

July 31, 2020

The Honorable Rep. Emanuel Cleaver, II
The Honorable Rep. Joseph P. Kennedy, III
Congress of the United States
Washington, DC 20515

Representatives Cleaver and Kennedy,

I write in response to your letter of July 10th regarding diversity among asset managers of university endowments, sent to James Ryan, President of the University of Virginia. I lead the University of Virginia Investment Management Company (UVIMCO), which provides investment management services to the University of Virginia (UVA) and certain other nonprofit organizations that support UVA's mission. President Ryan has asked me to address your inquiries.

We agree that college and university endowment managers have much work to do to remedy systemic inequities, take a more inclusive view of underrepresented intellectual capacity in our industry, and create seats at the table for new and innovative partners. We wholeheartedly support such efforts and believe that doing so will enhance our ability to perform our fiduciary responsibility to UVA. Women- and minority-owned firms have historically been underrepresented in the investment industry, and UVIMCO is committed to being part of the solution to this problem.

Responses to your questions follow.

1. Does your institution have a publicly available equal opportunity statement pertaining to the selection of external investment managers? If not, why not? If yes, please provide that statement.

Selecting external investment managers is our core competency and a key opportunity for us to serve the mission of the University of Virginia. To do so effectively, we look for certain shared traits in prospective managers: a passion for investing; creativity; a disciplined process; a strong work ethic; integrity and alignment; and intellectual curiosity that drives novel insights.

Our full investment process is outlined in our annual report, which is available to the public on our website. Although we do not currently publish a separate statement regarding our approach to manager selection, our investment strategy and process is predicated on the value of diversity. In our experience, engaging managers with a diverse set of backgrounds, views, and experiences is critical to avoiding consensus investments that yield mediocre returns. Much of our time is spent seeking and evaluating managers whom we hope will take an approach, or articulate a view, that differentiates them from others in the market and in our portfolio.

We are currently engaged in an initiative to explore how we can better publicize what UVIMCO looks for in prospective managers. A goal of this project is to ensure that our sourcing captures the entire breadth of the asset management space. As part of this project we plan to publicly communicate that UVIMCO is interested in partnering with firms of all sizes which bring novel and diverse backgrounds and viewpoints to bear in the investment process, and that we encourage inquiries

from women- and minority-owned businesses. We hope and expect that this undertaking will augment the number of diverse firms evaluated in our process, which is entirely consistent with our overall investment philosophy.

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.

UVIMCO is committed to sourcing asset management firms of all sizes and backgrounds from across the entire industry. Please see our above response regarding our current initiative to better publicize the scope of our manager selection process to ensure that we are considering all firms, including women- and minority-owned businesses that have been traditionally underrepresented in the space. In addition to this project, during the current fiscal year we plan to identify and evaluate a number of women- and minority-owned firms that were not otherwise in our manager pipeline. Identifying these firms may produce candidates for investment, and may also allow us to discover potential areas for improvement in our current sourcing process. We believe that consideration of these firms is not only part of our role to play in remedying systemic inequities, but a potential source of underutilized returns that will further UVA's important mission.

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 not, why not? If yes, please specify when and articulate the findings.

UVIMCO does not have policies or practices that limit the participation of smaller or newer firms. In fact, our investment approach encourages the opposite. Because our goal is to outperform a passive benchmark over time, we seek out smaller and newer firms, which tend to be highly motivated and pursue novel investment strategies. Our long-term focus also complements the growth timelines typically associated with these firms. We consider our ability and willingness to partner with small and new managers a significant competitive advantage.

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?

Active outreach to request proposals for investment management services has not historically been a part of our investment process. Instead, we rely on our strong professional network to source investment opportunities. Our staff of 41 is 54 percent women, including our COO, our CFO, and two of our five Managing Directors. Twelve percent of our staff identify as minorities. Three of the 11 members of our board of directors are women, and two others identify as minorities. Numerous board members of the foundations invested with UVIMCO likewise identify as minorities. All of these individuals serve as sources in our network for potential new manager ideas. Additionally, our staff regularly participates in events relating to small and emerging managers, as well as events for professionals who are underrepresented in the investment industry.

While this organic approach of cultivating diversity in our portfolio through our network has many strengths, we recognize that it may be insufficient. As described above, we are undertaking initiatives to ensure that our sourcing process captures the entire breadth of the asset management space, including women- and minority-owned asset management firms.

Our mission is to maximize the long-term inflation-adjusted returns of the funds we manage, commensurate with UVA's risk tolerance, and to provide spending distributions that support the university's critical mission. This charge is derived from UVA's statutory operating guidelines.¹ We succeed in this mission by focusing on the long term. As UVA enters its third century, we recognize that excellence in investing must be matched by an adherence to broader values. While outreach and inclusion efforts may not be explicitly tied to UVIMCO's fiduciary responsibility, we recognize that our success will ultimately be judged not only by our financial returns, but also by the social impact of what we do.

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?

UVIMCO has developed an organization-wide values and vision statement which articulates our core values of integrity, collaboration, excellence, intellectual honesty, passion, and service to UVA. We believe that these values, along with an investment philosophy that prizes diversity of experiences, approaches and backgrounds, clearly convey our priorities and expectations of inclusive asset management practices. Our entire staff was involved in developing our vision and values. I have also communicated to our investment staff the renewed focus we should place on searching for new managers from all corners of the asset management space, including small, emerging, and diverse firms, which is consistent with our overall investment philosophy and core values. Adherence to our values is a component of every staff member's annual performance review.

6. Does your selection process for external asset managers require consideration of at least one diverse-owned firm? If not, why not? If yes, please articulate why this was done and if it has resulted in positive results.

UVIMCO employs a bottom-up, bespoke approach to investment manager selection. We do not issue RFPs or search for managers to fit discrete criteria, nor do we begin with a pool of prospective managers for a particular role in the portfolio. Rather, we assess every prospective manager relationship that comes to us through our network for alignment with our values and demonstrated investing excellence. Opportunities are then assessed for fit within the portfolio's asset allocation framework and UVA's risk tolerance. We add managers to our portfolio only after a thorough diligence and relationship-building process. As such, our process does not begin with a defined set of investment candidates to which particular requirements may be applied.

As described above, we are undertaking projects to publicize and examine this process to ensure that it captures the entirety of the investment management space, including women- and minority-owned asset management firms. In addition, we plan to begin tracking the potential investment opportunities with women- and minority-owned firms which are evaluated in our manager selection process. There are inherent difficulties in accurately tracking this data, as discussed below, but we believe that a more measurable assessment of the status of underrepresented firms in our process can help us test assumptions, discover issues, and ultimately increase diversity in the portfolio.

¹ UVA's Management Agreement with the Commonwealth of Virginia (2009 Va. Acts, Ch. 685, Exhibit R) provides that, "It is the policy of the University to invest its operating and reserve funds solely in the interest of the University and in a manner that will provide the highest investment return with the maximum security while meeting daily cash flow demands and conforming to the Investment of Public Funds Act (§ 2.2-4500 et seq.) of the Code of Virginia."

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?

UVIMCO attempts to track assets in our portfolio under management by diverse-owned firms. This is inherently difficult to calculate: many firms are unwilling to share details of their equity ownership, and ownership of an investment firm can be difficult to define. We arrive at an approximation based on our subjective determination of the individuals who lead each firm in our portfolio — generally, that firm’s key investment decisionmaker(s). We note that this methodology underreports individuals who may be equity owners in many firms, such as a COO, CFO, head of investor relations, or other senior investment staff. We also calculate majority ownership based upon the number of individuals in leadership roles, rather than the percentage of equity ownership, as data regarding the latter are generally unavailable to us. We are committed to continuously improving our calculation and tracking of these metrics. While there are a number of challenges related to obtaining ownership and demographic data from external managers, we are analyzing the feasibility of periodically seeking this information.

The table below depicts the portion of UVIMCO’s assets managed by firms in which a majority of the leaders are women or minorities, as well as firms in which such individuals are leaders, although not a majority of the firm’s leadership. Additionally, while UVIMCO’s investment portfolio is global, we understand that the focus of your inquiry is likely asset management firms located in the United States. Therefore, we have broken the data out to depict assets managed by diverse U.S.-based firms as a percentage of assets managed by all U.S. firms, as well as assets managed by all diverse firms as a percentage of total assets under external management.

	Manager Location	
	US	All
Diverse Investment Leadership Greater than 50%	4%	19%
Diverse Investment Leadership Less than 50%	7%	8%
Percentage of Assets Held by Firms with Diverse Leadership	11%	27%

Your letter challenges university endowments to “consider how, in line with fiduciary responsibilities, they may continue to create greater opportunity for their communities and our country.” On behalf of UVIMCO’s staff and board of directors, I affirm this aspiration. We acknowledge the underrepresentation of women- and minority-owned firms in our industry. UVIMCO is committed to being part of the solution to this problem. We believe that doing so is not only a moral imperative, but will also strengthen our ability to provide critical support for UVA’s mission. As with all of our work on behalf of the University of Virginia, we embrace this challenge to drive us toward change, improvement, and the pursuit of excellence.

Sincerely,



Robert W. Durden
CEO/CIO

University of Virginia Investment Management Company