



THE UNIVERSITY OF CHICAGO

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Investment Office

July 31, 2020

The Honorable Emanuel Cleaver, II
2335 Rayburn House Office Building
United States House of Representatives
Washington, DC 20515

The Honorable Joseph P. Kennedy, III
304 Cannon House Office Building
United States House of Representatives
Washington, DC 20515

Dear Mr. Cleaver and Mr. Kennedy,

Enclosed please find the University of Chicago's response to your letter on July 10, 2020.

The University of Chicago's commitment to enhancing diversity goes beyond creating a welcoming and inclusive campus for our students, faculty, and staff. It also applies to how we conduct business. We believe that, to work with the industry's most talented, creative, and innovative professionals, we must develop and foster relationships with a diverse array of partners and vendors.

We were grateful to be highlighted in the NYU briefing memo of April 6, 2018 that is footnoted in your letter ("Briefing Memo: Increasing Diversity in Asset Management Firms for University Endowments"). We are proud of the work we have done, and we recognize we can further improve our efforts to support diversity within the investment management industry.

In response to your questions:

- 1. Does your institution have a publicly available equal opportunity statement pertaining to the selection of external endowment managers?**
 - **If no, why not?**
 - **If yes, please provide that statement.**

The University's investment policy statement includes a policy regarding diversity and inclusion for vendors and internal staff. We believe that firms committed to diversity are more likely to succeed in an increasingly global marketplace. By establishing relationships

with firms that have diverse owners and workforces, the University can broaden its exposure to opportunities that may generate superior investment returns.

2. What commitments to increasing opportunities for women and minority-owned asset management firms have been made by senior institutional leadership?

In 2008, the University launched an effort to increase the racial and gender diversity of the investment managers who manage its endowment. This was a collaboration between the University's Office of Business Diversity, Office of Investments (led by the endowment's Chief Investment Officer), and key supporters from the Board of Trustees.

As of 2010, the University allocated \$200 million across five diverse managers. By June 2020, the University's endowment allocated an impressive \$1.4 billion of its endowment across 25 diverse managers—approximately 15% of the overall portfolio. By comparison, the U.S. asset management industry allocates approximately ~1.3% of its overall assets to diverse managers. What is more, the University shares that increasing the diversity of its investment managers has been beneficial to the endowment overall.

Cultivate a network

The University's 2008 efforts to increase diversity within the endowment's investment managers involved several critical steps. First, the stakeholders realized that the University was not well connected to diverse managers. As is the case with many endowments, the University simply did not know a wide range of diverse managers at the time. To address this, a portion of the University's annual Professional Services Symposium was dedicated to highlighting diverse investment managers. These efforts helped the University connect with diverse managers across asset classes.

Next, the Office of Investments studied each manager and allocated capital to those who met its investment criteria. Throughout the process, the Office of Investments worked closely with the University's board members and other key leaders to emphasize the University's commitment to increasing investment manager diversity.

Expanding the scope of inclusion

Most diversity efforts have traditionally focused exclusively on firm ownership, but we believe a more holistic approach to diversity and inclusion is important. In 2017, the Investment Office collaborated with a respected asset manager to design a scoring system to gauge investment managers' diversity efforts across multiple dimensions, including firm ownership, work force diversity, supplier diversity, and community involvement. The intention has been to incentivize asset managers to meaningfully contribute to diversity efforts across multiple fronts, rather than focus on only a few leadership roles.

Mentoring tomorrow's workforce

For the past 10 years, the Investment Office has maintained an annual paid internship program in which a group of early college students are hired to support the team. The program provides meaningful work experience, lunch-and-learns with the investment teams, and professional development opportunities to help develop interview skills, resumes, and cover letters. In addition, we participate in a program that encourages students from low-income families and racial and ethnic minorities to pursue career paths in the finance industry.

- 3. Has your institution conducted reviews to examine the efficacy of revising policies and practices that limit the participation of smaller and/or newer firms?**
- **If no, why not?**
 - **If yes, please specify when and articulate the findings.**

The University of Chicago is fortunate to be creative in our portfolio construction. Our policies and practices do not restrict us from working with smaller or newer firms. Instead, we focus our efforts on identifying those investments and firms that will generate alpha for the University. This flexibility enables us to consider a wide range portfolio of managers and investment opportunities.

Small or new funds often are created to take advantage of new trends, and as a result, they increase the portfolio's diversification and our access to new ideas. Yet diverse-owned firms typically raise fewer funds, and the pipeline of ownership is often earlier than a non-diverse firm.

Thus, one of the challenges when investing with a less "established" firm is how to make that investment meaningful within the endowment portfolio. For a small investment manager, a \$5 million investment can be substantial and might represent a significant portion of its total assets under management. Yet that investment represents only 0.06% of the University's total endowment assets, which currently sit at about \$8.5 billion. As a result, we weigh the risks of the investment against its potential rewards, and we will invest when we identify a compelling enough reason to, despite the relatively small impact it will have on our portfolio.

Another risk of investing with a small manager is that the firm may not have an established track record. Again, we measure those risks, and at times, find a compelling reason to make the investment, nonetheless. Such investments can benefit the University because we can develop a strong working relationship with a firm early on, before it has experienced tremendous success—and, sometimes as a result, before access and future opportunities for investment become more limited. We also collaborate with younger firms to help them adopt best practices that will support their long-term growth.

- 4. What outreach has your institution done to inform women and minority-owned asset management firms about investment opportunities and the selection process?**
- **Do you believe such outreach is consistent with your fiduciary responsibility?**

Since 2009, the University has hosted an annual two-day Business Diversity Professional Services Symposium. This event seeks to connect diverse-owned firms in finance, law, accounting, and other fields with University administrators in order to create and foster business relationships. The symposium specifically facilitates one-on-one networking opportunities during which outside firm owners can share their strategies and market their services.

The Investment Office coordinates closely with the University's Office of Business Diversity to cultivate relationships that lead to invitations to participate in the event. Subsequently, we follow up with firms that exhibit the best potential fit with our investment objectives and business needs.

Our investment professionals frequently speak on panels, participate in industry roundtables, and attend conferences specifically geared towards increasing the business opportunities for women and minorities.

Yes, this outreach is consistent with our fiduciary responsibility. Working with diverse managers also increases the diversity of investment ideas within the portfolio.

- 5. How has your institution communicated priorities and expectations about inclusive asset management practices to investment staff and/or consultants?**
- **How does your institution ensure that those expectations are met?**

University leadership, as exemplified by the Business Diversity Professional Services Symposium, has clearly prioritized diversity and inclusion. In 2019, the inaugural John Rogers Jr. Business Diversity Impact Award went to the Investment Office for its proactive commitment to meeting with and referring diverse firms.

In addition to reflecting the University's broader emphasis on inclusivity, our efforts are also motivated to improve the investment industry specifically, which has traditionally lacked diversity.

The Investment Office reports annually to the Office of Business Diversity the progress towards meeting and hiring diverse-owned asset management firms. The Assistant Vice President for Business Diversity works closely with the investment team to help connect qualified diverse asset management firms to opportunities and tracks and reports diverse spend within investment management and other professional services including financial, legal, communications, information technology, human resources and architecture/engineering.

6. Does your selection process for external asset managers require consideration of at least one diverse-owned firm?

- **If no, why not?**
- **If yes, please articulate why this was done and if it has resulted in positive results?**

As part of our investment process, we meet with and evaluate thousands more firms than we hire. We do not run broad searches or request proposals. In practice, we routinely consider diverse-owned firms during our selection process.

7. How much of your institution's endowment assets are under management with diverse-owned firms? (Defined as women or minority ownership above 50%)

- **What percent of total assets under management does this number represent?**

In 2010, the University had \$200 million allocated across five diverse managers. As of June 2020, the University's endowment employs 25 diverse managers and has an impressive \$1.4 billion of its endowment allocated with diverse managers, totaling 15% of its overall portfolio. (This compares to the approximate 1.3% that the overall U.S. asset management industry invests with diverse managers.)

We hope that our answers contribute to your understanding of how university investment offices around the country are considering issues of diversity and inclusion. Thank you for the opportunity to answer your questions.

Sincerely,



Mark A. Schmid
Vice President and Chief Investment Officer