Dear President Sterk:

We are writing to express our concerns with the lack of diversity among asset managers of university endowments. For years, members of Congress have expressed similar concerns, and have been provided with limited, if any, resolution and evidence of change. As an institute of higher education, your school receives significant federal resources and subsidies. However, the lack of diverse-owned asset management firms runs counter to the federal government’s interest in promoting equal opportunity. We are writing to seek additional information as to your school’s practice in providing equal opportunity to diverse-owned asset management firms seeking to do business with the school’s endowment.

The discrepancy between the performance of diverse-owned asset management firms and their utilization by asset funds is well-documented. Despite overrepresentation of diverse-owned firms in the top quartile of industry-wide performance, a study by the Knight Foundation found that firms owned by women and minorities manage just 1.3 percent of the assets in the $69 trillion asset management industry.¹ In 2020, women and minority-owned firms manage a penny for every dollar managed by firms owned by white men. Despite decades of advocacy, market forces have failed to correct the ugly legacy of systemic racism which continues to bear fruit.

As you may know, there is currently no central repository on college and university endowment utilization of diverse-owned asset management firms, or adoption of best practices, although anecdotal reporting has been less than favorable. The National Association of College and University Business Officers and some colleges and universities have resisted repeated calls to be more transparent with such information. The response of colleges and universities has only heightened suspicions, as was raised in testimony before the U.S. House of Representatives Committee on Financial Services on June 20, 2019, that most university endowments “have never spent a dollar with a minority [asset management] firm in the history of their institution even if they have hired one-hundred or more money managers.”²

We request answers responsive to our concerns in order to assess the status of your institution’s efforts:

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

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If yes, please provide that statement.

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.*)

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.

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?

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?

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?

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?

We believe that affirmative steps toward expanding opportunity for diverse-owned firms upholds this nation’s ideals of equal opportunity and will support efforts to close persistent racial and gender wealth gaps. We urge endowments to consider how, in line with fiduciary responsibilities, they may continue to create greater opportunity for their communities and our country. As stated in a New York University briefing memo on diversity in asset management, the one glaring exception to college and university diversity commitments “has been their failure to select outside firms owned by women or under-represented minorities to invest their endowment dollars.”

We respectfully request your institution’s response by July 31, 2020.

Sincerely,

Emanuel Cleaver, II  
Member of Congress

Joseph P. Kennedy, III  
Member of Congress

cc: Association of Governing Boards of Universities and Colleges

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July 31, 2020

The Honorable Emanuel Cleaver, II  
Member of Congress  
2335 Rayburn HOB  
Washington, DC 20515

The Honorable Joseph P. Kennedy, III  
Member of Congress  
304 Cannon HOB  
Washington, DC 20515

Dear Congressman Cleaver and Congressman Kennedy,

Thank you for providing this opportunity to share information about Emory, our mission, and our endowment strategy and management structure.

Founded in 1836, Emory is a top-ranked private institution of higher education and one of the world’s leading healthcare systems. With nine schools and colleges, Emory educates over 15,000 undergraduate and graduate students from across the country and world. As an academic medical center, Emory also includes Emory Healthcare, which is comprised of primary, urgent, and specialty care practices at 250 locations including 11 hospitals. As the largest employer in Atlanta, Emory is keenly aware that management of its endowment is critical to its mission and specifically to the education of our students, treatment of our patients, advancement of our research, and employment of our staff and faculty.

Emory University's mission is to create, preserve, teach, and apply knowledge in the service of humanity. To fulfill this mission, the university supports the full range of scholarship, from undergraduate to advanced graduate and professional instruction, and from basic research to its application in public service. In 2018, Emory contributed $297 million in scholarships and grants to our students, while the federal government gave $13 million in grants and scholarships for our students’ financial aid. Our endowment is an important factor in making college affordable for students who gain admission to Emory – no matter their background.

Emory’s endowment is made up of approximately 2,100 dedicated funding streams for specific donor-directed projects, including student scholarships, faculty chairs, and targeted research work. The strength of the endowment allows Emory to recruit the best faculty, researchers, health care professionals, and students. The funds generated
by the endowment support each school’s strategic goals by allowing for quarterly distributions and reinvestments while increasing the base through excess returns.

Emory Investment Management (EIM), the investment arm of Emory University, serves as the fiduciary of these endowment gifts and facilitates the mission of Emory University by investing assets to meet present and future spending needs. EIM aims to generate superior long-term results by creating enduring partnerships with top-tier global investment managers that are located across the world.

Thanks again for this opportunity to share Emory’s important work.

Sincerely,

Srinivas Pulavarti
Vice President and Chief Investment Officer
1. Does your institution have a publicly available equal opportunity statement pertaining to the selection of external endowment managers?

Emory University (Emory) does not currently have a publicly available equal opportunity statement pertaining specifically to the selection of external endowment managers. While we do not have a formal statement, our process is unconstrained and open to all strategies. Emory Investment Management’s (EIM) open-ended website submission form is an example of a resource for all external investment managers to submit materials to the EIM team for review.

Emory’s mission is to create, preserve, teach, and apply knowledge in the service of humanity. Emory’s endowment provides a vital source of financial support to sustain the University’s educational and research mission. The endowment is composed of thousands of gifts made by donors to support programs of their choosing. EIM, the investment arm of Emory University, serves as the fiduciary of these endowment gifts and is required to manage investments to serve the interests of the entity’s charitable purpose. The Investment Committee of Emory University’s Board of Trustees bears responsibility for the stewardship of the endowment, and has charged EIM with the task of implementing an investment strategy that fulfills the dual purpose of meeting today’s spending for programs while preserving real purchasing power in perpetuity in alignment with the University’s mission. EIM retains ultimate decision-making authority over the endowment. Growth of the endowment through real investment return that exceeds spending over the long term will provide financial assistance towards Emory’s strategic plans and enhance the institutions ability to meet its goals.

EIM executes on this mission through a flexible, opportunistic, and long-term focused investment philosophy. EIM’s nine-person generalist investment team strives to partner with the best investors in the world to fulfill the University’s spending needs and preserve the corpus. As seen in Figure A, the team’s process is built around the belief that strong performance is a consequence of an appropriate investment philosophy executed by skilled, passionate people utilizing a rigorous process, both at the endowment investment team level and external investment manager level.

Figure A:
EIM’s process is a multi-step process that is centered on two main tenets: 1) a global investment strategy and 2) implementing this strategy predominantly through an external manager selection process. The investment process is focused on a flexible, unconstrained mandate that supports all types of strategies to enter the process without restrictions. Each prospective investment competes for capital across the portfolio in an equal and unrestrained manner. As seen in Figure B, investment opportunities enter the process through EIM’s open-ended website submission form, unsolicited inflow of managers, capital introduction teams, industry conferences, individual networks, media sources, and more. As a result, the EIM team meets or holds calls with over 500 investment managers per year across all asset classes. The team builds conviction in individual opportunities through frequent discussions with investment manager teams, performance analysis, attribution and strategy analysis, and asset allocation discussions. The due diligence work stretches across qualitative and quantitative measures to assess the merits of the strategy. This work is shared broadly within the EIM team to ensure the opportunity to question and challenge the relative value of the investment opportunity. It is through this process that EIM seeks to develop deep, aligned relationships and invest in a concentrated portfolio of the best investments in the world.

Figure B:

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.)

EIM’s investment process is centered on a flexible, unconstrained mandate that supports all types of strategies to enter the process without restrictions. EIM’s open-ended website submission form is an example of a resource for all investment managers, including women and minority-owned asset management firms, to submit materials to the EIM team for review. Each prospective investment competes for capital across the portfolio in an equal and unrestrained manner.
“Diversity, Equity and Inclusion” is more than a name, it is a spirit. We respect the dignity and worth of each human being in our community and support the sharing of different values and perspectives. We work to support compliance efforts as they relate to equal opportunities and affirmative action laws and regulations.

EIM’s culture is intentionally collaborative and horizontal in its management structure. Every team member, regardless of title or seniority, is treated equally. Given the equal competition for capital across the portfolio and complete alignment of interest among team members, the team is motivated to challenge each other in order to minimize individual biases. The team actively questions asset allocation, themes within the portfolio, and individual investments on a frequent basis.

Emory is committed to our own internal diversity as it pertains to asset management. Studies by McKinsey & Co. and others show that companies with more diverse workforces typically perform better financially. At Emory, we believe diversity within asset classes, investment strategies, geographies, capitalizations, and sectors help portfolios withstand market swings and cycles. We also believe in another kind of diversity: in thoughts, ideas and experiences through diversity in gender and race. A growing and substantial body of research points to the positive and, in many cases, superior investment performance by women and minority managers. Led by Chief Investment Officer, Srinivas Pulavarti, EIM has a staff of 19 employees. EIM’s workforce diversity statistics (by gender and race) are summarized in the table below.

Table 1. EIM Workforce Diversity by Race and Ethnicity

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>14</td>
</tr>
<tr>
<td>Asian</td>
<td>3</td>
</tr>
<tr>
<td>Black or African</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 2. EIM Workforce Diversity by Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Man</td>
<td>10</td>
</tr>
<tr>
<td>Woman</td>
<td>9</td>
</tr>
</tbody>
</table>
Most educational organizations, Emory included, seek to provide opportunities to minorities. In many cases our efforts have been designed to encourage professional development of women and other minorities within our own investment offices.

In addition to our commitment to internal diversity, EIM’s investment process actively incorporates environmental, social, and governance (ESG) considerations in the external manager investment decisions to help achieve its goal of maximizing support for the University’s mission. EIM shares its mission and goals with partners, and it engages dynamically on ESG related topics prior to making an investment, in order to ensure alignment of interests with endowment stakeholders. We select external investment managers based on investment ability, judgement, and alignment of interest with portfolio objectives.

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?

There is no limitation on participation of smaller and/or newer firms within Emory’s investment selection process. In addition, there is not a “one size fits all” endowment investment profile. At Emory, we rely on our internal investment staff for investment oversight, portfolio construction and manager selection. When evaluating asset managers, the team considers many factors before making investment decisions. Liquidity, asset class diversification, risk tolerances and operational infrastructure can differ widely between asset managers. For this reason, allocations to different types of investments, may differ significantly between endowments.

Endowments have long understood the value of diversity of asset classes in their portfolios to help portfolios weather market volatility. Many are also aware of a growing body of academic work that demonstrates the value of diversity in teams in generating smarter, more creative outcomes. The implication within asset management is that investment teams that are diverse in background, gender and ethnicity also offer opportunities to generate better investment outcomes. Emory sources investment managers first and foremost on the quality of their team and their history of execution over time. We search worldwide to find investment managers that we believe can consistently produce returns in excess of their benchmark with a stable team and interests that align with their limited partner base.

We also dig deeply into the sources of those returns to understand the underlying factors driving the strategy. Through our portfolio construction process, we look to combine uncorrelated sources of return, thereby reducing overall portfolio risk. Emory’s portfolio strategy is to invest in a concentrated portfolio of the best investors in the world. Managers are sought, regardless of their size, which have proprietary deal flow and whose experience enables them to bring strategic, operational, or technical expertise to a transaction in addition to financial acumen and capital.

An investment mandate is a set of instructions laying out how a pool of assets should be invested. The mandate sets out parameters and guidelines for how money can be invested. While Emory does not currently have any formal mandate regarding investing in woman owned, minority owned, or first-time funds given the team’s unconstrained mandate, Emory does spend significant time sourcing emerging or first-time fund managers based on the alignment of performance-driven culture and deep partnerships that are frequently found with first-time fund managers. By partnering with managers in their earliest stages of growth and business evolution, it gives Emory the opportunity to partner with investors at the
stage of their highest potential for outperformance, given smaller assets under management and alignment of interest, and establish deep, transparent partnerships. As proof of this part of our process, we typically partner with one to two first-time fund managers every year. This statistic is simply an output of our process rather than a defined mandate.

For the purpose of this example, we have defined smaller or newer firms to include the following:

- For Public managers (Public equity/Absolute Return) – an investment manager whose AUM is $200 million or less and/or we have invested with them in their first year of existence.

- For Private Managers (Private Equity, Venture Capital, Real Assets etc.) – an investment manager where Emory has invested in the partnership’s first fund accepting external capital.

As of March 31, 2020, Emory has 32 investment managers that fall into these categories, with a net asset value of $941.8M. This represents 14.7% of our endowment portfolio.

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

Investment opportunities enter the process through EIM’s open-ended website submission form (Figure C), unsolicited inflow of managers, capital introduction teams, industry conferences, individual networks, media sources, and more. As a result, the EIM team meets or holds calls with over 500 investment managers per year across all asset classes (Figure D)

Figure C:
In addition to the previously noted outreach, the team also engages in groups that organize conferences or events that assist with introducing women or minority-owned asset management firms to institutions, including Atlanta Women in Alternatives (Alternative Investments).

As previously mentioned, EIM’s process is built around the belief that strong performance is a consequence of an appropriate investment philosophy executed by skilled, passionate people utilizing a rigorous process, both at the endowment investment team level and external investment manager level (Figure E).

EIM’s investment process is centered on a flexible, unconstrained mandate that supports all types of strategies to enter the process without restrictions. Each prospective investment competes for capital across the portfolio in an equal and unrestrained manner.
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?

EIM’s culture is intentionally collaborative and horizontal in its management structure. Every team member, regardless of title or seniority, is treated equally. Given the equal competition for capital across the portfolio and complete alignment of interest among team members, the team is motivated to challenge each other in order to minimize individual biases. The team actively questions asset allocation, themes within the portfolio, and individual investments on a frequent basis.

EIM’s investment process actively incorporates a framework for environmental, social, and governance (ESG) considerations in the external manager investment decisions to help achieve its goal of maximizing support for the University’s mission. EIM shares its mission and goals with partners, and it engages dynamically on ESG related topics prior to making an investment, in order to ensure alignment of interests with endowment stakeholders. We select external investment managers based on investment ability, judgement, and alignment of interest with Emory University objectives.

EIM’s approach to ESG issues is supported by state and federal laws governing trust fiduciaries, under which EIM is bound. Georgia’s Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires trustees of financial assets to consider any factors that may affect the long-term economic interests of their beneficiaries. As fiduciaries, EIM is required to act in good faith and with the care of an ordinary prudent person. Management and investment decisions about an individual asset must not be made in isolation but rather in the context of Emory’s portfolio of investments as a whole and as a part of the overall investment strategy’s risk and return objectives. Consequently, in managing Emory’s endowment, which is capital held in trust for the benefit of current and future generations of Emory students, faculty, and affiliated entities, EIM is obliged to focus on ESG issues that can have an impact on economic results but also satisfy our strategy and manager selection criteria. We continue to actively evaluate how our peers and external investment managers are improving measurement of ESG variables for integration into investment decision-making, and we continue to incorporate ESG evaluation more holistically into our investment process and organizational culture.

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?

Unlike most public pension funds, Emory does not currently have any formal mandate regarding inclusion of woman and minority owned firms in our selection process. Emory sources investment managers first and foremost on the quality and integrity of their team, their history of execution over time, and durability of strategy outperformance in the future. We search worldwide to find investment managers that we believe can consistently produce returns in excess of their benchmark with a stable team, interests that align with their limited partner base, and meet our portfolio strategy objectives.

Based on the demographic survey responses received in the collection of data for Question #7, the data suggests that our process does not limit investment in diverse-owned firms. Out of the 152 investment firms surveyed, 68 are either substantially or majority diverse or woman owned, representing 51% of
Emory’s assets under management. In addition, Emory has at least one Majority Diverse Investment Manager in each of our asset classes.

We have defined “Majority Diverse” as firms with 50% or more diverse-ownership, “Substantially Diverse” as firms with 25-49% diverse-ownership, and “Diverse-Owned” to include both owners and senior management.

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

Emory Investment Management has not historically maintained demographic statistics on its third-party investment managers. In order to respond accurately to this letter, we sent out a brief survey asking two questions:

1. What percentage of Emory’s investment partners are firms owned by women or diverse populations?
2. What percentage of Emory’s investment partners are firms led by senior management that include women or diverse populations?

In order to define diversity, we elected to utilize the U.S. Census Bureau definitions that focused on race and ethnicity. We have defined “Majority Diverse” as firms with 50% or more diverse-ownership, “Substantially Diverse” as firms with 25-49% diverse-ownership, and “Diverse-Owned” to include both owners and senior management.

We achieved a 76% response rate to our survey, representing 82% of the net asset value of Emory’s investment portfolio.

Total Portfolio Results:
Out of the 152 investment firms surveyed in our portfolio, 68 are either substantially or majority diverse or woman owned. This represents 51% of Emory’s assets under management.

U.S. Based Investment Managers Only Results:
Out of the 123 U.S. based investment firms surveyed, 54 are either substantially or majority diverse or woman owned. This represents 41% of Emory’s assets under management.

See accompanying graphs below.
Table 3. Number of Diverse-Owned Investment Firms

Diverse is defined to include women, LGBTQ, Black or African American, American Indian or Alaskan Native, Asian, Native Hawaiian or Other Pacific Islander and Hispanic.
Diverse-owned covers both ownership and senior management of investment firms.
Majority Diverse means 50% or more diverse-owned.
Substantially Diverse means 25%-49% diverse-owned.

Table 4. Diversity as % of Total AUM