

# STEP



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SOURCING QUALIFIED  
DIVERSE MANAGERS  
AND FIRMS

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*When diversity is the focus of attention, it is usually viewed as a project rather than an ongoing holistic assessment relevant to all operational aspects of the organization. In recent years, issues of race and diversity have become even more difficult to talk about because of the widespread belief that America has entered a post-racial society and, as a result, any focus on race is inherently discriminatory. In this framework, the absence of diversity is inevitably viewed as a supply problem – the inability to find qualified people – rather than a systems issue – a problem with the process and criteria that intentionally or unintentionally favors one group over another.*



– Emmett D. Carson, Ph.D.,  
CEO, Silicon Valley Community Foundation<sup>25</sup>

## Cast the Widest Net

Developing a pipeline of diverse managers and firms requires a commitment to engaging with the MWBE manager community. Here are some actions you can take to engage with diverse managers:

- Attend emerging and diverse manager conferences;
- Network at industry events;
- Host investment seminars or MWBE manager open house meetings;
- Join minority and women-focused investment affinity groups;
- Have an open door policy to ensure that any MWBE firm will be considered;
- Subscribe to Emerging Manager Monthly.<sup>26</sup>

CalPERS, for example, in its Emerging Manager Five-Year Plan (August 2012),<sup>27</sup> committed to desired outcomes of identifying, hosting, and/or participating in emerging manager-focused events in order to strengthen its networks and improve its

communication with industry trade associations. While this plan focuses on emerging managers, not necessarily diverse managers, you can adopt similar metrics geared specifically towards MWBE firms. CalPERS's metrics include:

- Co-hosting four emerging manager (EM) investment workshops with the legislature and CalSTRS over two years;
- Hosting two webinars per year focused on EMs and/or stakeholder groups;
- Continuing to participate in conferences and events featuring EM investment programs;
- Improving messaging materials and website to communicate with EMs;
- Engaging directly with the EM community via workshops and interactions with trade and professional associations.<sup>28</sup>

**View CalPERS' Emerging Manager Five-Year Plan (August 2012): <https://www.calpers.ca.gov/docs/forms-publications/emerging-manager-five-year-plan.pdf>.**

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## Multi-Manager Funds

There are multiple ways that a fund's investment staff can choose to source and conduct due diligence on diverse investment managers depending on the staff's size and capacity and the fund's strategy. This includes:

- Fund staff conducts sourcing, due diligence, selection, and monitoring of managers in-house;
- Fund staff hires an investment consultant to recommend diverse managers who align with the fund's strategy;
- Fund staff hires a multi-manager fund that works specifically with diverse managers to invest a portion of the fund's assets directly and provide operational due diligence, ongoing oversight, and continued sourcing.

Multi-manager funds can be broken down into two main approaches: manager of managers (MOMs) and fund of funds (FOFs).

MOMs invest in a group of managers who either specialize in a range of asset classes or invest in the same sector but with differing strategies.

FOFs invest in a portfolio of investment funds in order to achieve broad diversification, often through alternative asset class investments, including private equity, real estate, and hedge funds. FOFs can invest from either comingled funds or from separate accounts.

Multi-manager funds that invest with diverse managers can be a great way for smaller funds to gain the exposure they seek with fewer risks.

Scott Evans, Deputy Comptroller for Asset Management/Chief Investment Officer of New York City, notes, "Once it's known that your institution is interested in exploring investing with diverse firms, the firms will come to you. We put out an RFP and partner closely with trade associations to develop a pipeline. We also have an open door policy, meaning that we'll see any firm, including any MWBE firm."<sup>29</sup>

The Diverse Asset Managers Initiative (DAMI) does not endorse any specific diverse asset management firm but encourages the broad use of these resources by institutional investors. The following trade associations, publications, conferences, and other lists are a great way to identify diverse asset management firms.

### **Trade Associations**

- *National Association of Investment Companies (NAIC)*
- *National Association of Securities Professionals (NASP)*
- *New America Alliance (NAA)*
- *The Association of Asian American Investment Managers (AAAIM)*

### **Publications**

- *Emerging Manager Monthly*

## **Conferences**

- ConsortiumEast and ConsortiumWEST
- NAIC Annual Private Equity and Hedge Fund Conference
- NAIC Institutional Investor Forums
- NASP Pension and Financial Services Conference
- New America Alliance Wall Street Summit
- AAAIM National Conference
- Rainbow Push Wall Street Project

## **Lists of Diverse Managers**

- ABFE's Directory of Minority and Women-Owned Investment Manager Firms
- Black Enterprise Asset Managers and Private Equity Firms Lists 2015
- The Use of Minority- and Women-owned Brokerage and Investment Management Firms by the State of Maryland (FY 2014)
- Office of the New York State Comptroller – Emerging Manager & MWBE Conference Book (February 2017)

Contact trade associations directly for their most updated lists.

**To view a template memo to send to your investment staff or consultant on sourcing qualified minority managers, see Appendix 3.**

# ENDNOTES

## STEP 4: Sourcing Qualified Diverse Managers and Firms

25. Carson & Miller, "Investment Manager Diversity: The Hardest Taboo to Break," p. 3.
26. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 9.
27. Legislation signed into law by California Gov. Edmund G. Brown, Jr. in October 2011 requires CalPERS and CalSTRS to provide five-year strategic plans for hiring emerging managers and to report to the Legislature annually on the progress of that plan. Learn more at <http://www.pionline.com/article/20120321/ONLINE/120329976/public-pension-funds-definition-of-emerging-manager-still-a-work-in-progress>
28. CalPERS, "Emerging Manager Five-Year Plan: Pathway to the Future."
29. Scott Evans, Deputy Comptroller for Asset Management/Chief Investment Officer for the City of New York, in person interview by the author, February 3, 2016.