

STEP

6

ENSURING
ACCOUNTABILITY

After going through the thorough process of developing an organizational commitment to investing with diverse asset managers, it is important to institute accountability mechanisms to ensure your institution follows up on its commitments year after year.

Incorporate Diversity into Your RFP and Due Diligence Process

As part of your RFP process, require diversity disclosure and reporting for both majority-owned and diverse-owned firms. Your first year of requiring such disclosure will give you a baseline for the level of diversity in your portfolio. In each subsequent year, you will be able to track the changes in both the diversity of all candidates submitting RFPs as well as all managers hired by your institution.

New York City Public Pension Funds, for example, require all prospective managers in private and public markets that undergo due diligence to complete a Diversity Profile and answer diversity and MWBE-related questions in the Due Diligence Questionnaire. Thus, a firm's diversity of investment professionals, MWBE status, and policies and practices to promote a diverse and inclusive professional environment and decision-making team are integrated, along with all relevant performance and other factors, in the evaluation and selection of all managers.⁴¹

You can access the NYC Public Pension Funds' Diversity profile and Due Diligence Questionnaire at: <http://diverseassetmanagers.org/fiduciaryguide>.⁴²

BEST PRACTICE HIGHLIGHT

As part of its due diligence process on behalf of New York City Public Pension Funds, the New York City Comptroller asks not only for the composition breakdown of a firm's board and investment staff but also a diversity breakdown of compensation for all investment professionals as well. By understanding what proportion of salaries and total compensation are allocated to diverse groups, one can better see how diversified the decision-makers truly are.⁴³

Develop Performance Metrics and Publicize Results

Decide which metrics will most inform success for your institution and set target benchmarks for the next 1 to 5 years.

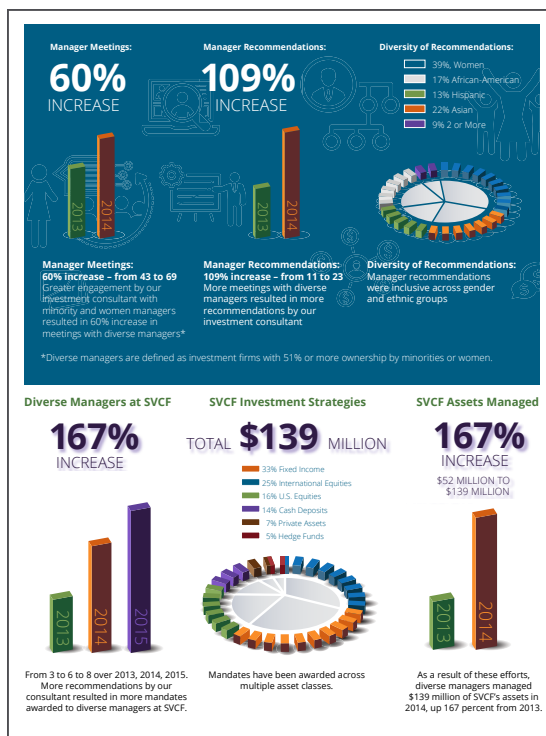
The Silicon Valley Community Foundation (SVCF) published their *Investment Manager Diversity Report* in January 2016 to highlight results for their first year of implementing a strategy to increase the diversity of their investment managers.

SVCF committed to:

- Annually require SVCF’s investment consultant, Colonial Consulting, to report on the number of diverse managers met with throughout the year.
- Annually require SVCF’s investment consultant to report on the number of diverse managers it has recommended to all clients.
- Annually review how many diverse managers were considered for SVCF’s investment portfolio.
- Annually review how many diverse managers were selected to manage SVCF’s investment portfolio.

In addition, SVCF also tracked the amount of assets managed by diverse managers.⁴⁴

Page 3 of the Silicon Valley Community Foundation’s “Investment Manager Diversity Report” (January 2016)



Hold Diversity Hearings

The State of Illinois originally passed legislation simply requiring the state’s public pension funds to report on the numbers of diverse asset managers managing their funds. Yet, the funds were quite comfortable reporting fairly dismal numbers, as no follow up or questioning existed with regard to their reports. As a result, a Senate Select Committee on Pension Investments was created to oversee the reporting. Initially, this added pressure pushed the funds to develop lists of minority managers, though previously they had claimed that few existed. It subsequently advanced to a stage where the funds were asked to set goals. Legislation was eventually passed, which required funds to set goals, though legally no specific goal levels could be included in the legislation. Rather, funds set their own goals, which they are required to report to the legislature.⁴⁵

Funds’ reports and testimony are delivered at annual Diversity Hearings overseen by the Senate Committee on Public Pensions and State Investments chaired by Senator Kwame Raoul. Prior to the hearings, funds respond to a questionnaire regarding their diversity inclusion.

To view the completed Diversity Questionnaire for the State Universities Retirement System of Illinois (SURS), the SURS Diversity Report presented at the hearings in November 2015, and DAMI’s testimony at the August 2016 State of Illinois Diversity Hearings, see: <http://diverseassetmanagers.org/fiduciaryguide>.⁴⁶

ENDNOTES

STEP 6: Ensuring Accountability

41. 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.
42. Provided by the Office of the New York City Comptroller.
43. 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.
44. Silicon Valley Community Foundation, "Investment Manager Diversity Report."
45. Illinois State Senator Kwame Raoul, telephone interview by the author, December 16, 2015.
46. Provided by Illinois State Senator Kwame Raoul.