GUIDE FOR INSTITUTIONAL INVESTORS

DIVERSE ASSET MANAGERS INITIATIVE

FIDUCIARY GUIDE TO INVESTING WITH DIVERSE ASSET MANAGERS AND FIRMS

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DIVERSE ASSET MANAGERS INITIATIVE (DAMI)

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INTRODUCTION

Who is this Guide for?

This guide is designed for institutional investors (trustees and staff), primarily of public, corporate, faith, and labor union pension funds, as well as foundation and university endowments, who are interested in exploring the possibilities of investing institutional assets with diverse-owned asset management firms.

To that end, we have interviewed numerous institutional investors who are seen as leaders in this arena along with those on different stages of this journey in order to provide clear guidance based on industry-wide experiences. The 7 Steps featured are the result of these interviews and research and are meant to follow the common trajectory experienced by institutions undergoing the process of moving to investing with diverse managers.

We hope this guide will address key questions and uncertainties in order to allow you to confidently take leadership on this issue within your institution.

How to Use this Guide

This guide is not meant to be read cover to cover (although feel free to do so if you wish). Rather, take a look at the Table of Contents and pull out the steps or questions that are most relevant to you and your institution.

Does your organization already have a general interest in diversity and inclusion but doesn't know where to start in developing language for an investment policy around diversity? Jump to *Step 3: Creating a Clear Mission and Commitment to Investing with Diverse Managers*. Do you work with investment consultants who report that they can't find any high-performing minority-led firms? Pull out *Step 4: Sourcing Qualified Diverse Managers and Firms* and *Step 5: Working with Investment Consultants*.

Additionally, the *Case Studies* and *Common FAQs* are good handouts to adapt and share with other trustees and staff of your institution to help make your case.

A NOTE ABOUT LANGUAGE

Often, institutions tell us that they have already achieved our mission through their Emerging Manager Program.

Emerging Manager Programs are a great way to provide opportunities for new and small firms. However, there is no guarantee that an institution's Emerging Manager Program will achieve racial or gender diversity or that it brings in the best diverse firms in an asset class. It's important to remember that you should pay attention to diversity within your regular investment management programs as well.

In this guide, we use the terms "diverse," "minority and women," and "MWBE" (Minority- and Women-Owned Business Enterprise) interchangeably to encourage investment with asset management firms owned by racial/ethnic minorities and women. Yet, when a featured institution uses different language, we have maintained the institution's preferred language.

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ABOUT THE DIVERSE ASSET MANAGERS INITIATIVE (DAMI)

Background

The Diverse Asset Managers Initiative (DAMI) is an effort to increase the absolute number of, and assets under management by, diverse-owned asset management firms for institutional investors, with a specific focus on public, corporate, faith, and labor union pension funds as well as foundation and university endowments.

We are a consortium of financial services professionals, institutional investors, corporate and philanthropic board members, and trade associations committed to raising awareness among institutional investors about the benefits and opportunities of investing funds with diverse-owned asset management firms.

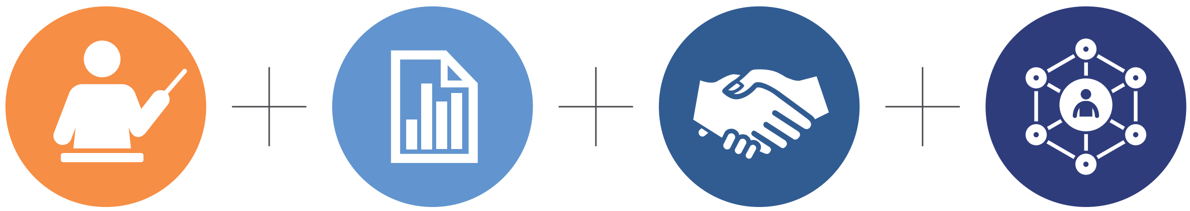
We are committed to raising awareness among institutional investors about the benefits and opportunities of investing funds with diverse-owned asset management firms.

Why?

- Diverse asset managers are **severely underrepresented** among the managers hired by institutional investors.
- Studies demonstrate that funds managed by diverse asset managers **often yield greater performance results** for their clients than the broader market.
- While there is a critical mass of high performing diverse asset managers, there is an **inadequate demand for their services**.

How?

- DAMI **educates and raises awareness with key decision makers at funds and endowments** about the supply of high performing diverse asset managers. We share studies about the inadequate demand for diverse asset managers by institutional investors despite the number of existing high performers. We also urge decision makers to proactively address the barriers that prevent them from diversifying the set of managers overseeing their funds.
- DAMI **partners with investment consultants** to educate them about the opportunity to diversify existing pools of investment managers that they recommend to their institutional clients and help them to meet their fiduciary responsibilities to their clients.
- Finally, **DAMI markets, networks, and connects the high performing world of diverse asset managers** with the more traditional investing community.



EDUCATE KEY DECISION MAKERS

SHARE DIVERSITY STUDIES

PARTNER WITH INVESTMENT CONSULTANTS

MARKET, NETWORK AND CONNECT

Goal

- **Goal:** To build a vibrant, coordinated effort to change the culture of the financial services industry as it relates to asset managers.
- **Success will be Achieved When:** There is common knowledge in the industry of the existence of numerous high performing, diverse-owned asset management firms, and when they are valued and seamlessly considered by institutional investors.
- **Measurement of Success:** The increased use of diverse asset managers by institutional investors and the increased amount of assets under their management.

Success will be achieved when there is common knowledge in the industry of the existence of numerous, high performing diverse-owned asset management firms and when they are valued and seamlessly considered by institutional investors.

You can learn more about DAMI by visiting: www.diverseassetmanagers.org.

This guide is available online at: http://diverseassetmanagers.org/fiduciaryguide.

FULFILLING YOUR FIDUCIARY OBLIGATIONS: HOW A COMMITMENT TO DIVERSITY CAN GENERATE BETTER RETURNS

"

If you are not including minority-owned firms, you could be missing out on opportunities and investment performance.

"

– Doug Brown, CIO, Exelon Corporation

Turn the Fiduciary Rule Upside Down

Fiduciaries know very well their obligation is to make decisions that are in the best financial interest of their institutions. Often, this fiduciary obligation is cited to justify a lack of investment with minority and women asset managers and MWBE (Minority- and Women-Owned Business Enterprise) firms. Yet, significant academic research on diversity and business suggests the opposite – there is a link between racial and gender diversity and shareholder value.

For example, a 2015 McKinsey study, titled *Why Diversity Matters*, found that companies in the top quartile of racial/ethnic and gender diversity were 35% more likely to have above median financial returns.[1] Another study, *Board of Director Diversity and Firm Financial Performance*, found a significant positive correlation between diverse racial and gender representation on boards and both return on assets and return on investment.[2]

While it has become more mainstream (though not prevalent enough) for institutions to consider racial and gender diversity with regard to boards, employees, senior leadership, and suppliers, few institutions consider diversity with regard to the management of their assets. Yet, failing to overcome possible biases that screen out high performing diverse managers and firms could come at the expense of higher returns.

Academic research on diversity and business suggests there is a link between racial and gender diversity and shareholder value.

Avoid Groupthink

One of the key takeaways from the 2008 financial crisis was the role of "groupthink," whereby homogenous decision-makers failed to properly consider risks and the full range of options for solving problems, or failed to express doubts in a formal way.[3]

For instance, *Ethnic Diversity Deflates Price Bubbles*, published in the *Proceedings of the National Academy of Science of the United States of America*, suggests that "price bubbles arise not only from individual errors or financial conditions, but also from the social context of decision making."[4] Price bubbles occur when traders collectively err pricing, creating a disparity between market prices and true values. The study shows that bubbles are affected by ethnic homogeneity, which can result in a more severe crash when bubbles burst, but this can be prevented by diversity. In the study, experimental markets were created where participants traded stocks to earn money. Participants were randomly assigned to ethnically homogeneous and diverse markets. Market prices fit true values 58% better in the diverse markets versus the homogenous ones.[5]

Scott Evans, Deputy Comptroller for Asset Management and Chief Investment Officer of New York City, has taken this research seriously in his investment practices. "When we really stop to think about it, the reason is science. Study after study shows that diverse groups make better decisions. When looking for managers to hire – when we see homogeneity, we are concerned. When we see diversity, we see that as a plus."[6]

Generate Alpha

"The Knight Foundation's policy has always been to consider institutional quality firms. We look at diverse firms because we think they have a unique perspective. It helps to add alpha. It is NOT charitable. It is NOT at the expense of returns. We are steadfast about their needing to perform at the same high level we set for all the managers in our portfolio." – Juan Martinez, CFO, John S. and James L. Knight Foundation

Investing with diverse managers is a great way to generate alpha and access unique investment opportunities that otherwise would have been overlooked. In the same way that many institutions have created Emerging Manager Programs in order to source new talent and take advantage of return opportunities offered by such firms, an intentional focus on diverse managers can provide fresh ideas.

Joel Wittenberg, Vice President and CIO of the W.K. Kellogg Foundation, views seeking out diverse managers as an exciting opportunity to increase returns. "Diversity provides us with different ideas than we would otherwise have from a large manager located on Avenue of the Americas in New York City. It really pays off, as emerging managers are a great source of future ideas."[7]

Do the Right Thing for Your Institution and Community

In addition to promoting the financial health of your institution, investing with diverse managers and firms can have a positive impact on your community as well. Exelon Corporation, for example, takes great pride in ensuring that the company reflects as best it can the makeup of its customers. CIO Doug Brown states, "Exelon has six utilities that provide power to approximately 10 million customers in Chicago, Philadelphia, Baltimore and central Maryland, the District of Columbia, Atlantic City, and the Delmarva Peninsula. These are primarily large urban centers with diverse populations. If we support a young minority fixed income manager and that firm becomes the next Blackrock, that's how we would define the success of our program."[8]

Similarly, the W.K. Kellogg Foundation highlights the connection between the diverse population it supports through its grantmaking and its decisions around managing the Foundation's funds. "You will observe the importance of diversity and inclusion in virtually every aspect of our business," shares Roderick D. Gillum, Trustee of the Foundation. "We focus externally on diversity with our grantees, and our work centers on racial equity and vulnerable kids. So a logical extension of this applies to the people who work for us. That includes consultants and those involved in managing our investment portfolio."[9]

By increasing the usage of minority firms, fiduciaries can help create more wealth and job opportunities in the diverse communities they serve.

Conclusion

Whether driven by an interest in generating better financial returns for your institution, fostering more diversity in asset management, or both, investing with minority and women asset managers and MWBE firms will benefit your institution's funds and beneficiaries. Continue exploring this guide to learn how you can help encourage your institution to take these important steps towards increased asset performance.

7 STEPS TO INVESTING WITH DIVERSE ASSET MANAGERS AND FIRMS

STEP

1

UNDERSTANDING THE CURRENT STATE OF YOUR INSTITUTION

In 2010, the John S. and James L. Knight Foundation President and CEO, Alberto Ibargüen, sat on a panel at the Black Corporate Directors Conference. When a conference attendee asked him point blank how much of the Foundation's assets were invested with diverse firms, he did not know the answer and resolved to find out. Upon returning from the conference, he enlisted the help of the Foundation's CFO, Juan Martinez, and outsourced CIO and investment consultant, Kevin Stephenson of Cambridge Associates, to determine the amount. They discovered that only $7 million (less than .05% of the Foundation's assets) was invested with just one minority private equity manager. Ibargüen and Martinez felt that this result did not reflect the value of diversity, which was a strong tenet of the Foundation, and began a process to add diverse managers to the manager roster while not adding additional risk or sacrificing performance results.[10]

Understanding the answers to these questions will help you develop the most effective strategy for building support from your board and staff leadership.

See Appendix 1 for a template memo that you could send to your CIO to assess your institution's current commitment to diversity.

In understanding your own institution's current engagement with diversity and investments with diverse managers, here are some of the questions you should ask and answer:

1. Does your institution already invest with diverse managers? If so, how many?

2. How much money/what percent of assets is invested with diverse managers?

3. What is the racial and gender makeup of the analysts and decision makers at the majority firms who manage your funds?

4. Does your current investment policy discourage the use of certain diverse managers through quantitative or qualitative restrictions (i.e. minimum number of years track record and/or minimum assets under management)?

5. How does your institution currently address diversity and inclusion?

6. How diverse is the staff and board of your institution? How diverse is your senior leadership?

7. Does your institution have a supplier diversity program? If so, how is this program regarded by the board and staff? Does it include a focus on professional services such as accounting firms and insurance brokers?

8. Which trustees/directors/staff would support your diversity agenda, and which would have reservations?

STEP

2

BUILDING SUPPORT FROM TRUSTEE, BOARD, AND STAFF LEADERSHIP

Be Your Board's Trustee Champion

"As we were looking at the people managing our Foundation's investment portfolio, it was obvious that there were no diverse managers," Roderick D. Gillum, Trustee of the W.K. Kellogg Foundation recalls. "This just wasn't what many of us [on the Board] would like to see. So it's not by happenstance when foundation staff reaches out to minorities. It's because a tone has been set."[11]

It takes time to build institutional capacity to affect changes in investment practices. But, as a trustee, you are in the unique position to start moving your institution in the right direction.

The CalPERS board, for example, has made a concerted effort to include more women, growing female representation from 1 to 4 out of 13 within a year in 2015. Additionally, after discovering that African-Americans make up a small percentage of CalPERS staff, board members are also advocating for CalPERS to hire a Chief Diversity Officer, who would report directly to the CEO and work to ensure diversity and inclusion within the staff. This includes efforts to widen the pool of candidates interviewed for positions to include more diverse candidates.[12] While this effort has not yet succeeded, these board champions have started a much-needed shift towards greater attention to and action concerning diversity within every aspect of CalPERS.

Theresa Taylor, who joined the CalPERS board in January 2015, urges other trustees to have patience as moving a board and an institution can be very slow. "The capacity is not always there to make immediate change," she says. "Change often requires the effort of trustees and/or senior staff to educate their colleagues and cultivate a commitment to diversity over time. While you will often encounter pushback, continuing to ask questions regarding diversity will ensure that the issues are not forgotten."[13]

> *"Over many years, I have come to realize that moving the needle forward on diversity requires either a committed CEO or a board champion. Without a commitment from one or ideally both of these organizational leaders, the natural inertia that exists to maintain the status quo is likely to prevent any change."*
>
> *– Emmett D. Carson, Ph.D., CEO, Silicon Valley Community Foundation*[14]

Legal Support[15]

One of the most prevalent misconceptions to overcome with your board and C-suite is the legal argument that considering racial, ethnic, and gender diversity with regard to asset manager selection is strictly not permitted under the Employee Retirement Income Security Act (ERISA). Rather, new Department of Labor (DOL) guidelines issued in October 2015 clarify that environmental, social, and governance (ESG) factors "'may have a direct relationship to the economic value of investments' and therefore may be considered in a fiduciary's primary economic analysis of plan investments."

ERISA "requires fiduciaries to act 'solely' in the interest of a plan's participants and beneficiaries and for the 'exclusive purpose' of providing benefits and paying reasonable administrative expenses." Yet according to former Secretary of Labor Thomas E. Perez, a 2008 guidance had "unduly discouraged plan fiduciaries from considering economically targeted investments" (ETIs), which are defined as "any investment that is selected, in part, for its collateral benefits, apart from the investment return to the employee benefit plan investors."

As with every investment, proposed investments with possible collateral benefits "may only be considered after the plan fiduciary has determined that the investment is expected to provide an investment return to the plan commensurate to alternative investments having similar risks." But, in what is known as the "everything being equal test," collateral benefits can be taken into account as "tie-breakers" when investments are "otherwise equal" with regard to economic and financial elements.

Even so, the 2015 guidance acknowledges that "ESG factors are not merely collateral considerations, but can be an integral part of the economic analysis performed by the plan fiduciary when considering an investment." It also affirms that fiduciaries may "address ETIs or incorporate ESG factors in investment policy statements and utilize ESG-related tools, metrics, and analyses to evaluate investments."

This new guidance is helpful in affirming that ESG considerations are legitimate. But keep in mind, the case for diverse managers goes one step further than the "everything being equal test." The case here is that lack of diversity undermines the fiduciary responsibility to generate the highest returns because it reflects a failure to fully consider the range of options for generating the best risk-adjusted returns.

For a legal briefing on the new guidelines from Groom Law Group, see: http://www.groom.com/media/publication/1638_DOL_Announces_New_Guidance_on_Social_Investments.pdf.

To access the Department of Labor's Interpretive Bulletin 2015-01, see: https://s3.amazonaws.com/public-inspection.federalregister.gov/2015-27146.pdf.

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 Illinois[16]

(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 Museum[17]

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 Trust[18]

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 Fund[19]

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 oppor tunities 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

American Federation of State, County and Municipal Employees (AFSCME)

American Federation of Teachers (AFT)

Colonial Consulting, LLC

Exelon Corporation

Garcia Hamilton & Associates, L.P.

John S. and James L. Knight Foundation

National Association of Investment Companies (NAIC)

National Education Association (NEA)

RG+associates

Service Employees International Union (SEIU)

Silicon Valley Community Foundation

Sponsors for Educational Opportunity (SEO)

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 Wespath Investment Management[20]

III. <u>Sustainable Investment Strategies (SIS):</u> 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 Foundation[21]

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 Corporation[22]

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.`

STEP

4

SOURCING QUALIFIED DIVERSE MANAGERS AND FIRMS

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[25]

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.[26]

CalPERS, for example, in its Emerging Manager Five-Year Plan (August 2012),[27] 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.[28]

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

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."[29]

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.

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]

> *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.*
>
> *– Renaye Manley, Deputy Director, SEIU*[35]

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 Agreements[40]

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…"

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.

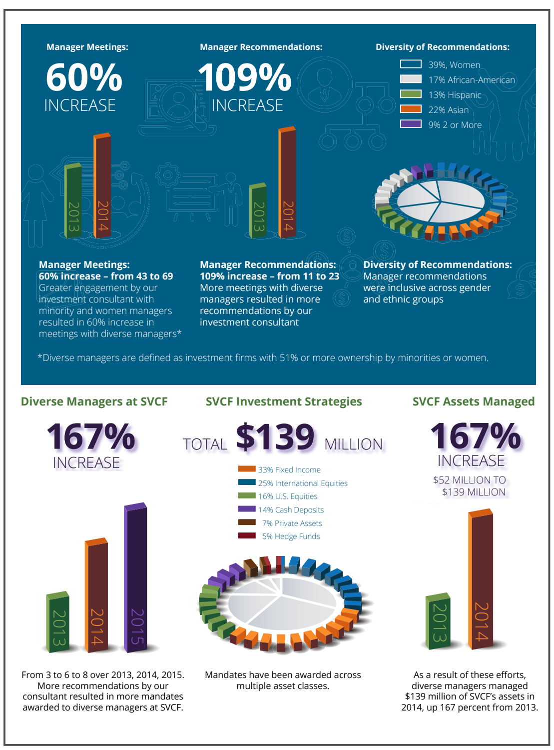
The Silicon Valley Community Foundation (SVCF) published their *Investment Manager Diversity Report* in January 2016 to highlight results for their first year of implementing a strategy to increase the diversity of their investment managers.

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]

STEP

7

SHARING YOUR SUCCESS AND EXPERIENCE

Congratulations! At this point, you should have developed a commitment from your institution to investing with diverse asset managers and firms and mechanisms to hold your institution accountable to this commitment. We hope that you want to share what your institution has achieved and what you have learned with your stakeholders and other fiduciaries.

There are several ways to increase the visibility of your institution and the efforts you are undertaking in this space.

- **Draft and release a press release**. In May 2015, New York City Comptroller Scott Stringer announced the New York City Pension Funds' major new diversity initiative for investment managers in a press release, which you can use as a model. You can view the press release here: *http://comptroller.nyc.gov/newsroom/comptroller-stringer-announces-major-new-diversity-intiative-for-investment-managers/*.

- **Hold a press conference** to explain why this initiative is important and the steps your institution is taking to inform a wider audience.

- **Share the news** through your social media networks. You can view a sample social media kit in *Appendix 5*.

- **Place an op-ed** in a trade and/or mainstream publication.

We also recommend connecting with *Emerging Manager Monthly*, the leading source for news related to diverse managers. For press inquiries, contact Matt McCue at mmccue@fin-news.com.

Help Others Learn from Your Journey

We believe others could benefit from hearing about your institution's journey. Here are some ways to share your experience:

- **Go on a roadshow**. Attend conferences and summits where institutional investors gather; share your experience and best practices.

- **Organize your own conference** or convening for institutional investors to gather and share lessons learned on investing with diverse asset managers and firms.

- **Publish a case study** about your institution's experience developing a commitment to investing with diverse managers and firms.

The Diverse Asset Managers Initiative (DAMI) would love to help you spread the word about your efforts to increase your institution's usage of diverse managers.
To request help, please contact info@diverseassetmanagers.org.

COMMON FAQ

COMMON FAQ

Why is it important to invest with diverse managers? How will this benefit my institution?

Studies demonstrate that funds managed by diverse asset managers often yield greater performance results for their clients than the broader market. While there is a critical mass of high performing diverse asset managers, there is inadequate demand for their services. Diverse asset managers are severely underrepresented among the managers hired by institutional investors. This exposes your funds to undue risk and potentially denies your beneficiaries potential returns.

To learn more about the fiduciary case for investing with diverse managers, see *Fulfilling Your Fiduciary Obligations: How a Commitment to Diversity Can Generate Better Returns*.

How do I get started?

We recommend starting with *Step 1* of this guide, which is titled *Understanding the Current State of Your Institution*. This will help you determine the baseline for the extent to which your institution currently addresses diversity and inclusion. It will also help you think about who else in your institution you should talk to in order to begin advancing this agenda. From there, follow the subsequent steps in the guide to walk you through this process.

Are my standards of entry prohibitive for minority firms?

Some of your institution's policies and practices might unintentionally bar much of the best talent available from consideration, such as requiring a minimum number of years in the business or amount of assets under management. Or, you might have limited access to diverse investing talent resulting from long-term relationships with non-diverse managers and from consultants who have not clearly heard that diversity is a priority for you in their management recommendations.[47]

Depending on your fund's asset allocation strategy, you may consider creating a sub-strategy that works within your institution's asset allocation model. To learn more about possible models for designing a sub-strategy, read *Who Manages the Money? A Case Study of the W.K. Kellogg Foundation*.[48]

You may also want to include language around diversity within your investment policy and implement the Rooney Rule to make sure that you interview qualified diverse talent. To learn more about policies and the Rooney Rule, see *Step 3: Creating a Clear Mission and Commitment to Investing with Diverse Managers*.

We already have an Emerging Manager Program. Why should we also be focusing specifically on race and gender diversity?

Emerging Managers are generally firms managing less than $2 billion, or have a track record as a firm of less than 5 years, or both.

Emerging Manager Programs are a great way to provide opportunities for new and small firms. However, there is no guarantee that an institution's Emerging Manager Program has race or gender diversity or that it brings in the best diverse firms in an asset class. Ask your investment consultants or staff to give you a race and gender breakdown of the firms in your emerging manager portfolio. What did you find?

Paying attention to racial, ethnic, and gender diversity when sourcing Emerging Managers is a great way to access unique investment opportunities that otherwise would have been overlooked. This can also provide a path of growth for minority and women managers to build their firms to a larger size in order to compete to join your pool of more established managers.

Still, it's important to remember that you should pay attention to diversity within your regular investment management programs, even beyond your Emerging Manager Program. While diverse managers often go overlooked, they perform at the same level or even better than majority-owned managers in all asset classes.

See *Step 4: Sourcing Qualified Diverse Managers and Firms* to help guide you in finding qualified diverse managers to consider for your Emerging Manager Program, along with other strategies.

What exactly should I be asking of my investment consultants?

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.[49]

See *Step 5: Working with Investment Consultants* to read more about how to communicate with your consultants on these issues. Check out *Appendix 4* to view a template memo that you can share with your consultant on Internal Consultant Firm Diversity and Asset Manager Diversity.

My investment consultants say they can't find any qualified diverse managers. Are there even enough qualified diverse-owned firms out there? If so, where do I find them?

Yes. There are many qualified diverse-owned firms with performance equivalent to or greater than the high-performing non-diverse-owned firms in all asset classes.

Developing a pipeline of diverse managers and firms requires a commitment to engaging with the MWBE manager community and casting your net beyond your usual networks.

See *Step 4: Sourcing Qualified Diverse Managers and Firms* to read more, and see *Appendix 3* to view a template memo that you can share with your consultant or investment staff on ways to source qualified diverse managers.

We are looking to invest with the "best talent available." It's safer to go with the tried and true name-brand firms. Why should we take this risk?

We believe that diverse managers are among the best talent available. The board and its policies may be the catalyst to get a diverse manager on the list, but a manager will only stay on the list by performing at or above market rates.

Not only do diverse managers perform on par with or better than high-performing non-diverse managers, but study after study shows that investing with managers from diverse racial, ethnic, and gender backgrounds actually *decreases* risk. One of the key takeaways from the 2008 financial crisis was the role of "groupthink," whereby homogenous decision-makers failed to properly consider risks and the full range of options for solving problems, or failed to express doubts in a formal way.[50]

Do minority firms actually perform as well as non-minority firms?

Studies demonstrate that funds managed by diverse asset managers often yield greater performance results for their clients than the broader market. For example, a 2012 KPMG/NAIC study concluded that the median net internal rate of return ("IRR") for NAIC (National Association of Investment Companies) members was 15.2% from 1998 to 2011 versus 7.1% for Thomson Reuters' Venture Economics benchmarks.[51]

Also, Vista Equity Partners, an African-American-owned firm, was the world's top performing private equity firm for 2014, according to the HEC-Dow Jones Private Equity Performance Ranking.[52]

What happens when a diverse manager that I hire doesn't perform?

You should think about your relationship with a diverse manager just like you would with any other manager in your portfolio, as diverse managers should not be held to a higher or lower standard. For many of your managers, this will mean a long-term relationship with the usual peaks and valleys in terms of performance. Just like you would for any other manager, if a diverse manager is consistently under-performing, you can and should take the necessary steps to consider making a change.

Am I legally allowed to talk about diversity when selecting asset managers?

Yes, though to what extent depends on your state/city.

California Proposition 209 prohibits State agencies from "discriminating against or granting preferential treatment to any individual or group on the basis of race, sex, color, ethnicity or national origin in the operation of public contracting."[53] Therefore, diverse managers cannot be hired based on these characteristics. However, the law does not prevent State pension funds from encouraging diversity and inclusion as part of the employee makeup, demanding reporting on the number of diverse managers utilized and the percentage of assets invested with diverse managers, and encouraging investment teams and consultants to interview more diverse candidates. This law does not affect private funds, so no legal concern exists.

In other contexts, it is reasonable to discuss diversity as a factor when selecting asset managers. New Department of Labor guidelines clarified that ESG considerations are legitimate when making prudent investment decisions. For a legal briefing on the new guidelines from Groom Law Group, see: *http://www.groom.com/media/publication/1638_DOL_Announces_New_Guidance_on_Social_Investments.pdf*.

It is safest, and indeed most precise, to move forward on this agenda in the context of honoring fiduciary obligations, not in opposition to that primary responsibility.

I'm interested but would like to speak with someone further. Who can I talk to?

Great! The Diverse Asset Managers Initiative (DAMI) would be happy to speak with you about whatever questions you might have, or to guide you in the right direction. Please email info@diverseassetmanagers.org.

CASE STUDIES

CASE STUDY:

JOHN S. AND JAMES L. KNIGHT FOUNDATION[54]

In 2010, the Knight Foundation President and CEO, Alberto Ibargüen, sat on a panel at the Black Corporate Directors Conference. When a conference attendee asked him point blank how much of the Foundation's assets were invested with diverse firms, he did not know the answer and resolved to find out. Upon returning from the conference, he enlisted the help of the Foundation's CFO, Juan Martinez, and outsourced CIO and investment consultant, Kevin Stephenson of Cambridge Associates, to determine the amount. They discovered that only $7 million (less than .05% of the Foundation's assets) was invested with just one minority private equity manager. Ibargüen and Martinez felt that this result did not reflect the value of diversity, which was a strong tenet of the Foundation, and began a process to increase manager diversity while not adding investment risk or diluting portfolio returns.

The Foundation's commitment to diversity in its investment practices started with an organic conversation driven by staff with support from both the board chair and the investment committee. The plan was developed through regular discussions with the investment committee on their progress. Because there was no intent to change the portfolio's investment risk or return expectations, there was no official vote by the investment committee. The staff had the agency to move this agenda forward. "I wish I could say there is a magic bullet or magic lever that we pull," said Martinez. "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."[55]

As of May 2016, the Knight Foundation had invested $465 million, or 22% of the total $2.1 billion endowment, with 12 minority/women-owned firms.

Cambridge Associates was an active partner in implementing the agenda. For example, it helped the Foundation develop clear definitions of "minority- and women-owned," the framework decided upon by the Foundation, and how this new instruction would fit into the Foundation's investment plan. The Foundation pursued this approach, believing that the diverse set of voices and unique perspectives brought to the investment process would provide an additive value; this could only be guaranteed if diversity was reflected throughout the firm. "It's not hard to see how many people in a firm are minorities or women," said Martinez. "Firms usually have their entire investment team on their website. It's not a ton of extra research to ask someone to do, and it tells something about a firm's diversity without even having to ask the question."

With support from the investment committee, which annually approves the investment policy, Martinez followed up with Stephenson on multiple occasions to explore how the Foundation could both increase the number of and assets under management by minority- and women-owned firms and be purposeful in integrating this interest into its current investment plan.

For the investment committee, it was important that working with any new diverse managers be non-dilutive in returns and non-additive to risk on both the implementation and execution side, in accordance with the policy for investing with any manager. The investment committee trusted staff and the outsourced CIO to execute the investment policy and asset allocation policy in a way that would maximize returns.

The Foundation has chosen not to adopt a specific mandate or policy concerning investment with diverse management firms. Rather, it holds Cambridge Associates accountable to taking a strong consideration of including minority- and women-owned firms within the portfolio. Cambridge Associates reports to the investment committee quarterly and includes an update on investments with minority- and women-owned firms. In the interim, Martinez works with the consultants to understand what they are doing within the markets, how this reflects the intentions and desires of the investment committee, and any implications this might have on the Foundation.

As of May 2016, the Knight Foundation had invested $465 million, or 22% of the total $2.1 billion endowment, with 12 minority/women-owned firms.

CASE STUDY:

NEW YORK CITY COMPTROLLER'S OFFICE[56]

For over 20 years, the City of New York has been a leader in hiring minority and women managers to invest pension funds. As of May 31, 2016, over $11 billion, or 6% of the portfolio, was invested with minority and/or women managers.

When looking for managers to hire, Scott Evans, Deputy Comptroller for Asset Management/ Chief Investment Officer, says, "When we see homogeneity, we are concerned. When we see diversity, that is definitely a plus." He continues, "Diversity is not merely a social value, it has strong economic value for our investments."

In May 2015, Comptroller Stringer announced that the New York City Pension Funds had taken steps to formally consider diversity as a criterion in manager evaluation and selection, by systematically asking current and prospective money managers about the diversity of their investment professionals as part of the due diligence process (you can read the press release here: *http://comptroller.nyc.gov/newsroom/comptroller-stringer-announces-major-new-diversity-intiative-for-investment-managers/*). General consultants who help choose managers for these funds will also be required to consider the diversity of a manager's investment professionals in the selection process, among all other relevant factors, such as the investment returns a manager has achieved in both up and down markets. A collateral benefit of this process is to potentially create an incentive for augmenting the pipeline of diverse investment professionals and advancing minorities and women to lead firms and possibly open firms of their own. (you can view a copy of the New York City Bureau of Asset Management Diversity Due Diligence Questionnaire – Public Markets[57] here: *http://diverseassetmanagers.org/fiduciaryguide*.)

The overarching reason for the New York City Comptroller Office's commitment to investing with diverse managers is science. Study after study shows that diverse groups make better decisions.

In addition to requiring firms to report data on the diversity and composition of their board and staff, they also require reporting on compensation. "Understanding compensation allows us to really understand who is at the decision-making table," says Evans. "Going forward, you'll hear us talk not just about the assets invested with minorities and/or women; we'll also have a category called 'Diversity Practitioners.' This will be managers that demonstrate strong diversity in their decision-makers and a commitment to diversity in their policies and practices." (you can see a copy of the Diversity Profile Scorecard here:[58] *http://diverseassetmanagers.org/fiduciaryguide*.)

Comptroller Stringer remarks, "The New York City Pension Funds intend to help set a standard and push the envelope for how pension funds and asset managers alike engage on diversity on a holistic level. As our society and economy become dramatically more diverse, so too must our investors and our investments. The opportunities of tomorrow won't be captured using the business practices of yesterday. Fostering diversity, in the interest of improving long term risk-adjusted returns, is a fiduciary duty, and these funds are poised to prove that."

CASE STUDY:
EXELON CORPORATION[59]

"We all have a fiduciary obligation to achieve the best performance we can, and that's what this program is about. It comes down to whether the institution is committed to diversity. What we have found is that incorporating diversity helps us identify new and innovative ways to drive progress and performance across our business. You can find great talent and a high level of performance among minority managers."
– Doug Brown, CIO, Exelon Corporation

Exelon began its "minority-owned investment manager program" in 2002, starting with $30 million invested. Since then, the program has grown to over $2 billion, or more than 5% of total assets invested with approximately 20 minority-owned investment management firms. Investments range in size from $20 million to $500 million in a variety of asset classes.

In the aftermath of the financial crisis of 2008, the company decided to overhaul its approach to investment management, building a brand new investment team and rethinking the investment strategy of all its trusts. With an investment team of 13 led by CIO Doug Brown, Exelon opted to end investments in funds of funds and steered away from working with consultants, preferring direct manager relationships that the investment team could seek out and foster.

Brown has set up his team so that no one person is specifically responsible for the minority-owned investment manager program. Rather, the entire investment team researches and selects management firms through the lens of the company's commitment to diversity and to following talent in all corners.

"Diversity and inclusion is important to Exelon, both to the board and the staff," Brown says. "It's in the culture that factors into everything that the company does – from how we purchase from suppliers, how we hire, and how we finance the company." Brown believes that in order for institutions to move the needle on a diverse asset manager program, they need good governance. He credits this as one of the reasons Exelon has had such success with its program.

The team decided to grow the program with fewer, more meaningful manager relationships sizeable enough that they would make a difference in the investment program, but even more importantly, make a difference in the minority firms' businesses. The investment team used its networks to get out the word, and minority firms started reaching out to them. They also attended numerous conferences with the Rainbow Push Wall Street Project, the National Association of Investment Companies (NAIC), and the White House, which helped promote their reputation for having a quality program.

Brown reports the program has delivered strong results for the company. "The managers in our program have performed in line with all of our managers. We have a robust program with high standards and a difficult due diligence process. If you are not including minority-owned firms, you could be missing out on opportunities for outstanding investment performance," he says.

CASE STUDY:

STATE OF ILLINOIS[60]

The State of Illinois launched its emerging manager mandate over a decade ago under the leadership of former State Senate President, Emil Jones, Jr. At first, legislation was passed simply requiring the reporting of numbers of emerging managers managing the respective public funds in the state. "Emerging investment manager" was defined as, a qualified investment adviser that managed an investment portfolio of at least $10 million but less than $10 billion and was a "minority-owned business," "female-owned business," or "business of a person with a disability." However, the funds were quite comfortable reporting fairly dismal numbers, as no follow up mechanisms existed to inquire into the low numbers reported.

As a result, a Senate Select Committee on Pensions and Investments was formed, which began requiring funds to report publicly on their emerging manager numbers and respond to questions from the Committee at annual Diversity Hearings. The Committee also began asking funds to set goals for certain asset classes.

THE JOURNEY

- REPORTING
- ACCOUNTABILITY THROUGH LEGISLATION AND HEARINGS
- ENGAGING INVESTMENT CONSULTANTS

According to Kwame Raoul, State Senator and Chair of the Senate Select Committee on Pensions and Investments, funds initially reacted with hesitation, questioning whether focusing intentionally on diversity would be a breach of their fiduciary duty and feeling uncertain of where to find qualified diverse managers. Yet, the Committee countered this reluctance, informing the funds that investing with diverse managers would help fulfill fiduciary obligations and working with the funds to create lists of qualified diverse managers.

Eventually, the State of Illinois passed a legislative mandate. Under state law that came into effect in 2010, it became state policy to encourage trustees of public employee retirement systems, pension funds, and investment boards to use emerging investment managers, increase the racial, ethnic, and gender diversity of its fiduciaries to the greatest extent feasible, and remove any barriers to the full participation in investment opportunities afforded. The law further mandated that funds adopt a policy that sets goals for utilization of emerging managers.

The law also directed funds to adopt what has become known as the "Rooney Rule," whereby any emerging investment manager that meets the criteria established by a board and consultant for a specific search shall receive an invitation to present his or her firm for consideration.

In 2016, the law was amended to require funds to set an aspirational goal of using emerging investment managers for no less than 20% of the total funds under management. It also set an aspirational goal that no less than 20% of investment consultants utilized be minorities, females, and persons with disabilities.

With regard to investment consultants, "funds would tell us that they religiously followed their consultants' advice," says Senator Raoul. "So, during the Diversity Hearings, we began to question the consultants themselves on their commitment to diversity within their companies and their recommendations. Over the past few years, we have seen some positive evolution as a result of asking these questions, both from the standpoint of an increase in the internal diversity of investment consulting firms but also in the diversity of the firms recommended to funds."

"We are proud to be a leader in this type of legislation and oversight," says Senator Raoul. "Already, other states have begun to follow our lead. We hope this trend continues."

We are proud to be a leader in this type of legislation and oversight. Already, other states have begun to follow our lead. We hope this trend continues.

– Kwame Raoul
State Senator and Chair of the Senate Select Committee on Pensions and Investments

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.[61]

APPENDIX

APPENDIX 1

Memo

To: [NAME OF CIO/CFO/CEO]
From: [YOUR NAME(S), POSITION(S)]
Re: Current State of Institutional Diversity
Date: [INSERT DATE]

Dear [NAME OF CIO/CFO/CEO],

I hope this message finds you well. I'm writing as a member of the Board of Trustees in order to explore our institution's engagement with issues around diversity and inclusion with regard to racial, ethnic, and gender diversity. This is an important issue that I believe is vital for our Board, as fiduciaries, to understand. I have put together the following questions that I hope you will take the time to answer by [INSERT DUE DATE].

1. Do we invest with diverse managers? If so, how many?
2. How much money/what percentage of assets is invested with diverse managers?
3. What is the racial and gender makeup of the analysts and decision makers at the majority firms who manage our funds?
4. Does our current investment policy discourage the use of certain diverse managers through quantitative or qualitative restrictions (i.e. minimum number of years track record and/or minimum assets under management)?
5. How do we as an institution currently address diversity and inclusion?
6. How diverse is our staff and board? How diverse is our senior leadership?
7. Do we have a supplier diversity program? If so, how is this program regarded by the board and staff? Does it include a focus on professional services such as accounting firms and insurance brokers?

I'd be more than happy to sit down with you and talk through these questions if you think that would be helpful. And of course, if you have any questions about my inquiry, please don't hesitate to be in touch.

Thank you for taking the time.

Sincerely,

[YOUR NAME(S), POSITION(S)]

APPENDIX 2

Template Investment Policy Language

The Board defines "diverse investment manager" as a qualified investment advisor that is at least 51% owned by minorities and/or women.

The Board encourages the use of diverse investment managers in managing the Fund's assets, encompassing all asset classes, 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 the Fund.

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

Beginning [INSERT DATE], it shall be the aspirational goal of the Board to use diverse investment managers for not less than [X]% of the total funds under management. Furthermore, it shall be the aspirational goal that not less than [X]% of investment advisors be racial/ethnic minorities and/or women.

APPENDIX 3

Memo

To: [NAME OF INVESTMENT CONSULTANT]
From: [YOUR NAME(S), POSITION(S), FUND NAME]
Re: Sourcing Qualified Diverse Managers
Date: [INSERT DATE]

Dear [NAME OF INVESTMENT CONSULTANT],

As you know, our institution has made a strong commitment to diversity and inclusion in all aspects of our work, including investment with diverse asset management firms. Our institution defines "diverse asset management firms" as firms that are at least 51% owned by minorities and/or women. As our consultant, we rely on your guidance and expertise in selecting the right managers for our fund's needs.

We see it as our duty as fiduciaries to ensure that we are casting the widest net to reach talent wherever it exists. And, we understand that qualified diverse firms may not exist in your current database. In order to source qualified diverse firms, here are some suggestions for actions you can take and resources you can use to develop this pipeline.

Developing a pipeline of diverse managers and firms requires a commitment to engaging with the MWBE (Minority and Women-Owned Business Enterprise) manager community. Here are some actions you can take to engage with diverse managers:

- Join diverse-focused affinity investment groups such as:
    - National Association of Investment Companies (NAIC)
    - National Association of Securities Professionals (NASP)
    - The Association of Asian American Investment Managers (AAAIM)
    - New America Alliance (NAA)
- Attend emerging manager conferences including:
    - 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

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- Host investment seminars or MWBE manager open house meetings.
- Have an open door policy to ensure that any MWBE firm will be considered, and promote this policy publicly.

The following publications and other lists are great ways to identify diverse asset management firms:
- 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 2016)
- Contact trade associations directly for their most updated lists.

We eagerly look forward to the new relationships we will build through this process. Please don't hesitate to be in touch to discuss these efforts further.

Sincerely,

[YOUR NAME(S), POSITION(S)]

APPENDIX 4

Memo

To: [NAME OF INVESTMENT CONSULTANT]
From: [YOUR NAME(S), POSITION(S), FUND NAME]
Re: Current State of Internal Firm Diversity and Asset Manager Diversity
Date: [INSERT DATE]

Dear [NAME OF INVESTMENT CONSULTANT],

I hope this message finds you well. Our Board has been spending some time grappling with questions of diversity and inclusion in our institution as a whole, as well as in our investment practices. This issue has emerged as one of great importance for our leadership. At this time, we are in the process of trying to understand the extent to which our funds are invested with and have access to diverse asset management firms, with regard to racial, ethnic, and gender diversity. In this highly competitive and complex environment, accessing talent wherever we can is of the utmost importance. As fiduciaries, we need to get a handle on this information in order to fulfill our duties.

We have compiled some questions to help us better understand your own engagement with diversity and inclusion as well as the extent to which our funds are invested with and have access to diverse firms. I hope you will take the time to answer these questions by [INSERT DUE DATE].

Internal Consultant Firm Diversity

1. How many minority and women investment consultants are currently employed at your firm?
2. How many minorities and women are currently on your senior management team?
3. How many total investment consultants are employed at your firm?
4. Do you have a Chief Diversity Officer?
5. 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

1. Have you studied research on the performance of diverse managers?
2. How many asset management firms are currently in your database? What is the breakdown by asset class?
3. 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?
4. 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?

continues on next page...

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

If you have any questions about our inquiry, please don't hesitate to be in touch.

Thank you for taking the time.

Sincerely,

[YOUR NAME(S), POSITION(S)]

APPENDIX 5

Sample Social Media Toolkit

Hashtags

#diverseassetmanagers
#managerdiversity
#DEI
#assetmanagers
#moneymanagers

Key Twitter Handles

Gather key Twitter handles from your institution's representatives, including board members, trustees, president, CIO, and CFO, as well as partners.

To get you started, here are a few partner handles:

@DAMInitiative, DAMI
@NAICPE, National Association of Investment Companies
@AmalgamatedBank, Amalgamated Bank
@AFSCME, American Federation of State, County, and Municipal Employees
@AFTunion, American Federation of Teachers
@Exelon, Exelon Corporation
@knightfdn, Knight Foundation
@RGandAssoc, RG+Associates
@SEIU, Service Employees International Union
@siliconvalleycf, Silicon Valley Community Foundation
@AAInvestment, The Association of Asian American Investment Managers
@ABFE, Association of Black Foundation Executives
@naaonline, New America Alliance
@NASPHQ, National Association of Securities Professionals

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Sample Tweets

We are excited to announce our efforts to increase #managerdiversity. Learn more by visiting: [link to institution website/announcement]

#DYK companies in top quartile of racial/ethnic & gender #diversity were 35% more likely to have above median financial returns? More here [link] #diverseassetmanagers

Investment in #diverse #moneymanagers is plain, smart business. Proud to announce our commitment to #managerdiversity. Learn more [link]

Sample Facebook Posts

We are excited to announce our commitment to increasing the racial/ethnic and gender diversity of the asset managers we utilize to manage our funds. Research studies demonstrate the benefit of diversity in achieving higher average returns. Learn more about our efforts here [link].

We are proud to announce our commitment to increasing the racial/ethnic and gender diversity among our asset managers, recognizing the benefit to the performance of our funds. Studies have shown that investment with diverse asset managers is plain, smart business. Learn more here [link].

ENDNOTES

Fulfilling Your Fiduciary Obligations: How a Commitment to Diversity Can Generate Better Returns

1. Hunt, Layton, & Prince. "Why Diversity Matters."
2. Erhardt, Werbel, & Shrader. "Board of Director Diversity and Firm Financial Performance," p.102-111.
3. Shiller, "Challenging the Crowd in Whispers, Not Shouts."
4. Levine, Apfelbaum, Bernard, Bartelt, Zajac, & Stark. "Ethnic Diversity Deflates Price Bubbles."
5. Levine, Apfelbaum, Bernard, Bartelt, Zajac, & Stark. "Ethnic Diversity Deflates Price Bubbles."
6. 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.
7. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 10.
8. Doug Brown, Chief Investment Officer of Exelon Corporation, telephone interview by the author, January 22, 2016.
9. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 4.

STEP 1: Understanding the Current State of Your Institution

10. Juan Martinez, Chief Investment Officer of the John S. and James L. Knight Foundation, telephone interview by the author, January 25, 2016.

STEP 2: Building Support from Trustee, Board, and Staff Leadership

11. White Jr. & ABFE, "Who Manages the Money? A Case Study of the W.K. Kellogg Foundation," p. 7.
12. Theresa Taylor, CalPERS Board Member, telephone interview by author, February 29, 2016.
13. Theresa Taylor, CalPERS Board Member, telephone interview by author, February 29, 2016.
14. Carson & Miller, "Investment Manager Diversity: The Hardest Taboo to Break," p.3.
15. Unless otherwise noted, information in the following section is drawn from: Groom Law Group. Benefits Brief: DOL Announces New Guidance on Social Investments. October 2015. Available at *http://www.groom.com/media/publication/1638_DOL_Announces_New_Guidance_on_Social_Investments.pdf*

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*

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.

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.

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.

COMMON FAQ

47. Whyte, “Asset Management’s Jackie Robinson Moment.”

48. White Jr. & ABFE, “Who Manages the Money? A Case Study of the W.K. Kellogg Foundation,” p. 4-5.

49. White Jr. & ABFE, “Who Manages the Money? A Case Study of the W.K. Kellogg Foundation,” p. 7.

50. Shiller, “Challenger the Crowd in Whispers, Not Shouts.”

51. NAIC & KPMG. “Recognizing the Results.”

52. Macfarlane, “Vista Tops Global Private Equity Rankings.”

53. CalPERS, “Emerging Manager Five-Year Plan: Pathway to the Future,” p. 2.

CASE STUDY: JOHN S. AND JAMES L. KNIGHT FOUNDATION

54. Unless otherwise noted, information in the following section is drawn from: Juan Martinez, Chief Investment Officer of the John S. and James L. Knight Foundation, telephone interview by the author, January 25, 2016.

55. Whyte, "Asset Management's Jackie Robinson Moment."

CASE STUDY: NEW YORK CITY COMPTROLLER'S OFFICE

56. Unless otherwise noted, information in the following section is drawn from: 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.

57. Provided by the Office of the New York City Comptroller.

58. Provided by the Office of the New York City Comptroller.

CASE STUDY: EXELON CORPORATION

59. Unless otherwise noted, information in the following section is drawn from: Doug Brown, Chief Investment Officer of Exelon Corporation, telephone interview by the author, January 22, 2016.

CASE STUDY: STATE OF ILLINOIS

60. Unless otherwise noted, information in the following section is drawn from: Illinois State Senator Kwame Raoul, telephone interview by the author, December 16, 2015.

61. Provided by Illinois State Senator Kwame Raoul.

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You can learn more about DAMI by visiting:
www.diverseassetmanagers.org.

This guide is available online at:
http://diverseassetmanagers.org/fiduciaryguide.

DIVERSE ASSET MANAGERS INITIATIVE