

STEP



5

WORKING WITH
INVESTMENT CONSULTANTS

Investment consultants have been identified as important stakeholders in working with diverse asset managers. Perhaps because of a perceived gap in expertise and because of the trust built between clients and consultants, board members and senior staff more often than not follow the recommendations made by the external consultant concerning the identification and selection of asset managers for an institution's portfolio.³⁰ In fact, 42% of trustees have never challenged the advice of their investment consultants, and 59% do not frequently consider alternatives to their investment consultants' advice.³¹

Make Your Commitment to Diversity Clear

For the John S. and James L. Knight Foundation, the solution started with a conversation with their consultant, Cambridge Associates, to express an interest in investing with diverse managers. "I wish I could say there is a magic bullet or magic lever that we pull," said Juan Martinez, CFO of the Foundation. "The reality is we sat with our investment consultants, and we said this is something we want to do and here are the criteria.... We know they exist, we know they're out there, and we want to be a part of this."³²

Cambridge Associates has been an active partner in implementing this idea. For example, the firm helped the Foundation develop clarity around the definition of "minority- and women-owned," the framework decided upon by the Foundation, and how this new instruction would fit into the Foundation's existing investment plan.

At the same time, other clients of Cambridge Associates were also asking about diversity, including the Meyer Memorial Trust. Meyer

provided funding to Cambridge Associates to build out its database of minority- and women-owned firms, to encourage Cambridge to consider and recommend diverse managers to all clients, not just to those specifically requesting diverse managers.³³

Ask the Right Questions

Here are some questions to ask your investment consultant to make clear the importance of diversity to your institution:

Internal Consultant Firm Diversity

- How many minority and women investment consultants are currently employed at your firm?
- How many minorities and women are currently on your senior management team?
- How many total investment consultants are employed at your firm?
- Do you have a Chief Diversity Officer?
- Do you offer a retirement plan to your employees? If so, how many minority managers do you utilize in your own funds?

Asset Manager Selection

- Have you studied research on the performance of diverse managers?
- How many asset management firms are currently in your database? What is the breakdown by asset class?
- How many minority- and/or women-owned asset management firms (at least 51% ownership) are currently in your database? What is the breakdown by asset class?
- How many minority/women-owned investment management firms have you recommended to

all your clients? How much total assets does this account for? What is the breakdown by asset class?

- How many minority/women-owned asset management firms does our fund currently invest with? How much total assets does this account for? What is the breakdown by asset class?
- What is the average asset allocation for all recommended investment management firms?
- What is the average asset allocation for recommended minority- and/or women-owned asset management firms?
- Do you track diversity at majority-owned firms? What do those numbers look like for the firms we are using to manage our funds?
- What do you do to increase the diversity of asset managers in your database (i.e. attend conferences for minority managers, etc.)?

To view a template memo to send to your advisor on Internal Consultant Firm Diversity and Asset Manager Diversity, see Appendix 4.

In early 2016, the Service Employees International Union (SEIU) conducted a survey of pension fund consultants charged with identifying asset managers for institutional investors. SEIU found that the survey both provided a baseline to help set appropriate goals for the future and helped to open up the conversation with consultants around their engagement with diversity. You can view a copy of the survey questions at: <http://diverseassetmanagers.org/fiduciaryguide>.

One key finding from the report, for instance, showed that African Americans and Latinos made up only 8.2% of total senior managers at all responding consulting firms despite comprising over 28.4% of the national working population.³⁴

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SEIU sees consultants as an important connector to asset managers who are in many ways treated as an extension of a fund's investment office. This means that consultants play a critical role in promoting the level of diversity that SEIU encourages in our funds. It's our job to understand the current level of diversity in our consulting firms and manager recommendations and work with them hand in hand to reach our diversity standards.

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– Renaye Manley,
Deputy Director, SEIU³⁵

Make Diversity Part of Your Scope of Work

Your investment advisor's goal is to ensure that its client, your fund, is satisfied with its recommendations. In order to meet your high level of satisfaction, it is acceptable to request that your consultant report on outreach to and numbers of due diligence meetings with diverse managers from multiple asset classes as well as hiring recommendations.³⁶

The Silicon Valley Community Foundation (SVCF), for example, annually asks its investment consultant, Colonial Consulting, to report on the number of diverse managers the firm has met and on the number of diverse managers recommended to all clients throughout the year, not just to SVCF itself.³⁷

In fact, SVCF includes the following language in its investment policy, to ensure that the Foundation and the consultant are held accountable to inclusivity and reporting:

Investment Consultant Responsibilities:

Maintain an inclusive process for sourcing, evaluating and recommending investment managers across race, ethnicity and gender. Annually report to [client] the number of diverse managers evaluated, recommended and hired across consultant's client base.³⁸

The New York City Comptroller's Office includes language within general consultant contracts requiring the consideration of the diversity of investment professionals in management firms, among all other relevant factors, such as performance and experience, as part of a comprehensive, individualized evaluation of each manager. The contracts also provide that, if requested, consultants shall report on the MWBE status and the diversity of investment professionals in the consultant's evaluation of a manager. These provisions and the policy of New York City pension funds to seek high-performing diverse managers provide a basis for consultants to address diversity as part of their scope of work.³⁹

Lastly, the State of Illinois holds annual Diversity Hearings where funds provide testimony regarding the diversity of their organizations and investment managers. The funds' investment consultants are also summoned to respond to questioning regarding their commitment to diversity both within their own firms and in their investment advice. By speaking openly about the potential consequences to the institutional investors, the Senate Select Committee on Pension Investments has seen positive shifts in consultants' embodiment of diversity in multiple aspects of their work.

Diversity Language in NYC Comptroller General Consultant Agreements⁴⁰

General Consultant Contracts with the Comptroller of the City of New York include as follows:

"Database/Initial Screening: ...The Consultant must provide a report confirming the databases searched and a list of Investment Managers that meet minimum requirements. The Consultant shall make reasonable efforts to identify and include in its database appropriate emerging managers, MWBE managers and managers with diverse investment professionals...."

The Consultant shall conduct quantitative and qualitative reviews of investment managers/products reviewing a range of information.... Managers/products with strong quantitative records will also be reviewed on such qualitative criteria as strength of the organization, quality of investment research, diversity of investment professionals and the firm's decision making process. The Consultant shall, upon the Comptroller Staff's request, also conduct Environmental, Social and Governance (ESG)-related analysis of investment issues and decisions, based upon the Consultant's internal ESG policies. The Consultant shall, upon the Comptroller Staff's request, report on the M/WBE status and diversity of investment professionals of firms in the Consultant's evaluation...The Consultant will recommend managers/products to the System(s) and the Comptroller based on its quantitative and qualitative evaluation..."

ENDNOTES

STEP 5: Working with Investment Consultants

30. Carson & Miller, "Investment Manager Diversity: The Hardest Taboo to Break," p. 4.
31. Clacher, "Research Confirms Trustees Held Back by 'Groupthink,' Resulting in Reliance on Investment Consultants."
32. Whyte, "Asset Management's Jackie Robinson Moment."
33. Juan Martinez, Chief Investment Officer of the John S. and James L. Knight Foundation, telephone interview by the author, January 25, 2016.
34. Schank, "Casting the Widest Net: Increasing opportunities for minority and women owned asset managers in institutional investments."
35. Renaye Manley, Deputy Director of the Service Employees International Union, email interview by the author, September 13, 2016.
36. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 7.
37. Silicon Valley Community Foundation, "Investment Manager Diversity Report."
38. Provided by the Silicon Valley Community Foundation.
39. 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.
40. Provided by the Office of the New York City Comptroller.