returns.

Focus on performance. Delivering superior performance while simultaneously increasing the diversity of your asset managers makes it much harder for any objectors to your leadership in this area.

Last, ownership is of the utmost importance. It is lamentable that you dismiss it. The WSJ article notes that you believe that “firms can artificially engineer their ownership structures to fit the bill of being considered a firm owned by women or minorities.”

Don’t do that. Everything can be gamed. We don’t abandon important goals because some people abuse the processes. People of color have agency; they can decide whether or not a white co-investor is scamming them, or you. Second, as an asset allocator, if you don’t like a particular ownership structure, don’t invest. Dismissing ownership outright because some people - mostly white - game it, is inappropriate.

Mr. Swensen, you are on the right track. But to be effective, the next steps are crucial. Talk to people who are doing this well, like the folks at the University of California, who, forced to move on the issue, are now best in class in terms of how they think about and approach it. Talk to people who are experts in diversifying large institutions.

You are clearly ready to lead. Do so with best-in-class advice from the people who know this well, which is generally not the circle closest to you, who haven’t been getting it right for generations.

Robert Raben
Executive Director
Diverse Asset Managers Initiative