

STEP



3

CREATING A CLEAR MISSION
AND COMMITMENT TO INVESTING
WITH DIVERSE MANAGERS

Once your institution has created consensus around a commitment to investing with diverse managers and firms, the next step is to create a clear mission as to what that commitment means for your institution. Some institutions choose to create a formal investment policy setting targets for percentages of dollars under management. Others choose to honor their commitment as part of a pre-existing culture of valuing diversity and inclusion in all aspects of business.

Here are some examples of mandates, policies, and commitments created by institutions in various sectors to serve as a guide in creating the language that works best for your organization.

To view template policy language to include with your institution's current policy, see Appendix 2.

Mandates

State of Illinois¹⁶

(4) For the purposes of this Code, "emerging investment manager" means a qualified investment adviser that manages an investment portfolio of at least \$10,000,000 but less than \$10,000,000,000 and is a "minority owned business", "female owned business" or "business owned by a person with a disability" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

It is hereby declared to be the public policy of the State of Illinois to encourage the trustees of public employee retirement systems, pension funds, and investment boards to use minority investment managers in managing their systems' assets, encompassing all asset classes, and to increase the racial, ethnic, and gender diversity of their fiduciaries, to the greatest extent

feasible within the bounds of financial and fiduciary prudence, and to take affirmative steps to remove any barriers to the full participation in investment opportunities afforded by those retirement systems, pension funds, and investment boards.

(10) Beginning January 1, 2016, it shall be the aspirational goal for a retirement system, pension fund, or investment board subject to this Code to use emerging investment managers for not less than 20% of the total funds under management. Furthermore, it shall be the aspirational goal that not less than 20% of investment advisors be minorities, females, and persons with disabilities as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. It shall be the aspirational goal to utilize businesses owned by minorities, females, and persons with disabilities for not less than 20% of contracts awarded for "information technology services", "accounting services", "insurance brokers", "architectural and engineering services", and "legal services" as those terms are defined in the Act.

Policies

Walters Art Museum¹⁷

Policy Statement on Investments with Diverse-Owned Firms:

The Diverse-Owned Investment Manager Program will serve to maintain a dedicated allocation within the investment portfolio of the Walters Art Museum, making targeted investments with minority-and-women-owned firms in the asset management industry. To qualify for this program, an investment manager must have (a) minorities (including ethnic, racial, disabled, etc.) and/or women owning at least 51% of either controlling equity

interest in the investment manager's firm, or the beneficial interest of the carried interest of a proposed investment vehicle; and (b) principal offices based in the United States, or any of its territories. The selected investments will target long-term returns that are competitive with investment managers in their respective asset classes and all benchmark targets deemed appropriate for the specific asset categories as per the museum's Investment Policy Statement.

The Diverse-Owned Investment Manager Program may include any or all of the asset classes within the Trust: A minimum of 10% of the value, in dollars, of the overall Walters Museum Endowment shall be managed by qualified diverse-owned investment managers. As part of the museum's strategic commitment to diversity and inclusion throughout its operations, the Investment Committee's goal is that the overall percentage of the total value, in dollars, of the Walters Art Museum's endowment allocated to diverse-owned money managers will exceed 10%.

The Chief Operating Officer or the Chief Financial Officer (or its equivalent) of the Walters Art Museum will be responsible for reviewing and monitoring the diverse-owned manager percentages within the endowment portfolio at least on an annual basis. Moreover, the overall day-to-day management of, and issuing reports of the endowment will be handled by the Walters Art Museum's investment consultant.

The portfolio will take into account the needs and positioning of current asset class portfolios, to ensure no policy limitations are breached and overall portfolio construction remains within the targets of the overall Trust.

Service Employees International Union (SEIU) Master Trust¹⁸

XVIII. MWDBE Investment Manager Utilization Policy:

The Board has set forth the following quantifiable goals for percentage of total assets under management managed by minority owned businesses, female owned businesses and businesses owned by a person with a disability where ownership of the business is at least 51% owned and management is controlled by such individuals. If a business is owned at least 51% by any combination of minority, female, or persons with disabilities, the ownership requirement for purposes of this policy is considered to be met. The category for the business is that of the class holding the largest ownership interest in the business. If 2 or more classes have equal ownership interests, the ownership classification shall be determined by the business in consultation with the Board of Trustees.

Target Range By Ownership Classification

- | | |
|-------------------|--------------|
| a. Minority/Woman | 5% to 20% |
| b. Disabled | Best Efforts |

These goals shall be reviewed annually.

Catholic Church Pension Fund¹⁹

Responsible Investing:

In 2001, as part of our ongoing commitment to uphold the values of the Church, CPF's investment team committed to seek out external investment managers with expertise in identifying opportunities that offer fully competitive returns while also providing important social benefits. Thanks to their efforts, our portfolio now includes economically targeted investments, such as microfinance, affordable housing and urban redevelopment; investments with women- and minority-owned firms; and environmentally responsible investments that include "clean tech" innovations such as solar, wind and biomass fuels.

DAMI Statement of Principles

Your institution can express an endorsement of the benefits of investing with diverse asset management firms by signing on to the DAMI Statement of Principles. In doing so, you will join institutions such as:

Amalgamated Bank	National Association of Investment Companies (NAIC)
American Federation of State, County and Municipal Employees (AFSCME)	National Education Association (NEA)
American Federation of Teachers (AFT)	RG+associates
Colonial Consulting, LLC	Service Employees International Union (SEIU)
Exelon Corporation	Silicon Valley Community Foundation
Garcia Hamilton & Associates, L.P.	Sponsors for Educational Opportunity (SEO)
John S. and James L. Knight Foundation	The California Endowment

We Believe:

- Institutional investors benefit from a diverse portfolio of asset management firms.
- Board members and C-suite executives at institutions play a critical role in providing direction on who should manage the institution's assets and capital.
- Investment consultants play a key role in linking institutional investors to diverse asset management firms.
- Institutional investors must proactively address the barriers to utilizing a diverse set of diverse asset management firms.
- Success will be achieved when the standard of care in the industry has changed, such that the numerous high performing diverse asset management firms are valued and seamlessly considered by institutional investors. The measurement of success will be the increased use of diverse asset management firms by institutional investors and the increased amount of assets under their management.
- There is a need to improve the policies and programs at the federal, state, and municipal levels to ensure diverse asset management firms have a greater opportunity to participate in the management of public funds.

To become an official DAMI Partner, please contact info@diverseassetmanagers.org.

General Board of Pension and Health Benefits of The United Methodist Church (UMC) and Wespeth Investment Management²⁰

III. Sustainable Investment Strategies (SIS):

The Board promotes sustainable investment practices by integrating environmental, social, and governance (ESG) factors into selecting investments – across asset classes – and external asset managers.

F. Positive Impact Investments:

2. Women and/or Minority-Owned

Manager Program: The Board supports and will endeavor to identify and retain qualified and sound investment management firms that are owned by women or members of an ethnic minority group or who integrate ESG criteria into their investment philosophies. Quarterly, management will identify investments directed through the Women or Minority-Owned Manager Program to the UMC Principles and Fiduciary Committees.

Commitments

Service Employees International Union (SEIU)

In August 2015, Mary Kay Henry, SEIU's International President, sent a letter to hundreds of SEIU trustees suggesting investment with diverse managers as a best practice rooted in fiduciary responsibility for consideration by trustees. The letter promotes the following tools: using the Rooney Rule; requesting diversity-related data from asset managers, auditors, consulting firms, etc.; implementing a corporate governance program that may entail withholding votes from boards of directors that fail to perform on fundamental diversity metrics; and recruiting and training the next generation of trustees to ensure fair representation and investment performance.

You can read the full text of the Trustee Letter at: <http://diverseassetmanagers.org/fiduciaryguide>.

John S. and James L. Knight Foundation²¹

Instead of creating a specific mandate, staff of the Knight Foundation opted to work organically with their investment consultant, who also served as their outsourced CIO, to institute a strong consideration of minority- and women-owned firms that met the same standards of high institutional quality and potential to generate alpha as other managers in their portfolio. Since this would not add to the portfolio's risk or be dilutive to returns, no specific mandate was deemed necessary. This approach was discussed with the investment committee prior to being instituted. The CFO ensures that the intentions of the committee are translated into action by the consultant.

Exelon Corporation²²

Exelon has a strong culture of diversity and inclusion integrated into everything the company does – from how it purchases from suppliers, to how it hires, to how the company is financed. As a result, when the corporation launched its Minority-Owned Investment Manager Program in 2002, it did so without a written policy. Yet, staff intentionally chose to call the program “Minority-Owned” rather than “Emerging” to ensure that the intention was clear. The corporation defined “Minority-Owned” as “majority owned by women and people of color.” The program is open to all such firms regardless of amount of assets under management.

The Rooney Rule

Trustees may direct investment consultants or staff to utilize the so-called “Rooney Rule,” named after Dan Rooney, the owner of the Pittsburgh Steelers, who established a process for seeking out a diverse pool of candidates to be interviewed for open Head Coach positions. Rooney recognized the value of instituting this rule for the most senior level hires; it was not enough to say that the majority of Steelers players are of color and check off the diversity box. The rule does not dictate who should be hired; it does not mandate an outcome. It merely provides a process that allows for a representative set of candidates to be considered.²³

For example, this might mean interviewing at least one qualified firm owned by a person of color, among others, when searching for a manager to oversee a particular investment mandate. The goal of this rule is to ensure that funds review all managers who may serve with excellence, and to ensure that latent biases or ongoing conditions in the investment industry do not unnecessarily limit the pool of candidates from which to choose or limit the returns that may be earned by bringing in a less diverse pool of candidates.

Here is Rooney Rule language that the State of Illinois used in its legislation:²⁴

If in any case an emerging investment manager meets the criteria established by a board for a specific search and meets the criteria established by a consultant for that search, then that emerging investment manager shall receive an invitation by the board of trustees, or an investment committee of the board of trustees, to present his or her firm for final consideration of a contract. In the case where multiple emerging investment managers meet the criteria of this Section, the staff may choose the most qualified firm or firms to present to the board.

ENDNOTES

STEP 3: Creating a Clear Mission and Commitment to Investing with Diverse Managers

16. See the full text of the legislation at <http://www.ilga.gov/legislation/ilcs/fulltext.asp?DocName=004000050K1-109.1>
17. Provided by the Walters Art Museum.
18. Provided by the Service Employees International Union.
19. See the full text of the policy at <https://www.cpg.org/global/about-us/investment-profile/responsible-investing/>
20. See the full text of the policy at http://www.gbophb.org/assets/1/7/investment_policy.pdf
21. Juan Martinez, Chief Investment Officer of the John S. and James L. Knight Foundation, telephone interview by the author, January 25, 2016.
22. Doug Brown, Chief Investment Officer of Exelon Corporation, telephone interview by the author, January 22, 2016.
23. Reid, "Rethinking the Rooney Rule."
24. See the full text of the legislation at <http://www.ilga.gov/legislation/ilcs/fulltext.asp?DocName=004000050K1-109.1>