# COMMON FAQ

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***Why is it important to invest with diverse managers? How will this benefit my institution?***

Studies demonstrate that funds managed by diverse asset managers often yield greater performance results for their clients than the broader market. While there is a critical mass of high performing diverse asset managers, there is inadequate demand for their services. Diverse asset managers are severely underrepresented among the managers hired by institutional investors. This exposes your funds to undue risk and potentially denies your beneficiaries potential returns.

To learn more about the fiduciary case for investing with diverse managers, see *Fulfilling Your Fiduciary Obligations: How a Commitment to Diversity Can Generate Better Returns.*

***How do I get started?***

We recommend starting with *Step 1* of this guide, which is titled *Understanding the Current State of Your Institution*. This will help you determine the baseline for the extent to which your institution currently addresses diversity and inclusion. It will also help you think about who else in your institution you should talk to in order to begin advancing this agenda. From there, follow the subsequent steps in the guide to walk you through this process.

***Are my standards of entry prohibitive for minority firms?***

Some of your institution's policies and practices might unintentionally bar much of the best talent available from consideration, such as requiring a minimum number of years in the business or amount of assets under management. Or, you might have limited access to diverse investing talent resulting from long-term relationships with non-diverse managers and from consultants who have not clearly heard that diversity is a priority for you in their management recommendations.[47]

Depending on your fund's asset allocation strategy, you may consider creating a sub-strategy that works within your institution's asset allocation model. To learn more about possible models for designing a sub-strategy, read *Who Manages the Money? A Case Study of the W.K. Kellogg Foundation.*[48]

You may also want to include language around diversity within your investment policy and implement the Rooney Rule to make sure that you interview qualified diverse talent. To learn more about policies and the Rooney Rule, see *Step 3: Creating a Clear Mission and Commitment to Investing with Diverse Managers.*

***We already have an Emerging Manager Program. Why should we also be focusing specifically on race and gender diversity?***

Emerging Managers are generally firms managing less than $2 billion, or have a track record as a firm of less than 5 years, or both.

Emerging Manager Programs are a great way to provide opportunities for new and small firms. However, there is no guarantee that an institution's Emerging Manager Program has race or gender diversity or that it brings in the best diverse firms in an asset class. Ask your investment consultants or staff to give you a race and gender breakdown of the firms in your emerging manager portfolio. What did you find?

Paying attention to racial, ethnic, and gender diversity when sourcing Emerging Managers is a great way to access unique investment opportunities that otherwise would have been overlooked. This can also provide a path of growth for minority and women managers to build their firms to a larger size in order to compete to join your pool of more established managers.

Still, it's important to remember that you should pay attention to diversity within your regular investment management programs, even beyond your Emerging Manager Program. While diverse managers often go overlooked, they perform at the same level or even better than majority-owned managers in all asset classes.

See *Step 4: Sourcing Qualified Diverse Managers and Firms* to help guide you in finding qualified diverse managers to consider for your Emerging Manager Program, along with other strategies.

### *What exactly should I be asking of my investment consultants?*

Your investment advisor's goal is to ensure that its client, your fund, is satisfied with its recommendations. In order to meet your high level of satisfaction, it is acceptable to request that your consultant report on outreach to and numbers of due diligence meetings with diverse managers from multiple asset classes, as well as hiring recommendations.[49]

See *Step 5: Working with Investment Consultants* to read more about how to communicate with your consultants on these issues. Check out *Appendix 4* to view a template memo that you can share with your consultant on Internal Consultant Firm Diversity and Asset Manager Diversity.

### *My investment consultants say they can't find any qualified diverse managers. Are there even enough qualified diverse-owned firms out there? If so, where do I find them?*

Yes. There are many qualified diverse-owned firms with performance equivalent to or greater than the high-performing non-diverse-owned firms in all asset classes.

Developing a pipeline of diverse managers and firms requires a commitment to engaging with the MWBE manager community and casting your net beyond your usual networks.

See *Step 4: Sourcing Qualified Diverse Managers and Firms* to read more, and see *Appendix 3* to view a template memo that you can share with your consultant or investment staff on ways to source qualified diverse managers.

### *We are looking to invest with the "best talent available." It's safer to go with the tried and true name-brand firms. Why should we take this risk?*

We believe that diverse managers are among the best talent available. The board and its policies may be the catalyst to get a diverse manager on the list, but a manager will only stay on the list by performing at or above market rates.

Not only do diverse managers perform on par with or better than high-performing non-diverse managers, but study after study shows that investing with managers from diverse racial, ethnic, and gender backgrounds actually *decreases* risk. One of the key takeaways from the 2008 financial crisis was the role of "groupthink," whereby homogenous decision-makers failed to properly consider risks and the full range of options for solving problems, or failed to express doubts in a formal way.[50]

***Do minority firms actually perform as well as non-minority firms?***

Studies demonstrate that funds managed by diverse asset managers often yield greater performance results for their clients than the broader market. For example, a 2012 KPMG/NAIC study concluded that the median net internal rate of return ("IRR") for NAIC (National Association of Investment Companies) members was 15.2% from 1998 to 2011 versus 7.1% for Thomson Reuters' Venture Economics benchmarks.[51]

Also, Vista Equity Partners, an African-American-owned firm, was the world's top performing private equity firm for 2014, according to the HEC-Dow Jones Private Equity Performance Ranking.[52]

***What happens when a diverse manager that I hire doesn't perform?***

You should think about your relationship with a diverse manager just like you would with any other manager in your portfolio, as diverse managers should not be held to a higher or lower standard. For many of your managers, this will mean a long-term relationship with the usual peaks and valleys in terms of performance. Just like you would for any other manager, if a diverse manager is consistently under-performing, you can and should take the necessary steps to consider making a change.

***Am I legally allowed to talk about diversity when selecting asset managers?***

Yes, though to what extent depends on your state/city.

California Proposition 209 prohibits State agencies from "discriminating against or granting preferential treatment to any individual or group on the basis of race, sex, color, ethnicity or national origin in the operation of public contracting."[53] Therefore, diverse managers cannot be hired based on these characteristics. However, the law does not prevent State pension funds from encouraging diversity and inclusion as part of the employee makeup, demanding reporting on the number of diverse managers utilized and the percentage of assets invested with diverse managers, and encouraging investment teams and consultants to interview more diverse candidates. This law does not affect private funds, so no legal concern exists.

In other contexts, it is reasonable to discuss diversity as a factor when selecting asset managers. New Department of Labor guidelines clarified that ESG considerations are legitimate when making prudent investment decisions. For a legal briefing on the new guidelines from Groom Law Group, see: *http://www.groom.com/media/publication/1638_DOL_Announces_New_Guidance_on_Social_Investments.pdf*.

It is safest, and indeed most precise, to move forward on this agenda in the context of honoring fiduciary obligations, not in opposition to that primary responsibility.

***I'm interested but would like to speak with someone further. Who can I talk to?***

Great! The Diverse Asset Managers Initiative (DAMI) would be happy to speak with you about whatever questions you might have, or to guide you in the right direction. Please email info@diverseassetmanagers.org.

# ENDNOTES

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47. Whyte, "Asset Management's Jackie Robinson Moment."

48. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 4-5.

49. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 7.

50. Shiller, "Challenger the Crowd in Whispers, Not Shouts."

51. NAIC & KPMG. "Recognizing the Results."

52. Macfarlane, "Vista Tops Global Private Equity Rankings."

53. CalPERS, "Emerging Manager Five-Year Plan: Pathway to the Future," p. 2.