



DIVERSITY OF ASSET MANAGERS

LEADING FOUNDATIONS DISCUSS THE
IMPERATIVE AND REWARD OF INVESTING WITH
DIVERSE-OWNED FIRMS

February 2020

Investing in Diverse Asset Managers: A Performance Imperative

By Kim Lew and Alisa Mall, Carnegie Corporation of New York

Aligning Investments with Our Mission: Diversifying Investment Managers

By Geraldine F. Watson, The Rockefeller Brothers Fund

Diversification Can Generate Better Returns

By Bert Feuss, Silicon Valley Community Foundation



INVESTING IN DIVERSE ASSET MANAGERS

A Performance Imperative

By Kim Lew and Alisa Mall

The investment team at Carnegie Corporation of New York is tasked with maximizing our endowment's returns so that the grantmaking foundation established by Andrew Carnegie more than 100 years ago can fulfill its mission of doing "real and permanent good in this world." However, we do not make program or mission-related investments; we do not seek out investments for social impact purposes or to "do good," referred to as double bottom-line investments. We are performance seekers. Full stop.

So why have we decided to prioritize diversity when evaluating and selecting investment firms to help manage our endowment? Because we believe it is a performance imperative. As the U.S. population becomes increasingly diverse and international markets become more accessible to investors, firms employing individuals with varied backgrounds will have a competitive advantage in understanding the nuances of investing opportunities.

Today, outperforming the market, known as generating alpha in industry terms, in traditional asset classes and industry sectors that are overcapitalized is harder to do. We believe outperforming requires identifying new areas of opportunity, while being able to anticipate risks that might arise as global demographics shift. Investment professionals with diverse perspectives will have a competitive advantage on both these fronts.

Diversity in investing is not just about firms that satisfy women and/or minority ownership percentage thresholds. We invest with firms who cultivate a culture that seeks and welcomes diversity at all levels of their organizations, including among their portfolio companies. It is not about a firm making token hires to represent diversity. It is about a firm believing diversity matters in achieving better outcomes and actively building an organization to reflect that belief.



Hiring for diversity is the easier part of the equation. It is the inclusion piece that is more challenging: giving diverse individuals authority and valuing their input is what changes outcomes. As a team of 10 professionals from diverse racial and ethnic backgrounds, our investment team embodies this belief. The different lenses through which we view the world enrich our investment decisions.

We have wrestled with the question of why we don't see more investments with firms led by women and minorities. We often hear there is a pipeline problem. While this issue is real, several additional factors compound the challenge:

Size: Most diverse managers tend to be emerging firms launching first-time funds, and as such, often lack the resources needed to meet the back-office requirements of institutional investors. Additionally, first-time funds bring their own set of risks that many foundations shy away from.

Capital Constraints: Many foundations, including ours, have limited capital managed by a small staff. Since foundations make smaller commitments than other types of institutional investors, strong relationships based on loyalty to existing general partners are paramount for access. Hence, adding a new manager to a limited portfolio often requires terminating an existing manager.

Selection Bias: When it comes to identifying talented managers, we employ shortcuts to facilitate underwriting and minimize career risk, including investing with known quantities and investing alongside peers. Such shortcuts, however, make it more challenging for an emerging manager to gain traction.

Our team takes a multi-pronged approach to increasing diversity in our portfolio:

- We ask all existing managers in our portfolio to share what initiatives they've taken and how they are thinking about promoting a culture that values diversity. We are not looking to punish a firm for what it lacks; rather, we are looking to incentivize managers to build a culture in which diversity matters.
- We have dedicated a senior staff member to meeting with every manager with meaningful women or minority ownership that comes across the transom. While our capacity for new commitments is limited, we offer feedback and offer to be a resource.
- We host a series of "speed dating"-style events in which a small pool of diverse managers across asset classes present to a larger group of colleagues at peer institutions.



- We actively support organizations that build the pipeline of young women and minorities entering the asset management industry.
- We examine our own biases and actively try to mitigate them.
- Lastly, we have amplified our public voice, speaking at industry events about prioritizing diversity and inclusion.

Andrew Carnegie intended his philanthropic work to be carried out in perpetuity, saying “even after I pass away the [wealth] that came to me to administer as a sacred trust for the good of my fellow men is to continue to benefit humanity for generations untold.” We honor our commitment to his legacy by embracing diversity and inclusion in pursuit of superior investment performance resulting from a broad range of perspectives.



Kim Lew is Vice President and Chief Investment Officer at Carnegie Corporation of New York



Alisa Mall is Managing Director, Investments, at Carnegie Corporation of New York



ALIGNING INVESTMENTS WITH OUR MISSION

Diversifying Investment Managers

By Geraldine F. Watson

Since its founding in 1940, the staff and trustees of the Rockefeller Brothers Fund have increasingly recognized how our philanthropic efforts have influence beyond just grant dollars. The RBF, therefore, has taken the position that all its activities and resources must be utilized for meaningful progress toward its mission to advance social change, which contributes to a more just, sustainable and peaceful world.

Over the last decade, we have sought to align the RBF's investment capital and practices with this mission. Our Mission-Aligned Investment efforts include divestment from fossil fuels; impact investments; screening for environmental, social and governance (ESG) criteria; and leveraging shareholder voting rights. We now recognize the need to further align our investments with our institutional mission by increasing opportunities for investment with firms led by women and people of color that have been historically underrepresented in the U.S. investment sector.

RBF trustees and staff acknowledge a moral obligation to do our part to address past and current injustices to groups that have been socially, politically and economically marginalized. In 2010, we adopted a Diversity, Equity, and Inclusion Statement shaped by our values, our work, and the philanthropic traditions of the Rockefeller family. Although progress has been made, we acknowledge much more is still needed.



Racially diverse and female-owned firms account for only 1.3 percent of the financial industry's \$69.1 trillion assets under management.[1] There is no performance gap that accounts for the paucity of capital allocations to those funds: research shows that investment return performance, in general, is statistically indistinguishable between funds led by people of color and/or women and funds led by others.[2] As with divestment and impact investing, foundations have an important role to play in advancing diversity, equity and inclusion (DEI) in the investment space. We can pioneer new metrics and new models of investment. We can send signals to the market. We can plant aspirational flags for investors to rally around.

The question is, where do we start? Over the past two years, the RBF has embarked on efforts to assess the current level of diversity among the managers in its own endowment holdings; sought to identify any bias in our investment processes; and explored how to increase the gender, racial and ethnic diversity of the investment managers in the portfolio. We are now developing a path to begin to remedy the shortfalls we may identify. A set of key framing questions underlie our internal discussions and thought processes to date:

- What do we mean when we speak of “advancing diversity, equity and inclusion in the investment world”?
- Who is underrepresented and at what levels within the U.S. investment sector?
- Are we investing in firms that are diverse on paper but are “snowcapped” by an all-white C-Suite?
- How do we weigh employment versus retention? Are we investing in firms that hire diverse staff but can't retain them?
- How can we incentivize investment firms to foster environments where talented women and/or people of color can progress into senior investment leadership roles?
- What language should we use to focus our efforts in advancing meaningful representation?

This is just the beginning of the Rockefeller Brothers Fund's journey to integrate a meaningful DEI lens to its investing practices. We recognize that this will be a gradual process—it's not going to happen overnight. Yet difficulty is no excuse for inaction when it comes to advancing our values.



Geraldine F. Watson is Executive Vice President for Finance and Operations, The Rockefeller Brothers Fund



DIVERSIFICATION CAN GENERATE BETTER RETURNS

By Bert Feuss

Eight years ago, Silicon Valley Community Foundation began examining the diversity of our staff, grantees, board members and our community, prompting us to also look closely at our investment portfolio. We discovered that it clearly lacked diversity.

We believe that diversification of an investment portfolio across different strategies, geographies, points of view and ideas generates better and differentiated returns. To achieve that, we must first begin with diversifying our investment managers by seeking individuals who understand different parts of the world, different sectors and different geographies — not just hiring Caucasian males who mostly attended the same private schools and worked for large private wealth management firms.

Because we are committed to diversity — both as a culture value and as a fiduciary duty — we along with Colonial Consulting, our investments consultant, began working to identify and overcome barriers to securing talented minority and women-owned investment companies.

The first step we took was auditing the manager research and selection process. We asked Colonial Consulting to report how many managers they met with annually, how many of those firms were women or minority-owned, and how many of those diverse managers were recommended and subsequently hired. We understood that in order to ensure we were meeting our diversity goals, it would take time to integrate these new practices into daily routines. For example, Colonial Consulting had to modify their databases to capture and store this new information. This created additional work for both teams, which was an adjustment for everyone.



In 2015, Colonial Consulting hired a dedicated head of manager equity, Angela Matheny. At the time, Colonial Consulting had been meeting with an average of only 50 diverse managers. Because of Matheny's outreach efforts, the number of meetings with women or minority-owned firms shot up dramatically; in 2018, Colonial Consulting met with more than 515 managers, 202 of which were diverse.

Our efforts proved to be worthwhile and the results have been promising. Fifteen out of the 19 diverse managers deployed across Colonial Consulting's client base have exceeded their respective performance benchmark. The remaining four underperformed the benchmark by less than 1%. Those at the top of the list wildly outperformed the benchmark by hundreds of basis points.

Today, we continue to focus on the diversity of firms and their owners. When we meet with firms, we ask them about their diversity and inclusion efforts, and how they share profits across the team. We want to see aligned incentives and inclusive participation.

These managers are often newer and in the process of building their businesses – and deeply focused on driving performance. They are grateful for the opportunity and feel tremendous commitment to do well by their clients. It is a win for both parties.



Bert Feuss is Senior Vice President, Investments, of the Silicon Valley Community Foundation.