

July 31, 2020

The Honorable Emmanuel Cleaver II
U.S. House of Representatives
2335 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Joseph P. Kennedy III
U.S. House of Representatives
304 Cannon House Office Building
Washington, D.C. 20515

Dear Congressmen Cleaver and Kennedy,

I write in response to your inquiry into the diversity of endowment asset managers. As I begin my tenure as Vanderbilt University's ninth chancellor, there are few topics I deem more vital to the future health of our own academic institution, to U.S. higher education and to our broader society than combatting racism and racial injustice. On my first day as chancellor on July 1st 2020, I issued a pledge¹ to our entire university community to strive for a more inclusive Vanderbilt. Among the steps outlined in that document was a commitment "to identify opportunities to enhance the diversity of service providers to Vanderbilt." Your letter speaks directly to this area.

Vanderbilt's Office of Investments is charged with managing the university's \$6.8 billion endowment portfolio, a collection of more than 2,800 individual funds with unique restrictions and designations. Collectively, Vanderbilt's endowment provides a permanent source of support for the university's students, faculty, and research and academic programs. As a nonprofit entity, we use our endowments for purposes that benefit the public: making college more affordable and supporting high-quality undergraduate and graduate education; leading research; and public service programs.

In FY 2020, 31 percent of Vanderbilt's endowment distributions supported student financial aid, including 19 percent for undergraduate student financial aid. We believe it is crucial that we cultivate an environment that fosters a multitude of different perspectives, ideas, and experiences that contribute to Vanderbilt's learning community – and, therefore, our student body must reflect that diversity. We remain one of a select few institutions that are need blind in the undergraduate admissions process for all U.S. citizens and eligible noncitizens. Vanderbilt meets 100 percent of each student's demonstrated financial need without loans, through Opportunity Vanderbilt, our bold program that replaces all undergraduate need-based student loans with grants and scholarships. In academic year 2019-2020, more than 65 percent of undergraduate students and more than 84 percent of graduate and professional students received financial assistance.

Vanderbilt's commitment to Opportunity Vanderbilt has produced meaningful changes in the student population. Our commitment to admit students regardless of their ability to pay has resulted in increased diversity and equity at Vanderbilt. Vanderbilt's entering class of first-time first-year students has increased from 27 percent minority in 2009 when the program was launched to 42 percent in 2019 and has been more than 40 percent minority since 2016. Also, as noted in the *Journal*

¹ <https://news.vanderbilt.edu/2020/07/01/our-commitment-to-an-inclusive-vanderbilt/>

of Blacks in Higher Education, Vanderbilt is consistently in the top three for their ranking of the nation's leading research universities in the percentage of Black first-year students².

Vanderbilt's commitment to scholarships and financial aid is made possible in large part due to the endowment and the generosity of our donors. More than \$446 million in gifts and pledges have come from donors for undergraduate scholarship endowment since Opportunity Vanderbilt was launched in 2008. In FY 2020, Vanderbilt spent approximately \$190 million on undergraduate student financial aid, of which \$75 million came from the endowment; since Opportunity Vanderbilt was launched, Vanderbilt has provided \$1.7 billion in institutional undergraduate financial aid.

Vanderbilt's Office of Investments ("OoI") is committed to fostering diversity and inclusion within its own operations as well as in how it manages the university's endowment. The team of 13 investment professionals that report to the vice chancellor for investments come from diverse racial and ethnic backgrounds, with more than half of this team representing minority groups. These professionals embody our belief that building a diverse team with varied backgrounds and a broad range of perspectives provides the office and the university with a competitive advantage in understanding the nuances of investing opportunities in various markets.

OoI is committed to the principles outlined in the university's overall goals to work toward a more diverse and inclusive Vanderbilt. In addition, we are guided largely by our equal employment opportunity and affirmative action statement when selecting external partners for the endowment portfolio. This statement says, "Vanderbilt University does not discriminate against individuals on the basis of their race, sex, sexual orientation, gender identity, religion, color, national or ethnic origin, age, disability, military service, covered veterans status, or genetic information in its administration of educational policies, programs, or activities; admissions policies; scholarship and loan programs; athletic or other university-administered programs; or employment."

The pledge I issued at the start of my tenure outlines specific initiatives to help create an even more diverse, inclusive university environment. Included in those steps was a promise to "examine our supplier and vendor relationships to identify opportunities to enhance the diversity of service providers to Vanderbilt. In addition, we will work to identify local goods and services that are provided by Black-owned businesses or are of unique importance to our Black communities." We believe the work in this area will enhance our ongoing efforts to ensure selection of diverse portfolio managers and diverse-owned asset management firms.

Our OoI leadership team is fully committed to increasing opportunities for women and minority-owned asset management firms. For more than 45 years, Vanderbilt has invested with small and new firms that cultivate diverse and inclusive cultures at all levels of the organization, particularly in senior and executive roles. We believe that these emerging managers generate superior returns over time. We view this focus as a core competitive advantage. An emerging manager has a stronger economic alignment with Vanderbilt because its smaller asset base allows the manager to be nimbler, investing in assets that larger firms cannot access, and focusing on investment performance rather than management fees.

² <https://www.jbhe.com/2020/02/black-first-year-students-at-nations-leading-research-universities-2019/#:~:text=Black%20Students%20in%20the%20Class%20of%202023&text=Columbia%20ranked%2015th%20among%20the,that%20was%2011.4%20percent%20Black.>

As of June 30, 2020, \$2.1 billion of Vanderbilt's endowment assets are under management with diverse representation in leadership. Most of this leadership representation is as the founder, owner, and/or lead portfolio manager. An additional \$256 million in unfunded commitments with diverse firms were outstanding, which if fully called would take Vanderbilt's total to \$2.4 billion. With a June 30 endowment value of \$6.8 billion, Vanderbilt's diversity representation (including unfunded commitments) stood at more than 35 percent.

Vanderbilt's endowment invests in both public (public equities, bonds, etc.) and private (venture capital, private equity, etc.) investments. Currently, the endowment includes diverse representation among 19 different portfolio managers, co-portfolio managers and chief investment and chief financial officers at firms focused on public investments. In the public-investments portfolio, as of June 30, 2020, approximately \$2.2 billion (or 51 percent) of the portfolio assets were managed by asset management firms that were small and/or new at the time that Vanderbilt's management team first invested. We define small firms as those where Vanderbilt's management team first invested when the firm had less than \$30 million in total assets under management. We define new firms as those where Vanderbilt's management team first invested within three years of the firm's formation.

Among the private-investment firms our endowment is engaged with, we count 32 managing partners, managing directors, founders, and other senior executives who come from diverse backgrounds. As of June 30, 2020, approximately \$1.8 billion (or 86 percent) of the portfolio assets were managed by asset management firms that were new at the time that Vanderbilt first invested. We define newer firms as those that, at the time Vanderbilt first invested, had raised four funds or fewer.

One representative and recent example of a firm with which OoI has invested is Harlem Capital, a minority-owned early-stage venture capital firm that opened its doors in 2015. Vanderbilt was one of 55 limited partners included in closing its \$40 million inaugural fund. Harlem Capital's mission is to change the face of entrepreneurship by investing in 1,000 diverse founders over the next 20 years, and it is committed to reserving capital for investments in minority and women founders. The team believes that diverse and female founders will solve different problems and generate high risk-adjusted returns. With its strategic partnerships and commitment to funding diverse businesses, we believe that Harlem is uniquely positioned to become a premier firm in this area of the market.

Vanderbilt's investment team also performs continual outreach to inform asset management firms about investment opportunities. We have five primary networks where we perform this outreach:

- Buy-side relationships (current managers, portfolio managers, analysts, investor relations);
- Vanderbilt network (alumni, current managers);
- Personal networks/contacts (allocators, alumni, friends);
- Sell-side (cap intro, product sales, sell-side analysts); and
- Media.

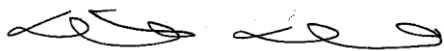
Using the media is a very effective tool for outreach. In the case of Harlem Capital, Vanderbilt's status as a limited partner in the firm's inaugural fund was mentioned in several prominent financial news outlets, including *Black Enterprise*³, *Fortune*⁴ and *AlleyWatch*⁵.

Vanderbilt's endowment is perhaps unique in that we don't select an investment category and then attempt to fill that area with a manager through a formal selection process. Our small team of investment professionals is very familiar with our focus on smaller and/or newer firms. We know that these expectations are being met by reviewing the diversity of the endowment's asset management firms. The team meets regularly with prospective managers for our portfolio and makes ongoing investment determinations best suited to our strategic needs at the time. We are guided in this process by Vanderbilt's broader commitment⁶ to ensuring equal opportunity and fostering diversity and inclusion in all our university activities. We believe this approach is very much consistent with our fiduciary responsibility.

I would also note that the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") applies to restricted funds in our endowment, as it does for all nonprofits and charitable organizations. UPMIFA sets forth legal guidelines for investment decisions and endowment expenditures. Under UPMIFA, Vanderbilt is required to ensure that our investments preserve the purchasing power of the original gift. If a donor, under the applicable gift instrument, makes a charitable contribution to the university in which all or some portion of the proceeds must be held by the university and used for particular donor-designated purposes, then UPMIFA requires that the university follow the expressed intent of the donor contained in the gift instrument. Subject to the terms of that instrument, the university is required to act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and must consider, if relevant, various factors in the management and investment of those funds. Factors to consider in the investment of those funds include the duration and preservation of the fund, the purposes of the institution and the fund, general economic conditions, the possible effect of inflation or deflation, expected total return from income and the appreciation of investments, and other resources of the institution and the investment policy of the institution.

Vanderbilt is proud of its diverse partnerships in the area of asset management. But, like in many areas pertaining to diversity and inclusion, we recognize there is more work to do. I appreciate your diligence in this important initiative. Please let me or my staff know if we can be of further assistance.

Sincerely,



Daniel Diermeier
Chancellor

³ <https://www.blackenterprise.com/harlem-capital-closes-40-million-inaugural-fund/>

⁴ <https://fortune.com/2019/12/03/its-giving-tuesday-and-you-have-a-choice-to-make/>

⁵ <https://www.alleywatch.com/2019/12/the-nyc-venture-capital-news-digest-12-2-2019/>

⁶ <https://news.vanderbilt.edu/2020/07/01/our-commitment-to-an-inclusive-vanderbilt/>