



## Consultants Spoke Out Against Racism. But Will Actions Follow?

By Aziza Kasumov June 15, 2020

The recent killings of **George Floyd** and **Breonna Taylor** at the hands of police have forced a renewed reckoning across American society, and many corporate leaders spanning the economic landscape were quick to come out with statements. Most investment consultants, which have a distinct say in who gets to manage trillions in institutional dollars, have weighed in as well, condemning racism, pledging to listen, and calling for betterment.

But are consultants' statements backed up by actionable change to make their own firms more inclusive, and increase the recommendations for black and other minority-owned asset managers? *FundFire* reached out to 19 of the most prominent names in investment consulting, and all but one – **Colonial Consulting** – responded.

In their responses, most consultants pointed to diversity and inclusion efforts they already had in place and often did not cite specific additional steps they are taking in response to society-wide discussions over racism in the U.S. Most said they remain committed to or are reviewing their existing strategies.

“A lot of people are releasing public statements to kind of follow the trend... they just want to acquiesce to the questioning for as long as they can, and then go back to the status quo,” says **Justin Wilson**, director at **The Raben Group**, which launched the **Diverse Asset Managers Initiative** (DAMI). “But for communities of color, this isn't a ‘moment’ for us, these are the lives that we've been living. People are pushing on people to do something about it, and I hope the financial industry gets caught up in that wave and makes some changes.”

DAMI released a survey on diversity in the investment consulting world earlier this year, which showed that among the nine firms out of 35 firms agreeing to participate, most did not come close to mirroring the demographic makeup of the general population, as reported. The lack of diversity in the consulting community, industry professionals say, directly affects the dramatically low number of institutional assets allocated to women- and minority-owned asset managers, which stands around 1.3%, according to the Knight Foundation.

Some consulting firms have surpassed that industry average percentage in their asset allocations, although many either say they do not track or do not publicly disclose that number. *FundFire* asked all of the 19 consultants to share the percentage of client assets that were invested with diverse firms, as well as the percentage of client assets invested with black-owned firms. Nine consultants provided the percentage of assets allocated to diverse firms, and four also provided the percentage for black-owned firms.

Some of the largest consulting firms, including Willis Towers Watson, Aon and Mercer, did not disclose either number. Hamilton Lane, **Prime Buchholz**, Fund Evaluation Group, Callan, SEI and Russell Investments also did not disclose their percentage breakdowns. Some of those companies provided the number of diverse manager-run strategies in their recommended list but did not share the asset size or percentage of actual allocations.

Consultants disclosing their allocations presented numbers varying from 9.5% of client assets allocated to diverse-owned firms at Angeles Investment Advisors to 0.8% at RVK. Angeles excluded defined-contribution clients from its calculation and included both diverse-led and diverse-owned firms, while all other consultants only counted diverse-owned managers.

Overall, most consultants who responded were allocating somewhere between 1.5% and 5% of client assets to diverse firms – more than the industry average of 1.3%, but still a low number given the demographics of the U.S. population. Segal Marco Advisors had the highest allocation to black-owned firms among firms disclosing that statistic, at 2.8% of client assets.

### Not There Yet

Investment consultants that disclosed the percentage of their client assets allocated to diverse managers mostly reported numbers higher than the percentage of overall industry assets minority- and women-owned managers oversee.

Investment consultant	% of client assets allocated to diverse managers	% of client assets allocated to black managers
Angeles Investment Advisors	9.5%	not disclosed
Cambridge Associates	5.0%	not disclosed
Marquette Associates	4.2%	not disclosed
Meketa Investment Group	5.0%	2.5%
NEPC	2.2%	not disclosed
RVK	0.8%	not disclosed
Segal Marco Advisors	4.0%	2.8%
Verus	1.7%	0.1%
Wilshire Associates	1.8%	1.1%

*\*Note: Most consultants define diverse managers as firms with at least 50% women or minority ownership, often also including disabled persons and/or veterans. Cambridge Associates used 33% as the cut off, and Verus 30%. Angeles Investment Advisors excluded defined-contribution clients and uncalled private capital, but included women- or minority-led firms. Some percentages were submitted as rounded numbers.*

*Source: FundFire survey of investment consultants*

Close to 40% of the U.S. population is non-white, and 13.4% is African-American, according to 2019 data from the Census Bureau.

“That 2.8% by black firms – as sad as it is to say – it’s progress,” says Wilson. “It’s not what I want to see, it’s pretty bad, it’s bleak, but it’s something, and you do have to give some prudence to progress being incremental.” He added that getting consultants to even disclose those numbers is a win.

Many consultants have put plans in place to address these gaps. NEPC, for instance, wants diverse managers to make up 10% of its recommended list by the end of next year, as reported, and Cambridge Associates wants to double the amount of diverse managers in client portfolios, as well as the funding they receive, in the next five years.

While none of the contacted consultants expanded on those allocation goals since the national outrage over renewed police violence and racism swept the country, a handful have added other actions to become more diverse internally.

Meketa Investment Group, for instance, is adding unconscious bias and diversity and inclusion training, making it an annual requirement for all employees. The firm is also setting up a library of books and podcasts for employees about the history of race relations in the U.S., the contents of which “management will be strongly encouraging all employees be familiar with.” The consultant also said it will enhance its internship program, develop a formal diversity-focused mentorship program, and improve recruitment at traditionally black colleges.

Russell Investments shared similar plans, with the firm adding formal sessions on preventing racism to existing anti-bias and anti-harassment training. The company also plans on hosting a series of fireside chats dubbed ‘I want to understand,’ which will focus on racial prejudice and injustices in the black community, in addition to beefing up recruiting tactics.

Anti-bias training especially, industry professionals say, is key to boosting allocations to diverse managers. A study released last year by **Stanford SPARQ** and **Illumen Capital** found that black-led venture capital firms face higher levels of bias from institutional investors as their performance increases, as reported.

**Daryn Dodson**, managing director at Illumen Capital, says that the current circumstances might make the need for more bias-reduction work even more pressing.

“It is understood within the research field that, as [COVID-19] increases overall systemic anxiety within communities across the country, bias skyrockets, which means that the doors to black- and Latino- and people of color- and women-led funds are more likely to close than [pre-COVID-19],” Dodson says. He added that the uprisings, due to the killing of Floyd and the systematic killing of black people in America, further accelerated that.

Beyond some consultants deepening their bias-reduction-training, a few firms have reverted to turning to outside help, or their entire staff, for additional guidance.

Cambridge Associates said it was in the process of hiring an external expert to review its diversity and inclusion strategy. Commonfund, which is an outsourced CIO (OCIO) rather than an investment consultant (and not included in the count of 19), said it had distributed a survey among all employees “requesting their input and ideas on how we can improve diversity and inclusion” within the company.

Several consulting firms also have either donated to racial justice organizations, such as the **NAACP Legal Defense and Educational Fund** or **Black Lives Matter**, or have implemented matching programs for their employees’ donations.

Diversity and inclusion consultants say while the above items can be a component, companies need to do more if they want to demonstrate serious commitment.

“Some of these things can’t be quantified... if you put a library together, there’s no metric of success to see, ‘was it or was it not successful?’” says **Bradlee Benn**, a consultant and diversity and inclusion market co-lead for the Americas at Russell Reynolds Associates. “That’s a component,” he adds, but “companies need to be bold. They need to put some aggressive lines in the sand, and then track and measure against those.”

Elevating certain roles, such as that of the chief diversity officer, to the management committee, and setting goals for diversity in the board, operations committee or slate of managing directors, are examples of such actions, Benn says.

Industry watchdogs are also urging the consulting industry to do more.

“It’s not enough. Their internal commitments have clearly shown very little to no results, and that’s evident by the Knight Foundation study, by the anecdotal information you can get from any black and brown trade association,” says Wilson. “Their ‘diversity days’ and ‘we’re working on it’ is simply not enough.”

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