

Congress of the United States
Washington, D.C. 20515

December 15, 2022

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

Diversity within the asset management industry is not only a matter of fairness for professionals in the financial services sector, but it has wide-ranging impacts on the millions of Americans whose \$115 trillion are under management.¹ It has long been documented that minority- and women-owned (MWO) asset management firms perform as well as their peers, yet nearly 99% of assets continue to be managed by White, male led firms.² Despite congressional and administrative efforts to address the disparities that limit opportunities for MWO asset managers, there has been little to no progress made over the last decade.

In 2017, the House Committee on Financial Services gathered pension-fund administrators to better understand why so few MWO firms were managing federal assets.³ Following that meeting, Members of Congress asked the Government Accountability Office (GAO) to investigate disparities in how federal institutional investors were managing their assets and offer recommendations to Congress and federal entities to address these disparities. At the time, less than 1% of the \$70 trillion managed by asset firms was managed by MWO firms.⁴ Four years later, little demonstrable progress has been made, with only 1.4% of assets managed by diverse-owned firms in 2021.⁵

The GAO released its findings⁶ to the public on September 13, 2017 and identified four practices federal institutional investors can use to increase opportunities for MWO asset managers:

(1) demonstrated commitment from top leaders to increasing opportunities for MWO firms; (2) reviewing investment policies and practices to remove barriers to smaller, newer firms; (3) outreach to MWO asset managers about investment opportunities and selection processes; and (4) explicit communication and verified execution of inclusive practices to investment staff and consultants. In this investigation, the GAO looked into eight federal entities and found that four

¹ Baghai, Pooneh, et al. "Crossing the Horizon: North American Asset Management in the 2020s." *McKinsey & Company*, McKinsey & Company, 8 Oct. 2021, <https://www.mckinsey.com/industries/financial-services/our-insights/crossing-the-horizon-north-american-asset-management-in-the-2020s-> ||

² Knight Foundation. "Knight Diversity of Asset Managers Research Series: Industry." <https://knightfoundation.org/reports/knight-diversity-of-asset-managers-research-series-industry/>

³ "Waters, Meeks, Booker, Warren Host Groundbreaking Summit to Address Diversity among Federal Asset Managers." *U.S. House Committee on Financial Services*, 9 July 2015, <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=399230>.

⁴ Government Accountability Office. "Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers." 13 Sept. 2017, <https://www.gao.gov/assets/gao-17-726.pdf>.

⁵ *Knight Diversity of Asset Managers Research Series: Industry*. Knight Foundation, 7 Dec. 2021, <https://knightfoundation.org/reports/knight-diversity-of-asset-managers-research-series-industry/>.

⁶ Government Accountability Office. "Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers." 13 Sept. 2017, <https://www.gao.gov/assets/gao-17-726.pdf>.

of them could use improvement in some or all categories⁷. Implementing the four key practices could widen the pool of candidates and help ensure that they find the most qualified firms. They also determined that MWO firms face challenges when competing for investment management opportunities since many institutional investors prefer large, familiar managers with brand recognition and MWO firms often don't meet size and past experience requirements.

Last December, the House Committee on Financial Services released a report that analyzed the diversity and inclusion practices of 31 of the largest investment firms.⁸ The report found in 2016 only 25% of executive positions were held by women and 14.1% were held by people of color. Three years later in 2019, these numbers only increased by 1.2% and 1.5%, respectively. After George Floyd's murder in May of 2020, 25 of the 31 firms made public commitments to advancing racial equity. However, in 2020 people of color made up just 17.6% of executives – one percentage point more than 2019. Specifically, the share of Latino and Black executives increased by just 0.2% and 0.4%, respectively.

Given that women and people of color make up about 70% of the US population as of 2018,⁹ there is a distinct underrepresentation of minorities and women in the asset management industry. All of these statistics show negligible progress over the past five years. The landscape of the asset management industry has not changed enough. We request that the GAO provide a comprehensive update to their 2017 and 2021 studies,¹⁰ with a focus on new metrics to assess efforts to reduce disparities in the asset management industry.

In response to the SEC's Asset Management Advisory Committee, Subcommittee on Diversity and Inclusion's recommendations, the U.S. Securities and Exchange Commission (SEC), published an FAQ that clarifies an adviser's fiduciary duty. An investment adviser that recommends other investment advisers to or selects other advisers for its clients, may consider factors relating to diversity and inclusion, provided that the use of such factors is consistent with a client's objectives, the scope of the relationship, and the adviser's disclosures. The FAQ also clarifies that an adviser's fiduciary duty does not mandate restricting such a recommendation or selection to investment advisers with certain specified characteristics, such as a minimum amount of assets under management or a minimum length of track record.

The above developments are an important step forward, but there is much left to be addressed with disparities in asset management, making it imperative that the GAO update their 2017 report and provide recommendations for how to proceed. In particular, we request that the GAO conduct a study on:

1. The major asset classes in which selected federal entities invest;
2. The use of MWO firms, with a breakdown by race, ethnicity, and gender;
3. Data available to and used by the federal entities that could inform their use of diverse asset managers, such as demographic data on the ownership, workforce, and executive leadership of the firms;

⁷ Entities needing revision: Army and Air Force Exchange Service, Navy Exchange Service Command, Tennessee Valley Authority Retirement System, and Federal Retirement Thrift Investment Board (Thrift). All agreed to implement the key practices except for Thrift.

⁸ The US House Committee on Financial Services issued the report titled "Diversity and Inclusion: Holding America's Largest Investment Firms Accountable". They found that women made up 25% of executives in 2016, 26.2% in 2019, and 27.5% in 2020. People of color made up 14.1% of executives in 2016, 16.6% in 2019, and 17.6% in 2020. In 2019, 3% of executives were Latino and in 2021 3.2% were Latino. Black people made up 3% of executives in 2019 and 3.4% in 2020.

⁹ "Diversity in Asset Management: Research and Practice." *Mission Investors Exchange*, Oct. 2019, <https://missioninvestors.org/resources/diversity-asset-management-research-and-practice>.

¹⁰ The GAO published a report in 2017 looking at asset management disparities and a 2021 update report.

4. Processes federal entities use to make investment decisions and the extent to which the processes incorporate leading diversity practices or are part of a broader diversity, inclusion and equity strategy, including the diversity of fund adviser selection committees;
5. The policies and processes selected federal entities use to increase opportunities for MWO asset managers; and
6. Best practices to align metrics across selected agencies and establish accountability measures for the utilization of MWO asset managers.

In addition, we request the GAO evaluate the following recommendations for improving diversity and inclusion: ¹¹

1. Investment committees or the committee that selects the asset manager having at least one person of color and at least one woman as a member;
2. Requiring investment advisers in their reporting to the federal institutional investors to provide enhanced data including demographic data within these asset management firms and across the funds that are employed by these investment companies;
3. Requiring asset management consultants, if employed, to describe their material business practices relevant to an investor's assessment of race, ethnicity, and gender diversity and inclusion; and their commitment to conflict-of-interest disclosures; and
4. Updating and/or clarifying fiduciary responsibilities for institutional investors as related to the consideration of diversity and inclusion, to highlight that a wide variety of factors may be considered by fiduciaries in their selection of asset management firms and that fulfillment of one's fiduciary duty in the context of diverse asset managers does not require automatic exclusion of asset managers who are newer to the industry or do not already have a certain level of AUM.

Thank you for your consideration of this critical matter that would provide opportunities for MWO asset managers to have a seat at the table.

Sincerely,

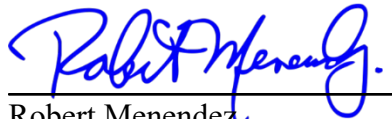
¹¹ Some recommendations were derived from: Garcia, Gilbert et. al. SEC Asset Management Advisory Committee - Subcommittee on Diversity and Inclusion, "Recommendations for Consideration by the AMAC on July 7, 2021". <https://www.sec.gov/files/amac-recommendations-di-subcommittee-070721.pdf>



Maxine Waters
Chairwoman, Committee on
Financial Services



Cory A. Booker
United States Senator



Robert Menendez
United States Senator



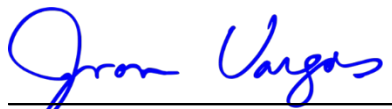
Ben Ray Luján
United States Senator



Tim Kaine
United States Senator



Patty Murray
United States Senator



Juan Vargas
Member of Congress



Al Lawson
Member of Congress



Alma S. Adams, Ph.D.
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Nikema Williams
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Al Green
Member of Congress
Chair, Subcommittee on
Oversight and Investigations