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The Honorable Emanuel Cleaver, II  
U.S. House of Representatives  
Washington, DC 20515

August 7, 2020

The Honorable Joseph P. Kennedy, III  
U.S. House of Representatives  
Washington, DC 20515

Dear Representatives Cleaver and Kennedy,

On behalf of University of Michigan President Mark Schlissel, I want to thank you for your July 10, 2020 letter regarding diversity among asset managers of university endowments. At the University of Michigan, our dedication to academic excellence for the public good is inseparable from our commitment to diversity, equity and inclusion. It is central to our mission as an educational institution to ensure that each member of our community has full opportunity to thrive in our environment, for we believe that diversity is key to individual flourishing, educational excellence, and the advancement of knowledge.

As articulated by President Schlissel and the University's Board of Regents, we believe that the University of Michigan cannot be excellent without being diverse in the broadest sense of that word. We also must ensure that our community allows all individuals an equal opportunity to thrive. Throughout the University of Michigan, our top leadership has exhibited a commitment to diversity and continues to seek to enhance diversity, equity, and inclusion among our staff.

Our Investment Office currently has, and historically has had, a highly diverse staff. We believe (i) that the more diverse our staff, the more equitable our experience, and the more inclusive our workplaces, the better we are able to create a positive workplace climate; (ii) that having an increased awareness of our own diverse background, and its influence on our perceptions, decisions and results can help mitigate the impact of unconscious bias; and (iii) that diversity among our staff will lead to greater diversity among our external investment managers. A diverse and inclusive climate attracts and retains the best talent and enables us all to provide exceptional service to advance the University's mission.

Specifically, within our Investment Office, we have taken creative approaches with seeding, anchor investor and other nonstandard arrangements for our smaller, newer firms ("emerging managers"). Moreover, as part of our Investment Office's diversity, equity and inclusion initiatives, we routinely incorporate diversity, equity and inclusion training for our staff. By way of example, our Investment participates in training (i) based on University resources that address how bias and the processes of the unconscious mind can impact our decisions and results; and (ii) based on external resources such as the CFA Institute's "*Driving Change: Diversity & Inclusion in Investment Management*." This monthly resource encourages our Investment Office staff to

consider the concepts, pitfalls, and potential ways to address various recommended actions regarding diversity and inclusion in the asset management industry. Lastly, our Investment Office has engaged an external consultant with a defined effort regarding diverse managers. We plan to leverage this relationship to, among other things, review strategies to increase our awareness of, and access to, diverse managers in an effort to ensure that our actions continue to reflect our commitment to diversity, equity and inclusion and to address any uncovered shortfalls.

Your letter comes at an opportune time as the Investment Office, at the request of our President and Board of Regents, is seeking varied approaches to further enhance diversity among asset managers within our investment portfolio, whether through increasing the representation of diversity by the addition new investment managers, through increasing the diversity within our existing investment managers, or through other effective methods.

Unfortunately, no panacea exists to solve the lack of diversity in the asset management industry. A 2017 survey conducted by *FundFire* and Money Management Institute titled: “*Ethnic and Racial Diversity at Asset Management Firms*” suggests that increasing opportunities for diverse-owned management firms alone may not adequately increase diversity in the asset management industry. Notably, this survey found that Black and Hispanic professionals accounted for 2% and 3%, respectively, of U.S. analyst positions within asset management industry for survey participants. Consequently, increasing the pipeline of college graduates that enter the asset management industry should be part of a multi-faceted approach to increasing diversity within the industry.

Despite the myriad contributors to the dearth of diverse asset managers, we continue to explore effective measures to increase the diversity within our investment portfolio, subject to our fiduciary and legal obligations, including by: (i) increasing outreach to, and opportunities for, minority- and women-owned asset managers; (ii) encouraging our existing asset managers within the portfolio to exemplify a similar commitment to diversity, equity, and inclusion; and (iii) reflecting our commitment to diversity in investment policies and procedures.

We have previously reviewed the study by the Knight Foundation referenced in your letter and the Government Accountability Office (GAO) September 2017 report titled, “*Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers*”. Additionally, as a member of the National Association of College and University Business Officers (NACUBO) and the Institutional Limited Partners Association (ILPA), and in conjunction with the review of our investment policies and practices, we continue to review content and recommended approaches regarding diversity and inclusion in institutional hiring policies from NACUBO, ILPA and other sources. We have also been in communication with several of our peer institutions regarding the efficacy of their adopted asset manager diversity initiatives.

Within our diversity, equity and inclusion framework, the University and its Investment Office must comply with three primary legal and policy obligations. First, the University’s longstanding policy with its overarching principle related to our endowment and investment strategy: “the University’s governing board and officers have a fiduciary responsibility to protect our assets for the long term, so that we may leave to succeeding generations a University at least as strong as the one with which we have been entrusted. Therefore, the primary purpose of our endowment is to

generate the greatest possible income, subject to an appropriate amount of risk, in support of the University's missions of teaching, research and service."

Second, the University of Michigan is governed by state statutes that require it to base its investment decisions on financial factors, such as risk and return, and to abide by applicable law. Such laws establish fiduciary duties and obligations of nonprofit, charitable institutions in the management and use of funds held for charitable purposes. The University's Investment Office strives to meet its fiduciary duty to the endowment by primarily focusing on preserving the purchasing power of our endowment's principal over the long term.

Third, the University of Michigan is bound by the Michigan Constitution. The University defended its consideration of race in admissions decisions to promote the educational benefits of diversity all the way to the Supreme Court of the United States, which affirmed our Law School's holistic, individualized consideration of race (*Grutter v. Bollinger*) but rejected the University's undergraduate admissions program, which accounted for race in a more mechanical, numerical fashion. After the University succeeded in *Grutter*, the voters of Michigan adopted Section 26 of Article I of the Michigan Constitution, which expressly forbids "[t]he University of Michigan ... [from] ... discriminat[ing] against, or grant[ing] preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting." The Supreme Court of the United States upheld the constitutionality of this state constitutional provision in a 2014 decision (*Schuetz, Attorney General of Michigan v. Coalition to Defend Affirmative Action, Integration and Immigration Rights and Fight for Equality By Any Means Necessary (BAMN) et al.*). Consequently, the University must consider these principles where attempting to adopt public contracting policies that may appear to be gender- or race-conscious.

We believe that our commitment to diversity, equity and inclusion and our continued examination of potential approaches to increase diversity among the investment managers within our endowment, each in conjunction with our fiduciary and legal obligations, are in accord with our investment policies and, where appropriate, should be adjusted to reflect such commitment.

Thank you again for your letter. Should you have any questions, please reach out to my office (734-764-7272).

Sincerely,



Kevin P. Hegarty  
Executive Vice President and  
Chief Financial Officer  
University of Michigan

Enclosure

Cc: Mark Schlissel

**Answers to Questions from the July 10, 2020 Letter from Representatives Cleaver and Kennedy Regarding Diversity among Asset Managers of University Endowments**

***1. Does your institution have a publicly available equal opportunity statement pertaining to the selection of external endowment managers?***

While we do not have an equal opportunity statement specifically pertaining to the selection of external investment managers, our institution has a university-wide equal opportunity statement, applicable to the Investment Office, regarding employment and affirmative action pursuant to University of Michigan Regents Bylaw Section 14.06, which states that “The University of Michigan is committed to a policy of equal opportunity for all persons and does not discriminate on the basis of race, color, national origin, age, marital status, sex, sexual orientation, gender identity, gender expression, disability, religion, height, weight, or veteran status. The University also is committed to compliance with all applicable laws regarding nondiscrimination and affirmative action.”

***2. What commitments to increasing opportunities for women and minority-owned asset management firms have been made by senior institutional leadership? (Please provide the specific dates of these actions and if they have resulted in tangible and measurable outcomes.)***

Our senior leadership has made a commitment to increasing opportunities for women and minorities, among others, but not specifically with respect to asset managers. The diversity, equity, and inclusion strategic plan that applies to the Investment Office establishes five-year strategic objectives reflects our senior leadership's commitment to diversity, equity and inclusion. The central tenets of this plan are: (a) a commitment to increasing diversity, which is expressed in myriad forms, including race and ethnicity, gender and gender identity, sexual orientation, socio-economic status, language, culture, national origin, religious commitments, age, (dis)ability status, and political perspective; (b) a commitment to equal opportunity for all persons and nondiscrimination on the basis of race, color, national origin, age, marital status, sex, sexual orientation, gender identity, gender expression, disability, religion, height, weight, or veteran status; and (c) a commitment to pursuing deliberate efforts to ensure that our campus is a place where differences are welcomed, different perspectives are respectfully heard, and where every individual feels a sense of belonging and inclusion.

The expectation of Investment Office staff is that they seek out the best investment opportunities regardless of race or gender, consistent with the University's commitment to diversity, equity and inclusion.

***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?***

The University does not have any policy or practice that limits the participation of smaller, newer firms (such as minimum limits for assets under management, liability insurance, or length of track record). Our Investment Office has historically engaged in creative seeding, anchor investor and other bespoke arrangements that afford emerging managers an opportunity to excel.

**4. *What outreach has your institution done to inform women and minority-owned asset management firms about investment opportunities and the selection process?***

While the University does not conduct outreach targeted at any particular group of asset managers about investment opportunities or our selection process, it has been our practice to be highly responsive to managers, including diverse-owned managers, who seek investments from the University. We routinely conduct numerous meetings with such managers and attend various networking events in an effort to generate comprehensive knowledge about the universe of investment managers. Lastly, we regularly consult with our external investment consultant that has a specific effort focused on highly-qualified women and minority investment managers. We continue to seek effective methods, subject to our fiduciary and legal obligations, to increase opportunities for minority- and women-owned asset managers.

**5. *How has your institution communicated priorities and expectations about inclusive asset management practices to investment staff and/or consultants?***

Inclusiveness is a focus of University leadership, including how it applies to our investment portfolio. Moreover, our institution continues to utilize strategies to practice more conscious awareness so we are better able to promote inclusive practices within our organization. We value our Investment Office's highly diverse staff and believe that this diversity will lead to greater diversity among our external investment managers.

We continue to communicate our priorities and expectations to our Investment Office staff, including the need to seek out the best investment opportunities regardless of race or sex, consistent with the University's commitment to diversity, equity and inclusion. One component of communicating priorities and expectations includes training. As part of our diversity, equity and inclusion initiative we have incorporated Investment Office training using University resources to mitigate the impact of unconscious bias. Additionally, we use external resources, such as the CFA Institute's "*Driving Change: Diversity & Inclusion in Investment Management*," to address the various recommended action items to improve diversity and inclusion in the asset management industry.

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

Our Investment Office leverages the expertise of our external consultant and utilizes other resources regarding diverse-owned managers to make sure we consider all eligible managers and undertake efforts to promote diversity within our existing managers. Additionally, our investment manager selection process, similar to that of many comparable endowments, does not include seeking bids pursuant to a request for proposal. Even if it did, however, including a requirement that at least one diverse-owned firm be considered during our selection process does not appear to be consistent with the requirements under the Michigan Constitution.

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

Our institution has historically not tracked this type of data because the asset management industry data sources and providers have generally been unable to track diversity in any uniform or

## Enclosure to University of Michigan's response to Representatives Cleaver and Kennedy

systematic method. More importantly, investment firms often closely guard ownership information and compensation allocations, and can resist disclosing it. We are cognizant that firm ownership may not be an appropriate proxy for incentive compensation at asset management firms. However, we are committed to better understanding the diversity within our external managers. While we do not have a comprehensive dataset, the University believes that it has historically invested, and is currently investing a meaningful portion of endowment assets, with a number of investment firms with women and minority ownership and with women and minorities in senior leadership roles. We would also welcome an opportunity to join with other organizations in exploring strategies to create more robust diversity among the universe of external managers.