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Consultants Tout Diversity Work, but Workforces Remain White

By Aziza Kasumov

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Institutional consultants are stepping up efforts to help asset owners find diverse asset managers, but their own workforces remain disproportionally white and male.
The **Diverse Asset Manager Initiative** (DAMI) published a report this week that shows that, of the nine consultants who chose to participate, most did not come close to mirroring the general population's racial makeup. The exception was **Colonial Consulting**, whose consulting and research staff was slightly less white than the overall U.S. population. None of the consulting firms that participated had any Native American employees on their consulting and research staff. Latino and Hispanics, too, were severely underrepresented among research and consulting teams.

DAMI reached out to 35 investment consulting firms in total for its study. All but nine declined to participate, which means data from some of the largest consulting firms, like Mercer, Aon and Willis Towers Watson, is missing from the sample.

"When the firm consists mostly of white people, the inclination is going to be to go with what you know," says **Justin Wilson**, director at **The Raben Group**, which launched DAMI.

For clients, seeing diversity at the consulting or outsourced CIO (OCIO) level is becoming increasingly important.

Investment committees that want diversity at the asset manager level have started to ask, "where's the diversity at the OCIO level, in the presenters, in the leadership of the firm?" says **Brad Alford**, founder and principal of search firm Alpha Capital Management. Bringing in three white men or one person of color who doesn't end up speaking for the entirety of the final presentation isn't cutting it with clients who want a diverse team, Alford adds.

Yet even a more diverse research and consulting team might not be enough, given that of the $69 trillion in professionally managed global institutional assets, only 1.3% are overseen by women and minority owned firms, according to a 2019 study from the **Knight Foundation**.

"Having a diverse set of asset allocators is a necessary but insufficient condition to reducing the biases that are present in reinforcing the number of 1.3%," says **Daryn Dodson**, managing director at **Illumen Capital**. His firm, in a study conducted with professors at Stanford University and released last year, found that there are additional barriers to closing the gap. For one, high-performing black venture capital managers are, all else equal, rated lower than their white counterparts by institutional investors, as reported. The researchers looked at other asset classes too and found similar results, Dodson notes.

“If we don’t also attack the bias in the system and reduce it, then we won’t make progress on that ultimate number,” Dodson says.

Some consultants are taking measures to address the lack of diverse managers in institutional portfolios. All the firms that participated in the DAMI study said they had implemented a diverse manager program and had discussed diversity in asset management with clients. Furthermore, all firms said they had clients with diverse asset manager mandates, and that they attended diverse conferences around the country to source new managers.

But consultants need to follow through to move the needle.

“Rhetoric is important, talking about the work they’ve done brings transparency to the field,” says Wilson. “But again, ‘allocations’ is the name of the game at the end of the day.”

To get there, some consultants have set themselves specific diversity goals to work toward. NEPC, for instance, announced last year that, by the end of 2021, the firm plans to have strategies by women, minority, veteran or disabled owned firms represent 10% of its best-rated strategies, as reported.

Especially in the otherwise data-driven asset management industry, some are perplexed as to why goal setting around diversity hasn’t seen broader adaption.

“We are accountable around numbers … either you outperformed or not, it’s clear as a bell,” **Mellody Hobson**, co-CEO and president of **Ariel Investments**, said during a fireside chat on diversity hosted by NEPC last month. With diversity goals, that’s often not the case, she noted. A simple “we’re working on it” is seen as enough.

“I would want us to hold ourselves more accountable for the outcomes the way we hold ourselves more accountable for all the other outcomes,” Hobson said.

In the foundation world, that approach is more prevalent. Organizations such as the $3.6 billion **Kresge Foundation** have set specific asset allocation goals for diverse managers, as reported.

That could be one reason why, among the largest U.S. foundations, allocations to diverse managers tend to be much higher — 13.9% compared to the 1.3% global institutional average, a study released Wednesday by the **Knight Foundation** found.

The study collected data from 26 out of the 50 largest U.S. foundations. Researchers, however, were limited to analyzing only parts of the portfolio. They were reliant on data provided by the foundation or released publicly, which did not capture the total portfolio makeup. Researchers also only focused on U.S. funds and managers.

“It would be great if there was more transparency with regards to this data,” says **Juan Martinez**, CFO at the $2.3 billion Knight Foundation, which had 45.9% of its analyzed assets, which amounted to $1.76 billion, invested in diverse managers. Yet despite the gaps, Martinez says the findings still are “indicative of the … desire of this sector to address the diversity issue.”

The Knight Foundation had the highest allocation out of all respondents, but others followed closely. The **Robert Wood Johnson Foundation**, for instance, about half of whose $11.4 billion endowment was analyzed, had allocated 26.6% to diverse firms. **Casey Family Programs**, which had half of its $2.4 billion portfolio analyzed, scored 35.3%.

On the other hand, however, some foundations, including the $3.3 billion **Robert W. Woodruff Foundation** and the $4.5 billion **Tulsa Community Foundation**, were unable to mark a single diverse manager in their analyzed asset pool.

Contact the reporter on this story at akasumov@fundfire.com or (212) 542-1209.