National Association of Investment Companies

The Largest Network of Diverse-Owned
Private Equity Firms and Hedge Funds

1300 Pennsylvania Avenue, NW, Suite 700
Washington, DC 20004

June 14, 2019

Chairwoman Maxine Waters (D-CA)
U.S. House Committee on Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Maxine Waters,

I am writing to you on behalf of the members of the National Association of Investment Companies (NAIC), the industry association which represents diverse-owned private equity and hedge funds with over US$110 billion under management in the aggregate. We would like to provide the statement below for the hearing to be convened on June 26, 2019 by the Subcommittee on Diversity and Inclusion entitled, "Diverse Asset Managers: Challenges, Solutions and Opportunities for Inclusion."

The National Association of Investment Companies (NAIC) continues to be concerned about the disproportionately lower level of federal, public, and private assets allocated to diverse managers versus their peers despite their documented outperformance. We believe diverse-owned firms lack access to manage funds for the U.S. federal government, state and local pension plans, and other institutional investors (endowments, foundations, corporate pension plans, insurance companies, banks, etc.), at a time when these managers collectively represent the best performing segments of the asset management industry.

The lack of investment with diverse firms is not because of a dearth of established diverse managers or because diverse managers have not demonstrated superior performance. Successful investing tends to come from manager selection, and today there are many diverse-managed firms that are generating top quartile and decile returns. The enclosed 2017 performance study by KPMG and Aon Hewitt, *Examining the Returns*, reported that Diverse Private Equity funds outperformed the median Cambridge U.S. Private Equity funds benchmark during a majority of vintage years by over five percent. The total assets for all federal pension plans exceeds one trillion dollars. Despite the high performance of diverse-owned managers, the federal government invests less than one quarter of one percent of its assets with diverse- and women-owned firms.

Over the last several decades, there has been significant growth in the number of diverse investment managers. There are nearly 900 diverse-owned private equity, real estate, hedge, and infrastructure funds, and there has been an emergence of large, established diverse managers. Seven NAIC members – Advent Capital Management, Brightwood Capital, Clearlake Capital Group, Palladium Equity Partners, Siris Capital Group, Sycamore Partners, and Vista Equity

Partners – each have billions of dollars of assets under management and over $90 billion of private equity and hedge fund assets in the aggregate.

In 2014, the #1 ranked private equity firm in the global HEC-Dow Jones Private Equity Performance Ranking was Vista Equity Partners. Additionally, since 2014, 17 diverse-owned firms set out to raise capital for funds and managed to reach oversubscribed levels for 26 funds, which we believe signals changes in the way institutions invest their money while demonstrating the strong returns many of these managers are providing their investors.

For the last five years, we have enjoyed working with Congresswoman Maxine Waters and Congressman Gregory W. Meeks, to address the disparity diverse-owned funds have in managing federal and public assets. In July 2014, NAIC, along with the National Association of Securities Professionals (NASP) and the New America Alliance (NAA), hosted the first-ever Federal Chief Investment Officer (CIO) Briefing, where we provided an introduction to the emerging and diverse manager marketplace and explored the topic of the underutilization of emerging and diverse managers. Although we invited each of the 11 major Federal agency Chief Investment Officers (CIOs) to participate, only two attended: William G. Clark, SVP and CIO of the Federal Reserve System's Office of Employee Benefits; and John F. Greenberg, CIO of the Pension Benefit Guaranty Corporation (PBGC).

Following that briefing, in September 2014, I attended a meeting held at The White House, along with Secretaries Jack Lew and Thomas Perez, Senators Elizabeth Warren and Cory Booker, Representatives Maxine Waters and Gregory W. Meeks, Jeffrey Zients, the National Economic Council Director; and others where the topic of how the federal government could increase the returns of its pension plans by addressing the underutilization of diverse and emerging managers was discussed.

In July 2015, Senator Cory Booker, Congressman Gregory W. Meeks, Senator Elizabeth Warren, and Congresswoman Maxine Waters hosted a Federal CIO briefing to discuss the utilization of diverse-owned asset managers by the various federal pension plans and pools of investment capital, which NAIC supported. Broderick Johnson, Assistant to President Obama and Cabinet Secretary, spoke during the briefing, and expressed President Obama's and his cabinet's continuing support on the issue. Johnson also reflected on actions taken by President Obama's administration, including the prior year's summit, the creation of a pilot program for smaller managers at PBGC, outreach to the various plans regarding their exposure and efforts, and finally the consideration of the inclusion of diverse firms in the Thrift Savings Plan open window enrollment.

Several representatives from federal agency plans attended the July 2015 meeting, and spoke on the Federal CIO panel, including William Clarke, Federal Reserve Employee Benefits System; Ravindra Deo, Federal Thrift Investment Board; Renee Wilder, Federal Thrift Investment Board; and Joseph Jordan, Army Navy Exchange. Michael Kennedy, Chairman of the Federal Thrift, provided additional comments, and John Greenberg, CIO of the PBGC, had committed to participate but was unable to due to an active RFP for the PBGC pilot program. We were disappointed that many of the Federal agency CIOs declined the Congressional members' invitation to participate. A key finding from the Federal CIO panel was that continued education, advocacy, and outreach are needed to eradicate the lack of investment with diverse asset managers.

Following the briefing, NAIC received notice that the Government Accountability Office (GAO) would be conducting a study on "The Barriers to Utilization for Diverse Managers," with an objective to establish a definitive set of facts, outlining the lack of use of diverse managers, the inapplicability of the Federal Acquisition Regulation (FAR), the barriers to entry, and data on utilization, etc. NAIC had several discussions with the GAO to facilitate the study. The September 2017 GAO study, *Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers*, highlighted that diverse- and women-owned asset managers face challenges when competing for investment management opportunities with institutional investors and raised questions about how often federal entities use diverse asset managers and the transparency of their selection processes.

The White House summit in 2014, the Federal CIO briefings in 2014 and 2015, and the 2017 GAO study have helped to foster a dialogue regarding the lack of diversity across the federal agency pension plans and other public pools of capital, but we believe more actions can and should be taken to provide diverse investment managers with fair and equal consideration for access to manage capital. We propose the following actions for the federal and public pension investment plans:

- **Legislative Action**: Legislation should be enacted that requires all pools of capital to become more inclusive; from the composition of their board of trustees, investment staff, as well as the capital allocated to diverse-owned firms.
- **Targeted Allocation**: On a best efforts basis, there should be requirements that at least 10% of all capital must be invested with diverse managers.
- **Appointments**: When there is an opportunity to appoint trustees and board members, consideration should be given to those with a more inclusive approach.
- **Congressional hearings**: On an annual basis, all of the CIOs should be required to brief the respective Senate and House Finance Committees on their investment with diverse-owned managers.
- **The Rooney Rule**: The Rooney Rule should be required establishing that all investment mandates must consider at least one diverse-owned manager before placing capital.
- **What Gets Measured Gets Done**: Each plan should publish a list of diverse managers that they met with on a quarterly basis and the resulting outcome of the meeting (hire/non-hire and why).
- **Data Requests**: Investment consultants and advisors to the federal and public plans should be required to report on the diversity of their management and investment staff and the diversity of the managers they have approved for their clients' investments.

Sincerely,

Robert L. Greene

President & CEO