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The Honorable Emanuel Cleaver
United States House of Representatives
2335 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Joe Kennedy III
United States House of Representatives
304 Cannon House Office Building
Washington, D.C. 20515

Dear Representative Cleaver and Representative Kennedy:

Thank you for the opportunity to discuss Princeton University's efforts relating to diversity with respect to our asset managers. President Eisgruber has asked me to respond to your letter.

For 25 years, I have served as president of the Princeton University Investment Company (PRINCO), the University office responsible for investing Princeton's Endowment. I would be pleased to meet with you or your staff to go over some of the details in this letter or to provide additional information.

Endowment and the University's Mission

As president of PRINCO, my laser focus has been on contributing to Princeton University's teaching and research mission, and I am proud of the enormous benefits the Endowment's top percentile results over multiple decades has brought to the institution. Endowments are frequently mischaracterized as "rainy day funds" or "nest eggs," as if they are accumulations of resources to be used at some point in the future. To the contrary, our Endowment covers more than 60 percent of the University's annual operating budget and allows the institution to meet high priority capital needs. Because of our Endowment, we are able to offer world-class programs of scholarship and research in well-established as well as emerging fields, despite declining levels of federal support for these purposes, and we are able to provide exceptional educational opportunities at both the undergraduate and graduate levels while charging only a fraction of the actual cost even to those students who pay full tuition. At the undergraduate level, more than 60 percent of our students receive financial aid, and since 2001 we have provided that aid with no reliance on loans, so all of our undergraduates have the opportunity to graduate debt-free. In recent classes, more than 80 percent of them have.

For families earning up to $65,000, our financial aid package typically covers the full cost of tuition plus room and board. For the class of 2023, 100 percent of families with incomes up to

$180,000 qualified for financial aid, and we provide some aid for families with incomes up to about $250,000. With this level of need-based aid, we have been able to increase the percentage of our students receiving Pell grants from 7.2 percent in the Class of 2008 to 24 percent in the Class of 2023. At the graduate level, we guarantee funding for all of our regularly enrolled degree-seeking Ph.D. candidates for all years of regular program enrollment— this funding covers the full cost of tuition as well as a stipend. None of this would be possible without our strong Endowment.

We know that the COVID pandemic has and will continue to result in more students needing financial aid and increases in the amounts of existing financial aid packages. President Eisgruber has stated that we are fully committed to meeting these needs.

Investment Approach Overview

When evaluating any part of our work, including our continued efforts related to diversity, it is important to ground the discussion in the context of PRINCO'S unique approach. PRINCO'S portfolio is concentrated: We have fewer than 50 U.S. based relationships. I believe our success in investment returns is, in significant part, derived from such concentration – an approach which is quite different from that taken by most other institutional investors, such as pension funds. We started the vast majority of these relationships when the firms were new. We are typically the first, or among the first, institutional investors of each firm. A small roster and investing early enables us to work very closely with our managers and allows us to help guide them in their development. One drawback is that it is difficult to deploy large amounts of capital when the firm's total assets are still small. We therefore try to capture a large share of the firm's assets. We typically are the largest client, representing 10 percent or more of client assets, and it is not uncommon for us to be a quarter or more of client assets. This approach facilitates a partnership mindset in how the manager engages with us, and ultimately, as our account grows alongside the manager's own growth, we can deploy a larger share of the Endowment with the manager.

Commitment to Improving Diversity

PRINCO, like the rest of the University, embraces diversity and inclusion as a fundamental part of our mission and one of our top priorities. Among many critical reasons for focusing on diversity and inclusion, studies and experience show that diverse teams have an advantage in solving complex problems like those common in investing. Diversity and inclusion in our investment ecosystem are essential if we want to continue to support the mission of the University by producing optimal portfolios and a manager roster that is capable of the best possible performance. Unfortunately, a commitment to diversity has not always been a priority within the investment community, and that legacy continues to impact our sector.

PRINCO has undertaken a number of actions to improve diversity within our office, our roster of external managers who are responsible for almost all front-line investment decisions impacting the portfolio, and within the investment industry overall. Women and minorities make up a majority of PRINCO'S governing Board's outside directors (five eighths). A quarter of the outside directors are African American (the least represented group among U.S. investors). The Board annually devotes a significant portion of one of its quarterly meetings to discussing the state of manager diversity, our efforts to improve it, and what else we might consider doing. In almost every one of my monthly meetings with President Eisgruber, I am asked to discuss my efforts to improve diversity. I also regularly report on these efforts to the standing Princeton University Trustee Committee on Diversity and Inclusion.

While our endeavors to improve diversity go back almost two decades, I was dissatisfied with our progress, and several years ago initiated different approaches to redouble our work. Our new, strengthened, increased efforts have begun to pay off in many ways. However, we are still at the early stages of progress, with much more work and improvement needed.

Progress requires focus and intentionality. That starts with asking ourselves when considering every major decision – *e.g.* hiring an external manager, designing and recruiting for an intern program, considering internal staff hiring decisions, selecting PRINCO Board members – are we proceeding down a path that will help improve diversity within our ecosystem? If the answer is "no," we ask whether we can modify the presumed path? This rigorous approach has allowed us to increase the diversity of our partnerships.

Within our model, the number of firms we work with is very low compared with the number we assess for potential partnership. This low engagement rate means we need to think creatively about how we maximize each of these partnerships for overall impact, including how each contributes to the diversity of our aggregated roster. For major decisions, we designate a small team to lead advocacy for hiring, and a small team to play devil's advocate against hiring. We recognize the likelihood of implicit and structural biases that could hinder advancement of diverse firms. We charge colleagues with coming up with creative ways to reframe and reexamine what are considered "bear" points for diverse firms.

We have also been more proactive in how we attract diverse firms, partners, and staff members. We have identified and embraced new opportunities when it comes to networking in underrepresented investment communities, including increasing our presence at professional conferences and gatherings such as the RFK Human Rights Compass Conference and the Equity Summit. Historically, many of the strongest relationships begin as referrals, so we also work with our broad and expanding network to identify firms and investors we might miss through traditional channels.

PRINCO'S Progress

As a result of the changes to our approach, the prevalence of diverse firms has increased dramatically at every step of our manager search process: At each step, the candidate pool filters down to a group with an increasing proportion of diverse firms. Diverse firms represent more than a third of managers about whom we conducted a significant amount of research. (While we aspire to do better in the future, this percentage compares favorably to the prevalence of diverse managers described in the Knight Study that your letter mentions.) Diverse firms represent more than half of the cohort of firms that we most deeply investigated. Most importantly, as detailed below, five of the seven (71 percent) firms that we hired in the last two years were diverse.

For a different perspective, I note that over the past two years, a diverse firm was 15 times more likely to be hired by PRINCO than a non-diverse firm. We hired about five percent of the diverse firms we had meaningful contact with during the search process, versus just 0.3 percent of the non-diverse. I am thrilled with the quality of all the firms we have hired.

Once a firm is identified, vetted, and engaged, we undertake a very hands on approach with our partners. Our diversity efforts are enmeshed in this process. Every manager receives the same attention from the full investment team as every other one. I usually spend more time with our most recent hires than with other relationships in order to assure that we are setting the tone of true partnership and having maximum impact in helping mentor firm development. Unlike many institutional investors, we do not run a separate “emerging manager” program. We think such programs entail risk of creating a group of separate or “second class” managers.

We strongly favor long-term focused investment approaches or “patient capital.” However, the physics of patient, long-term commitments to a concentrated roster means that there are fewer opportunities to dramatically change the makeup of the roster. Therefore, in addition to seeking to hire already diverse firms, we work with our long-tenured managers to encourage and help them improve their firms’ diversity. We serve on advisory boards for almost every firm with which we invest. I am proud that among those boards, we are known as the member who most frequently presses the managers to improve diversity; that pressing is done with a flavor of partnership, including an offer to help. We have convened a group of our managers for sharing and developing of best diversity practices. We also work with our managers to bring greater diversity to their client base. For instance, this includes providing venture capital firms with advice and introductions to African American led institutional investors.

Spotlight on New Relationships

For many years we concentrated more on improving diversity within existing relationships rather than hiring already diverse firms. We now recognize that this was a mistake: We must pursue both approaches, and hiring already diverse firms expands our networks and aids our efforts to improve diversity among existing managers. Accordingly, we have changed our approach.

The impact of our change in hiring can be seen in the cohort of managers with whom we started relationships over the past two years. As mentioned above, in the fiscal years 2019 and 2020 (which just ended), we initiated seven U.S.-based manager relationships. Five of them, representing 60 percent of assets deployed among these new relationships, qualify as diverse. Notably, three of the firms were owned and led by African Americans (using the 50 percent standard), representing more than a quarter of the assets deployed with new relationships during the period. (The share of assets is slightly smaller than the share of managers by number because all three relationships were venture capital managers, and as such the firms operate with smaller asset bases and build assets over time through a series of separate partnership raises. Based on past experience with similar levels of investments in venture capital, we believe that these firms could become among our largest relationships.) Looking at the demographics of new relationships rather than total assets is a key measure of commitment to diversity: It is analogous to measuring the temperature of the water coming out of the faucet filling the tub rather than the water temperature of the entire bath.

Your letter quotes the statistic from the Knight Foundation sponsored study that women and minority owned firms manage just 1.3 percent of the assets managed by U.S. based firms. Using the standards set forth in that study, a much higher percentage – about one-third – of Princeton's assets managed by U.S. based firms are invested by diverse firms[1]. The percentage is a bit higher if you measure firms by number, and a few percentage points lower if you focus on share of assets. If you use the higher threshold of 50 percent, the percentage is about one fifth.

I would note that using the metric of share of assets invested with diversely-owned firms does not give a complete picture of diversity for university endowments, particularly if you are interested in how income and wealth are being distributed. The sharing of economics within the investment firms that we and other endowments tend to employ are quite different from the economics of other service industries, and even from the internal economics of mutual fund managers. Moreover, for asset managers, certain asset classes produce much greater income than others. I would be glad to discuss these differences in further detail with you and discuss how to achieve a more complete picture.

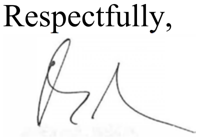
<u>Diversifying the Pipeline</u>

As noted, we have identified and embraced new opportunities when it comes to networking in underrepresented investment communities. We are evaluating how our online presence could help in these efforts, and are updating our website to include explicit diversity statements. Another approach we have implemented is a mini-mentoring program that allows for us to meet with individuals and firms outside the context of their formal marketing processes. The informality of these sessions creates a great atmosphere for coaching firms on how they might consider evolving to be in a better position to attract patient capital. Finally, we have embraced opportunities to talk about the need for diversity among our ranks, and our efforts to meet that need, with the press and with thought leaders in the investment community.

Building personal relationships through all of these channels is fundamental to our efforts. Referrals from other managers and professionals within our network are the most fertile source of new manager ideas. As we expected, the diverse manager hires we have already made would appear to be creating a virtuous cycle with respect to attracting more inquiries from diverse firms.

I hope I have answered your questions. Again, I would be pleased to meet with you or your staff to delve further into these issues.

Respectfully,



Andrew K. Golden
President

Cc: Congresswoman Bonnie Watson Coleman

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[1] I am focusing on U.S. based firms to avoid including numbers that would not seem consistent with the spirit of your inquiry.