

Andrew D. Martin
CHANCELLOR

July 29, 2020

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

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

Dear Representatives Cleaver and Kennedy,

This letter is in reply to your July 10, 2020 request for information regarding diversity among endowment asset managers. Washington University is proud of its expansive approach to identifying investment managers who meet our rigorous criteria. Our focus is on talent and integrity; not the size, visibility, or longevity of any given firm. We are pleased that this approach has helped us identify and partner with a significant number of diverse investment managers.

Founded in 1853, Washington University in St. Louis is a private, non-profit research University. Over 15,000 students and 15,000 scholars, physicians, and staff work together to advance the University's charitable missions of education, research, and patient care. Recently, we announced three overarching goals to guide the future of the University:

- Maintaining and enhancing our academic distinction as a world-renowned leader in education, research, and patient care;
- Ensuring access to a Washington University education for the world's most talented students regardless of their background or previous opportunities; and
- Expanding the University's connection, role, and impact in and for the St. Louis region.

Returns on the University endowment will help us turn these aspirations into realities by providing the funds needed for scholarships, professorships, academic programs, research, and patient care.

Washington University's commitment to diversity, equity, and inclusion is an integral element of our path forward. We cannot accomplish our goals if we are not drawing on the talents of truly diverse and inclusive teams. We also believe that advancement of these goals will help create a more equitable and just community at Washington University and in our region.



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At Washington University, the Board of Trustees has delegated management of the endowment to an internal unit known as the Washington University Investment Management Company (WUIMC). The primary goal of the endowment, as determined by the WUIMC board of directors, is to generate the returns necessary to advance the University's missions in perpetuity. The WUIMC board has also prioritized investing the University's assets with external managers who pursue investment opportunities that have a direct, positive impact on the communities they serve.

The following principles outline the values that the WUIMC board embraces and the practices and behaviors that it expects from its members, the investment team, and external investment managers:

- Be effective fiduciaries
- Be ethical stewards
- Be accountable
- Make intelligent and insightful risk decisions
- Take a long-term view
- Learn continuously and adapt to changing conditions

In 2017, the WUIMC board hired a new Chief Investment Officer (CIO). Under the new CIO's leadership, the portfolio of WUIMC has been in major transition. The WUIMC investment team has been charged with traveling the globe to identify and develop relationships with managers who demonstrate a strong commitment to the values noted above. As stated in your letter, diverse-led firms are well represented in the ranks of successful asset management firms. WUIMC's rigorous investment process means that such firms are well represented in our current portfolio.

The Knight Foundation's summary of the report highlighted in your letter stated that the "biggest barrier to research on diverse ownership or management is the lack of data, as most providers for the asset management industry do not track diversity in a systematic way." The Knight Foundation report authors had to make certain assumptions across their data sources, even using different definitions across different kinds of firms in the four major asset classes studied. The Foundation also only focused on U.S.-based assets. While trying to characterize the diversity of the management of our globally invested endowment assets in the short period allotted, we, too, were challenged by a lack of consistent data in preparing our reply. To be as consistent as possible given the data we have available, we have focused our analysis on the senior decision-makers responsible for investments.

A recent review of the University's portfolio shows that, of the endowment assets managed by firms based in the United States, more than one-third of those assets are managed by diverse-led firms, as compared to 12% in the broader U.S. investment industry.¹ Similarly, on a global basis, more than one-third of the endowment's assets are managed by diverse-led firms.

What follows are responses to your specific questions. Given the short turnaround for responding to your letter, it was not always possible to compile more detailed information.

¹ Davielle Walker, Billy Nauman, "Ethnic and Racial Diversity at Asset Management Firms," FUNDfire, Fall 2017.

Question 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 does not have an equal opportunity statement that pertains to the selection of external endowment managers. The WUIMC team selects investment managers after rigorous assessment and a determination that the manager is well suited to perform in accordance with WUIMC's investment values and strategies. As noted above, over one-third of the endowment's investment portfolio is managed by diverse-led firms, indicating that existing manager evaluation practices have led to a diverse set of investment managers.

Question 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).

The WUIMC board is committed to diversity, equity, and inclusion in its oversight of the investment selection process and in its hiring practices for the WUIMC investment team. The WUIMC board understands that diversity of background, thought, and ideas on the board, among the WUIMC staff, and in its consideration of investment managers will inevitably lead to better investment processes and outcomes. This understanding has prompted development of an increasingly diverse staff and active discussion regarding efforts to diversify the board. One of the most important things that the WUIMC team does to create diverse representation in its manager base is to consider, meet with, and perform diligence review on a very large number of prospective investment managers – many of whom have women and/or minorities participating in the leadership or senior management of the firm.

Question 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.

WUIMC is always on the lookout for strong investment managers, including those associated with small or new firms, both in the U.S. and globally. WUIMC has no restrictions on investing capital with new managers that meet WUIMC's investment criteria and has made such investments in the past. WUIMC staff members regularly attend emerging manager conferences for introductions to managers who are new to the industry. Furthermore, any time members of the WUIMC investment team travel to a particular geography, those team members meet with as many investment managers as possible, including smaller and/or newer firms, to ensure selection from among the most qualified prospects.

Question 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?

WUIMC staff members conduct approximately 2,000 diligence meetings per year, both in person and by phone, to consider prospective investments for the University's

portfolio. Many of these meetings are with diverse-led firms. In each case, the manager selection process and criteria for selection are shared with the prospective manager. Each manager must demonstrate a commitment to a rigorous and repeatable investment process – a systematic approach to investment decisions. This focus on the investment process allows the WUIMC team to entrust capital to managers who are newer and less established in the investment industry.

Question 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?

The board appreciates the importance of diversity in the management of the University's endowment in achieving the best results. These values are communicated to the team. As previously noted, the WUIMC board is committed to assuring an evaluation of the strongest pool of potential managers and looking beyond factors, such as longevity, that often serve as indicia of access more than talent. By casting a wide net when searching for qualified managers, and evaluating prospects according to WUIMC's specific search criteria, WUIMC has generated a group of investment managers with strong representation of diverse individuals.

It is also a high priority of the WUIMC board to attract team members with different backgrounds, experiences, and perspectives to the University's investment staff. The WUIMC recruitment process is especially focused on outreach to women and minorities so as to increase exposure to job opportunities. Additionally, WUIMC staff are engaging with diverse groups on campus (e.g., Women in Finance) as a means of raising awareness about the types of professional roles at the endowment. WUIMC continues to recognize that an investment team with a diverse set of perspectives and experiences will be additive to addressing any implicit biases within WUIMC's diligence process.

Question 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?

No, and WUIMC does not use an RFP process to select managers either. WUIMC's investment strategy casts a very broad net to identify a pool of managers who meet our criteria. As noted above, this strategy has generated a portfolio managed by a diverse group of investment managers.

Question 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?

WUIMC does not survey investment firms to determine ownership percentages. We estimate that, of the endowment assets managed by firms based in the United States, more than one-third of our assets are managed by diverse-led firms, as compared to 12% in the broader U.S. investment industry. Similarly, on a global basis, more than one-third of our endowment's assets are managed by diverse-led firms.

In closing, we want to emphasize that, as encouraged as we are by the diversity among our current endowment managers, we are committed to building on that diversity going forward. We also recognize our role and responsibility in educating future generations of diverse leaders in investment management. It is an important part of our mission.

Sincerely,

A handwritten signature in blue ink, appearing to read 'A. Martin', with a long horizontal stroke extending to the right.

Andrew D. Martin, Chancellor
Washington University in St. Louis

A handwritten signature in blue ink, appearing to read 'Eric B. Upin', with a long horizontal stroke extending to the right.

Eric B. Upin, Executive Chair
WUIMC Board of Directors

ADM/nel

cc: Pamela Lokken, Vice Chancellor for Government and Community Relations