



Diverse Asset Managers Initiative Unites Groups to Address Underutilization of High Performing Managers

By Alan Hughes of the National Association of Investment Companies

The financial services industry in general—and asset management in particular—has long held one of the worst track records when it comes to diversity and inclusion. This may change, however, due to the Diverse Asset Managers Initiative (DAMI), an effort aimed at increasing the number of assets managed by diverse-owned firms, particularly within corporate funds, faith-based funds, labor union pension funds, and foundation and university endowments.

In an industry where studies have shown that diverse asset managers are meeting and exceeding their respective benchmarks, several factors continue to severely limit the number and dollar amount of funds entrusted to these investment professionals. According to *Limited Partner Perspective: The Opportunity in Diverse Emerging Managers*, a study conducted by Professor Gregory Fairchild of the Darden School at the University of Virginia, these managers must contend with several misperceptions, including the idea that they are not capable of properly investing large amounts of funds, and therefore cannot be held to the same performance standards as their non-diverse peers.

For foundations and universities, the lack of diversity at upper administrative levels also contributes to the lack of diversity among their asset managers. “If you think about the leaders of universities and hospitals and museums and foundations, they are often white men who have those positions because they come from wealth. You get appointed to a non-profit board often because of your ability to be a generous donor,” says Ariel Investments CEO John W. Rogers, Jr. “Because of the way [African Americans] came to this country and because of Jim Crow laws and the issues we face around race, we didn’t have the opportunity to build the multi-generational kind of wealth that allowed us to be natural leaders in the non-profit board room.”

DAMI looks to rectify the disparity within the asset managers pool at these institutions. What began as independent efforts by several individuals and organizations is now becoming a cohesive joint initiative to effect change. “You had people doing work on behalf of the New York City Employees’ Retirement System,” says Ellen-Blair Chube, a managing director at William Blair (and formerly, chief of staff for Ariel Investments). “We had all of these efforts on the federal side to diversify the federal pension funds the way the states had. We noticed that there’s all this work going on, but it’s all happening in silos – everybody was kind of doing their own thing.”

Chube and Rogers were instrumental in uniting these individual efforts in order to redistribute asset management opportunities more equally among firms with diverse ownership. “In the beginning there were these huge pools of assets that were not working with diverse-owned firms – union pension plans, college endowments, major foundations, hospitals, museums that were just sort of off the radar,” recalls Rogers. “Everybody focused on big, public pension funds and I think there’s just more and more growing realization that there were these other huge pools of assets that kind of looks like baseball did in 1940.” It was time to bring in some professional assistance. “We thought it was time to maximize efforts and bring in the professionals to coordinate and collaborate and to really put together a comprehensive strategic plan on how to move forward on all of this,” Chube recalls. “And John talked about what he wanted to see, and all of the work that he thought was necessary. I said, ‘What you’re talking about is an advocacy campaign. This is my old world. This is what we used to see day in and day out in D.C. And we

already know the best person in the business, Robert Raben.” Raben, President and Founder of Washington, D.C.-based lobbying and consulting firm The Raben Group, has led successful lobbying campaigns on free speech, gun control, LGBT rights, financial services, access to capital, and other issues.

The initiative will take a multipronged approach to addressing this issue. The first will promote the quality supply of diverse asset managers, highlighting performance, experience and diversity of asset categories. Next it will institute a peer-to-peer strategy in which executives serving on institutional boards will act as advocates for the initiative and the value that diverse managers bring to the table. “Like any kind of a campaign, you’ve got to work hard to get your story, have it be fact-based, and inform the populations that need to be informed in a systematic way and hold people accountable,” says Rogers. “Almost every university in the country says they care about diversity and inclusion. They’ll say, ‘we’ve got the minority-supplier development initiative where we’re using minority contractors on construction projects, catering projects, janitorial services.’ Shouldn’t black and brown people have a chance also to be involved in the more lucrative professional service opportunities?”

The leadership for DAMI will come from four chairpersons: William A. Von Hoene, Jr., Chief Strategy Officer and Senior Executive Vice President of Exelon Corp.; Mary Kay Henry, International President of the Service Employees International Union (SEIU); Alberto Ibarquen, President and CEO of the John S. and James L. Knight Foundation; and Ariel Investments CEO Rogers. “The chairs represent among the important sectors that we’re going after,” says Raben. “Then the goal is to work with them and their peers to grow the number of asset owners who will sign on to the founding principles.” DAMI will also partner with investment consultants to educate them about the opportunity to diversify the existing pools of investment managers that they recommend to their institutional clients and to help them meet their fiduciary responsibilities. Marketing and networking will also connect the world of diverse asset managers with the more traditional investing community. “We have seen right away that the role of the investment consultants is unparalleled in terms of providing advice and recommendations to the vast majority of asset owners,” says Raben.

DAMI will provide institutions already practicing inclusion with tools to either improve their practice or demonstrate why having diverse asset managers is good for their program. For those without a diversity program, Raben says, “We need to get in there and work with them to demonstrate at the very beginning the importance of diversity and how the lack of inclusion may harm their portfolio and their outcomes.” DAMI will also connect those who already understand how diverse managers can improve portfolio performance with these professionals as well as with other institutions that maintain successful inclusion programs.

Mary Kay Henry, whose union consists of two million workers in healthcare, public and property services, points out social science research conclusions that groups perform much better when they have diverse ideas; and that performance worsens when groupthink is allowed to take hold. “We’re promoting the Rooney Rule. It says that when you’re hiring an investment manager or anyone else; let’s make sure we have diverse qualified candidates we’re considering,” she says. “Second, we’re encouraging the firms working for our funds to have more disclosure. We should be asking our investment manager to report to us how many people of color they have in decision-making roles. If their team is not racially diverse and it looks like they’ve got a groupthink problem, we have a responsibility to ask when will they fix it.”

This is not a civil rights effort per se, Raben asserts. “This can be about fairness, but more to the point, this is about financial performance and a demonstration that there is a very talented supply of African American, Hispanic, Asian men and women that are doing well,” he says. “They should be managing a lot more assets if institutional investors are really in the business of maximizing returns. We are taking a peer to peer approach within the industry to show that.”