

# New Initiative Seeks To Increase Use of Diverse-Owned Managers

A new initiative has been launched that seeks to create a sustained campaign to increase the number of institutional assets managed by diverse-owned firms.

The Diverse Asset Managers Initiative (DAMI) brings together leaders from the corporate, union, foundation and endowment and other sectors with diverse asset managers and other organizations to provide a multi-pronged approach to addressing the issue.

The efforts are led by four co-chairs: Mary Kay Henry, international president of Service Employees International Union; Alberto Ibargüen, president and ceo of the John S. and James L. Knight Foundation; John W. Rogers Jr., chairman, ceo and cio of Ariel Investments; and William A. Von Hoene, Jr., senior executive v.p. and chief strategy officer of Exelon Corporation; and are coordinated by The Raben Group, a minority-owned lobbying and consulting firm.

Robert Raben, founder and president of The Raben Group, said there has been some success with various tactical efforts over the years to improve assets under management by minority asset managers, however there was more that needed to be done. "This effort needs to be treated as a sustained campaign effort," he said.

The initiative will look to work with municipal, corporate and union pension plans as well as endowments and foundations and offer peer-to-peer organizing.

"The utilization of minority- and female-owned money managers is really pretty sad across the board and this was an opportunity to participate in something we believed in as a company," Exelon's Von Hoene said.

Exelon has had an emerging manager program since 2002 and currently has approximately \$1.9 billion allocated to 20 minority- and women-owned asset managers.

"The real focus here, I think, is educating institutions who are investing money and raising awareness with some of the decision makers about this opportunity and the availability" of diverse managers, Von Hoene said.

"We have consistently generated alpha and in some years they have been our best performers," he added, hoping the "tremendous success" the organization has seen with diverse managers can be useful to other companies. "We are a



**Robert Raben**



**William Von Hoene, Jr.**

case study of how this can be successful, how you can do it in a meaningful way and how you can find really great money managers."

In 2011, Exelon opted to move from an emerging manager-of-managers relationship to a direct program with larger mandates.

Von Hoene said Exelon's experience in both the fund-of-funds space and through direct investments can provide additional perspectives for other institutions that may be assessing the best way to access the space. He noted that the fund-of-funds model got the company in the door and introduced the staff to the space and ultimately allowed for the decision to move to a direct program that provided more meaningful allocations to the emerging firms.

"You can do this consistent with your fiduciary obligations. Indeed, there is a fiduciary case to be made for doing this," he said.

The use of peer-to-peer efforts to help educate institutional investors is an important initial aspect of the initiative, Raben said.

"It was really the first time that significant numbers of influential people not self-interested have been willing to come together and share what they have learned and help others in this peer to peer strategy come on board," said Robert Greene, president and ceo of the National Association of Investment Companies, an association of diverse-owned private equity firms.

Ibargüen of the Knight Foundation said the most powerful thing organizations like his can do is talk about what they have done, why they did it and how it has worked.

"It is a way of putting yourself out there and saying, 'if you are interested, we are willing to share what we know, we are willing to share our experience and help you walk through whatever suits your business or your investing and we are happy to do that,'" he said.

Ibargüen said he began examining the foundation's use of diverse managers as he prepared to speak on a panel that included the question, how much money do you have under management with diverse managers? When he discovered the answer was \$7 million out of a then-\$2 billion portfolio, he began working with the investment staff to increase that figure. Five years later, the foundation now has



**Alberto Ibargüen**

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# DAMI: Peer-to-Peer Efforts, Consultant Involvement Key Focus Areas

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approximately \$350 million allocated to minority- and women-owned firms, which accounts for roughly 16% of assets.

"They are performing as well or better as anybody else in the portfolio. This is in no way meant to be a concession to anybody. It is meant to walk the walk of what we believe is appropriate and right in society, which is a diverse society that includes everybody that truly levels the playing field and gives everyone an opportunity," he said.

The fiduciary responsibilities of each institution is another important component of the push to incorporate more diverse managers into portfolios.

"We think the primary focus of diversification is to strengthen the fiduciary responsibility that we exercise on behalf of our members," SEIU's Henry said.

"We don't want to leave money on the table. The fact that these funds in many cases are outperforming the benchmarks and because we are facing a retirement security crisis in the country, we cannot afford to leave that talent on the outside," added Renee Manley of SEIU's Capital Stewardship Program.

That effort also typically requires the buy-in of investment consultants, which is another avenue the initiative will focus on.

"They are a crucial bridge, pipeline or blockade, depending on how you want to look at it, to diversity," Raben said.

Henry says her organization's efforts to promote the utilization of diverse managers led the organization to look at the SEIU Affiliates Officers and Employees Pension Plan, which it directly manages. In conducting a general investment consultant search last year, the organization included detailed questions on diversity and recently made a change in investment consultants, hiring Marquette Associates.

NAIC's Greene said consultants are critically important to the space but also serve at the pleasure of their clients and need to be held accountable for their actions and inactions.

"I think that it will be a very fresh approach when it comes to working with asset managers and I think that the influence that the collective effort will have on senior executives, consultants and the trustees themselves, will increase capital flow and in turn increase returns as well," he said.

Ibargüen praised the work of the Knight Foundation's outsourced cio Cambridge Associates after the directive to evaluate more diverse managers was handed down.

"We said, 'we'd like to be at \$50 million and by the way, we want no drop in returns. That's it. You want the account or you don't want the account.' And then they did the work. They got it very, very quickly and they started a very serious campaign to



**Mary Kay Henry**

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*Service Employees International Union*

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find minority and women managers who met their criteria as quality managers of money and they found them and they started making the investments. We were aware of everything they were doing. We were not directive in any sense except to say we want to be first at \$50 million and we want no loss in performance and then for the rest they simply kept on performing and we kept on saying yes and they are now \$350 million."

The success of the various organizations involved in the initiative is vital, as performance continues to reign supreme.

"Nothing matters more than performance at the end of the day," said Keith Mestrich, president and ceo of Amalgamated Bank, which is an initial partner of the initiative and has begun work internally to assess its use of diverse managers, particularly among its subadvisors. "Managers in these funds actually have to be good at what they do. Historically, we have always only looked at the performance metric, and that is important to clients, but performance can be one factor. All of the things being equal, there are opportunities to look at other aspects of the funds. I'll be clear, we haven't done that in the past."

Greene believes NAIC's members can provide additional validation that diverse managers can provide returns to investors. "I think that what NAIC brings to the table is the supply of talented managers, because this effort doesn't get off the ground if you can't supply success stories," he said.

"There needs to be a lot of validators that are raising this issue," Mestrich noted.

The initiative will commission research and utilize education and views itself as an "open source" for other work already being done in the space, such as the case study efforts of the Silicon Valley Community Foundation, Raben said.

"The goal is demonstrating more and more asset owners that are willing to jump in and say, 'diverse asset managers matter' and [present] some metrics behind that," Raben said.

Investment managers, institutions, consultants and others interested in the initiative can obtain further information on its website, [www.diverseassetmanagers.com](http://www.diverseassetmanagers.com).

"This is about improving assets under management for all minority firms and they should work with us so we can have a more collective effort than we have in the past," Raben said.