DAMI REMARKS
STATE OF ILLINOIS DIVERSITY HEARINGS
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Good morning. My name is Jenna Weinberg, and I am here representing the Diverse Asset Managers Initiative, also known as "DAMI". Thank you to Senator Raoul and to the Senate Committee on Pensions and Investments for inviting us here today.

DAMI is an effort to increase the absolute number of, and assets under management by, diverse-owned asset management firms for institutional investors. We bring a specific focus on public, corporate, faith and labor union pension funds as well as foundation and university endowments.

We are a consortium of financial services professionals, institutional investors, corporate and philanthropic board members, union leaders and trade associations committed to raising awareness among institutional investors about the benefits of, and opportunities for, investing funds with diverse-owned asset management firms.

DAMI was founded because diverse asset managers are severely underrepresented among the managers hired by institutional investors. This, despite the fact that studies demonstrate that funds managed by diverse asset managers yield performance competitive with, and sometimes even greater than that of the broader market. And, while there is a critical mass of high performing diverse asset managers, there is an inadequate demand for their services.

The fundamental and frankly awkward question is, why?

When we started DAMI 2 years ago, we talked to numerous institutional investors, advisors and consultants. And, we heard various levels of bias that stand in the way of equal access for diverse managers. In some circles, when we raised the question of diverse managers, we heard things like, “we don’t do concessionary investing,” an unfortunate reflection of the idea that diverse managers are underperforming managers.

We heard sadly contorted answers, like, “we already have a big charitable fund” or even “but our catering staff is very diverse”. It is hard to believe that in 2016 these are viewed as reasonable answers to questions about diverse asset management, but we heard them.

Beyond the issues of bias, we heard investors assert that their consultants didn’t recommend diverse-owned asset management firms; while investment consultants maintained that their clients didn’t ask for them. We found that bias, lack of commitment, thin social networks and a dearth of tools all stand in our way. So, we have a long way to go to reach equal opportunity.

We are here today to commend the State of Illinois’ efforts of more than a decade to promote the use of asset management firms owned by racial and ethnic minorities, women, and people with disabilities by state and public funds and to hold funds and investment consultants accountable at annual diversity hearings, like the one we have gathered for today. We look forward to your continued leadership.

We also applaud the State’s inclusion of the so-called “Rooney Rule” as part of its legislative mandate, to ensure that at least one emerging manager who meets the established criteria is always granted an opportunity to interview for open asset management slots. DAMI supports the implementation of the Rooney Rule by funds and consultants as a best practice in the field. We believe it is one tool to ensure that funds cast the widest net in order to truly find the best talent available to achieve the greatest risk adjusted returns for their funds’ beneficiaries.

As Doug Brown, the Chief Investment Officer of Exelon Corporation said, "If you are not including minority owned firms, you could be missing out on opportunities and investment performance."

DAMI believes that a commitment to diversity can generate better financial returns. Fiduciaries know very well their obligation to make decisions that are in the best financial interest of their institutions. Yet often, this fiduciary obligation is cited to justify a lack of investment with MWBE firms. Yet, significant academic research on diversity and business suggests the opposite – there is a link between racial and gender diversity and shareholder value.

For example, a 2015 McKinsey study found that companies in the top quartile of racial, ethnic and gender diversity were 35 percent more likely to have above median financial returns. Another study, *Board of Director Diversity and Firm Financial Performance,* found a significant positive correlation between diverse racial and gender representation on boards and both return on assets and return on investment.

While it is becoming more mainstream (though not prevalent enough) for institutions to consider racial and gender diversity with regards to boards, employees, senior leadership, and suppliers, few institutions consider the value of diversity with regards to the management of their assets. In addition, while many institutions have created Emerging Manager Programs in order to source new talent and take advantage of return opportunities offered by small and emerging managers and firms, too many of the managers in these programs continue to be white males. Meanwhile, too few opportunities are created for the highest performing diverse firms.

So, we commend the State of Illinois for recognizing this issue and ensuring that the State's mandate defines an "emerging investment manager" as a qualified investment adviser that manages an investment portfolio of at least $10 million but less than $10 billion and is a “minority owned business,” “female owned business,” or “business of a person with a disability.” This definition not only encourages funds to identify emerging talent but also endorses the value of specifically seeking out racial, ethnic, and gender diversity in addition to diversity of firm size.

The progress here in Illinois has taken more than a decade to achieve and there is still work to do. At DAMI, we recognize that a prudent process resulting in increased investment with diverse managers cannot be achieved overnight. We also understand that fiduciaries often lack the necessary tools to drive their institutions toward this change.

In response, DAMI is publishing a “Fiduciary Guide to Investing with Diverse Asset Managers and Firms” this Fall. The seven steps featured were identified through numerous interviews with institutional investors – including many of Illinois’ great financial leaders such as Doug Brown (CIO of Exelon), John Rogers (Chairman of Ariel Investments), and Senator Kwame Raoul. Our guide seeks to address in as much specificity as possible the biggest barriers fiduciaries face when taking on this agenda. From understanding the extent to which your institution currently invests with diverse firms to sourcing qualified diverse managers to tracking your institution’s success, we hope this resource creates a clearer road to increasing your investments with diverse firms.

We will only make sustained progress when everyone across the financial sector ecosystem takes responsibility for tackling this issue. We have exposed as false the long held dichotomy of either maximizing returns or advancing a social agenda. We now know that to truly fulfill the fiduciary duty to seek high returns for fund beneficiaries, we need to clear out the biases that stand in the way of accessing the best talent – no matter their color or gender. It is not diverse vs. fiduciary, it is diverse because we’re fiduciaries.

And, as an additional benefit, we get to help build wealth in previously marginalized communities and align our investments with our values.

Thank you once again for your continued leadership in this arena. We look forward to partnering with you to build on the successes in Illinois and take the model to other states across our great country.

To learn more about DAMI or to get in touch with us, please visit www.diverseassetmanagers.org.

Thank you.