Foundations and Endowments Specialty Practice

Seeking manager diversity

Why nonprofits are reassessing their asset manager lineup

Nonprofits find themselves at the vanguard of a critical effort to foster greater diversity. According to a 2019 study conducted by NonprofitHR, more than half (52%) of all nonprofits have developed a formal *diversity statement*, with nearly a third of all firms (31%) also backing those statements up with an actionable diversity strategy.[1]

More and more, foundations, endowments and other nonprofits are letting go of the antiquated belief that somehow maximizing your organization's investment performance and championing investment manager diversity are conflicting or mutually exclusive goals. There's a growing consensus, backed by data, which demonstrates that it's clearly in the fiduciary best interest of trustees, nonprofit boards and those who manage their funds, to address this issue of diversity in asset management.

Over the past few years, many nonprofits have undertaken efforts to implement Emerging Manager programs to afford greater opportunities for new and smaller asset management firms. And while it's certainly true that one of the major barriers to entry in the foundation and endowment space for diverse managers is often their inability to meet minimum AUM requirements, there's no guarantee that emerging manager programs alone will do anything to substantially enhance the racial or gender diversity composition of your organization's asset managers.

Defining manager diversity

Much like assessing ESG factors, each nonprofit will have its own particular take on the metrics and scoring that define "diversity" for their organization. But for purposes of creating a baseline definition, the industry has generally settled on two basic diversity thresholds:

- Substantially diverse – asset managers that are anywhere from 25-49% women or minority owned
- Majority diverse – asset managers with 50% or greater women or minority ownership

This isn't, however, just a nonprofit issue. Rather, it's a systemic issue throughout the asset management industry. In total, women- and minority-owned firms oversee a mere 1.3% of the massive $69 trillion U.S. asset management industry. And it's one of the chief reasons why Congressional reps Cleaver and

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Comparative Performance*			
Asset Class	Women-Owned	Minority-Owned	Non-Diverse Owned
Mutual Funds	2.33%	2.37%	2.21%
Hedge Funds	0.59%	0.72	0.54%

**Unadjusted monthly returns*

Mutual Fund analysis based on eVestment data from 2011-2017; Hedge Fund analysis based on Hedge Fund Research data from 2005-2018. Analysis published by Knight Foundation, "Diversifying Investments," January 2019.

Kennedy recently sent letters to 25 colleges and universities managing the country's largest endowments, demanding fuller disclosure around their use of diverse-owned asset management firms.

At the beginning of 2018, a total of 638 mutual funds qualified as women-owned (338 with substantial female ownership and 300 with majority female ownership). Another 467 mutual funds qualified as minority-owned (52 funds with substantial minority ownership and 415 funds with majority minority ownership). Together, these comprise just 9.4% of all funds on the market; and even more problematic, they manage less than 1.5% of all fund assets. A similar scenario plays out in the hedge fund market, where women - and minority-owned hedge funds together control less than 1 percent of the total industry AUM.[2]

Yet as the table above indicates, when assessing both unadjusted and risk-adjusted returns, there is absolutely no performance drop-off by either women-owned or minorityowned managers. In fact, there's actually a small but measurable uptick in performance when compared to their non-diverse peers. And both mutual funds and hedge funds managed by diverse-owned firms are overrepresented in the top-performing quartile.

Slowly but steadily, larger nonprofits are taking the reins and making progress on this front. In fact, the fifty largest foundations in the U.S. have placed approximately $8.6 billion (13.5% of their assets) with women-owned and minority-owned firms.[3]

"We believe outperforming requires identifying new areas of opportunity, while being able to anticipate risks that might arise as global demographics shift. Investment professionals with diverse perspectives will have a competitive advantage on both these fronts."

Carnegie Corporation of New York

Future drivers of asset manager diversity

Not only are Millennials comprising a growing proportion of your organization's workforce, they are becoming increasingly important charitable donors and philanthropic benefactors – the individuals who will support your important mission in the years to come. During the past decade, much has been written about the estimated $68 trillion in wealth which will transition from baby boomer parents to their Millennial children. That period is now finally upon us, with an expected peak of $2.5 - $3.0 trillion transferring across generations each year between 2025 and 2045.[4]

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For many in this younger generation, social justice issues are both a passion and an essential aspect of how they perceive themselves. Whether it's seeking out socially responsible, strong ESG investments, evaluating potential employers that they can enthusiastically engage with, or identifying charitable organizations they wish to support, your nonprofit's demonstrated commitment to diversity will be essential in attracting Millennials over the coming years.

Manager diversity in action

- At the beginning of 2014, the Silicon Valley Community Foundation (SVCF) implemented an investment manager diversity program. From a starting point of three women- and/or minority-owned asset managers overseeing $52MM, they've been able to expand to sixteen diverse-owned firms managing more than $218MM (20% of their non-cash assets) at the end of 2019.[5]

- Based on diversity goals first laid out in 2015, the University of California endowment (UC Investments) has grown the number of substantially or majority diverse asset managers to 33% of their total partners; with diverse firms managing 20% of their externally managed assets.[6]

- Today, resulting from a decade of board education, debate, discussion, and investment policy changes, close to 36 percent (more than $47MM) of the Winthrop Rockefeller Foundation's endowment is mission aligned and invested with firms led by people of color or women.[7]

Best practices in building manager diversity

Nonprofits who are interested in creating a more formalized and structured diverse manager initiative should consider undertaking the following best practices:

1. Establish a minimum percentage of the portfolio that will be allocated to firms which are substantially or majority diverse;
2. Incorporate specific language into your Investment Policy Statement regarding Manager Diversity; and
3. When identifying a new asset class manager, encourage your investment provider to include at least two firms that are substantially or majority diverse in the search process.

At Truist, we're strongly committed to delivering increased access to diverse managers based on our core beliefs that: performance matters; by engaging diverse individuals and teams, we improve decision making and ultimately investment outcomes; and increased access to capital for diverse fund managers will help level the playing field and provide ongoing growth opportunities

1 NonprofitHR: 2019 Nonprofit Diversity Practices Survey
2 Professor Josh Lerner, Harvard Business School and Bella Research Group, "Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry," January 2019
3 Chronicle of Philanthropy, February 2020
4 Accenture, "The Greater Wealth Transfer," 2016
5 Silicon Valley Community Foundation, Investment Manager Diversity Progress Report, January 2020
6 University of California Diversity Report, December 2019
7 Stanford Social Innovation Review, March 2019

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About Truist's Foundations and Endowments Specialty Practice

With a 35-year singular focus on working with nonprofit organizations, fiduciary stewardship lies at the heart of our culture. We are not merely a provider for our clients; we are an invested partner, sharing responsibility for the prudent management of your assets. Our institutional teams include professionals with extensive nonprofit expertise, who are actively engaged in the community, and able to share best practices that are meaningful to your organization.

Our practice delivers comprehensive investment advisory, administration, planned giving, custody, trust and fiduciary services to over 1,100 not-for-profits, and we administer more than $32 billion in assets for trade associations, educational institutions, foundations, endowments and other nonprofit clients.*

* As of December 31, 2020

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