



July 31, 2020

The Honorable Emanuel Cleaver II  
United States House of Representatives  
Washington, DC 20515

The Honorable Joseph P. Kennedy III  
United States House of Representatives  
Washington, DC 20515

Dear Congressman Cleaver and Congressman Kennedy:

At the request of Harvard University president Lawrence Bacow, we have prepared the following response to your letter dated July 10, 2020 regarding diversity among asset managers of university endowments.

## Background

Harvard Management Company, Inc. (HMC) is a Massachusetts charitable corporation, formed in 1974, that invests Harvard University's endowment and related financial assets. Its goal is to seek strong risk-adjusted returns, which currently support more than one-third of the University's annual operating budget. As a wholly owned support organization of the President and Fellows of Harvard College, HMC is tax-exempt under section 501(c)(3) of the Internal Revenue Code.

HMC is served by a 12-member Board of Directors separate and distinct from the 13-member board of Harvard University, known as the Harvard Corporation. HMC's senior investment and management team is comprised of 20 managing directors, 50% of whom self-identify as women or ethnic and racial minorities, including the head of HMC, our Chief Executive Officer (See definition terms in the answer to question 7 below).

Harvard University's efforts to formalize its responsible investing pre-dates the formation of HMC. In 1972, a pair of Committees—the Corporation Committee on Shareholder Responsibility (CCSR) and the Advisory Committee on Shareholder Responsibility (ACSR)—were formed to manage proxy voting and stewardship issues. The work of these two Committees has evolved over the years to more fully address how HMC's investment practices may complement the educational and research goals of the University on critical environmental, social, and governance issues. Members of the CCSR, as well as other members of the administration, regularly engage with members of the Harvard community. This engagement often informs University policy, such as Harvard's recent commitment to achieve net-zero greenhouse gas emissions in the endowment by 2050, in alignment with the goals of the Paris Agreement.

For many years, University officials and the broader Harvard community have actively engaged on the critical issue of diversity and inclusion in our community and beyond. The role that HMC can play to

promote diversity among asset managers in university endowments is a critical part of that important dialogue.

## Your Questions

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

HMC's statement on Sustainable Investing (available on HMC's website) provides:

*Diversity and inclusion is an important issue in the workplace, not only for our external managers, but for the investments that they make. A central tenet of HMC's investment culture is the belief that a healthy organization is critical to investment success. To succeed, firms must attract and retain the best talent from the broadest pool possible.*

HMC is working on a more detailed equal opportunity statement pertaining to the selection of external endowment managers for HMC's website.

### 2. **What commitments to increasing opportunities for women- and minority-owned asset management firms have been made by senior institutional leadership?**

At the direction of HMC's Chief Executive Officer and Chief Investment Officer, HMC engaged a third-party service provider to introduce HMC to more women- and minority-owned asset managers with a particular emphasis on people of color historically under-represented in the investment sector (defined as African American/Black, Latinx, and Native American/Pacific Islander). HMC's initial engagement with this service provider is for one year with the expectation of monthly introductions to diverse managers. A managing director on the investment team has been assigned to supervise the review of, and follow-up with, managers identified in this process.

Since 2018, HMC's Managing Director for Sustainable Investing has worked with Michael Posner's *NYU Stern Center for Business and Human Rights*, in partnership with *Robert F. Kennedy Human Rights*, to address endowment asset management. The goal of the Center is to increase the number of women- and minority-owned firms managing endowment funds for American universities and colleges. In small, roundtable discussions, thought leaders in diversity and inclusion engage university endowment leadership to discuss constructive ways to enhance opportunities for women- and minority-owned firms with university endowments.

Since 2018, HMC's Managing Director for Sustainable Investing, as well as other HMC staff members, have collaborated with the Managed Funds Association (MFA) on matters of sustainable investing, as well as diversity and inclusion. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. HMC was invited to speak with MFA members on best practices for diversity and inclusion in the hedge fund industry at MFA's 2018 Human Capital Forum, its 2019 Sustainable Investment Seminar, and the 2020 MFA Network.

Since 2019, HMC's Managing Director for Sustainable Investing, as well as other HMC staff members, have served on the *Diversity and Inclusion Advisory Council of the Institutional Limited Partners Association (ILPA)*. With more than 550 member institutions representing over \$2.0 trillion of private equity assets under management, ILPA is the only global organization dedicated exclusively to advancing the interests of private equity limited partners and their beneficiaries. In February 2020, ILPA published its online Diversity & Inclusion Roadmap for the global private equity industry. The Roadmap is comprised of best practices that both general and limited partners can adopt to advance diversity and inclusion at their own organizations and throughout the private equity ecosystem. Each best practice is accompanied by a list of resources that supports the practice's implementation. As the Roadmap is intended to be an ongoing source of up-to-date, actionable information, outside submissions of additional best practices and resources are encouraged.

Since 2018, HMC's Managing Director for Sustainable Investing has collaborated with the *Diverse Asset Managers' Initiative (DAMI)* on matters of diversity and inclusion. DAMI is an independent campaign to increase the absolute number of, and assets under management by, diverse-owned asset management firms. DAMI is informed in its work by a broad spectrum of financial services professionals, institutional investors, corporate and philanthropic board members, and trade associations. DAMI defines diverse-owned firms as those where a majority of ownership are women or people of color. DAMI's advocacy on behalf of that cohort also benefits firms which are partially minority/female-owned, as well as all minority and women professionals in the industry.

Part of HMC's collaboration with DAMI included a day of meetings with diverse managers in February 2020. The event offered HMC's investment professionals an opportunity to meet with ten investment teams selected from member firms of the *National Association of Investment Companies (NAIC)*. The NAIC is a Washington, DC-based trade association and the largest network of diverse-owned private equity firms and hedge funds. Through education, advocacy, and other innovative programs, the NAIC is focused on increasing the flow of capital to high-performing diverse investment managers often underutilized by institutional investors. While the global pandemic has prevented in-person follow-ups from the February meetings, HMC investment professionals have continued conversations over email.

HMC plans to continue its collaboration with DAMI to conduct similar events with NAIC and other affinity groups in the future.

**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?**

HMC considers smaller and newer firms to be "emerging managers," regardless of gender or ethnicity. Many women- and minority-owned firms have long-standing operations and established track records. HMC applies the manager selection process described below to all established managers, regardless of gender or race.

HMC operates a Generalist investment model under which our team of investment professionals collectively take responsibility for manager selection. Each prospective manager is subjected to a rigorous manager selection process under which the entire Generalist investment team rates the manager across three primary elements: organizational structure, track record, and investment edge. In addition, HMC's support staff conducts extensive organizational due diligence. This rigorous process generally yields one new manager relationship per 100 manager introductions.

Once a manager joins HMC's portfolio, HMC's Generalist investment team maintains a close relationship with that manager. Each active manager in the portfolio is reviewed by the entire Generalist team on a periodic basis, whereby each active manager is essentially re-underwritten against other active managers in their asset class, as well as prospective new managers.

HMC continuously seeks to improve its manager selection process and has adjusted its policies and practices to encourage consideration of "emerging managers." Generally, these firms are raising their initial funds and HMC has an opportunity to be an influential anchor investor. These firms are often founded by individuals who established successful track records with larger firms before spinning-out on their own.

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

In 2019, HMC redesigned its website to include, for the first time, a section that encourages asset managers to directly solicit our investment team with their proposals.

HMC's website currently provides the following information to all managers interested in collaborating with HMC:

##### *Risk-Adjusted Returns*

*HMC's Generalist investment model breaks down silos among asset classes to search the world for the most attractive risk-adjusted returns. A central tenet of our investment culture is a belief that a disciplined set of processes, practiced by a capable and experienced team, will generate superior long-term results.*

*We are keenly focused on building processes—and supporting analytics—and executing them consistently. We combine these processes with a partnership culture in which the collective team engages in focused debates about investment opportunities both within asset classes and across the investment universe. The result is an investment team with a singular focus: the performance of the overall endowment.*

*Our risk allocation framework expresses the portfolio in terms of exposure to betas and alphas, and gives us a perspective on the portion of risk, rather than the portion of dollars, coming from any such exposures. Ultimately, our framework gives us an estimate of total risk of the portfolio, aiding deep conversations with the university in determining the appropriate level of risk for Harvard.*

##### *Partners in Investment*

*For over 45 years, HMC has developed and maintained partnerships with a variety of world-class asset managers. Our long-term outlook gives us an edge in many facets of investment management. HMC was among the earliest institutional investors in venture capital, one of the first in natural resources and emerging markets, and a leading investor in some of the most successful absolute return and direct investment strategies.*

*Our partners include both early-stage and established investors, small and large institutions, and incorporate a wide range of mandates—geography, sector, and strategy. The common thread between them all is that they are investors, rather than asset gatherers, who see the world*

*differently. HMC encourages this contrarian perspective and offers deep expertise in a variety of fields to support their endeavors.*

*If you would like to join this network of more than 100 investment partners, we encourage you to contact [partnerships@hmc.harvard.edu](mailto:partnerships@hmc.harvard.edu).*

HMC will proactively contact organizations that promote the participation on women and minorities within the investment industry to draw their attention to HMC's Partners in Investment disclosure and to encourage their members to contact HMC.

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

HMC's Chief Executive Officer and Chief Investment Officer regularly discuss HMC's priorities about inclusive asset management practices with the investment team. With the exception of the engagement undertaken to increase introductions to women- and minority-owned firms, noted in response to question 2 (above), HMC does not utilize investment consultants.

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

Unlike pension plans and other public fund managers, HMC does not conduct a request-for-proposal (RFP) process for specific mandates. Rather, as discussed in response to question 3 (above), under HMC's Generalist investment model, each manager is considered against other managers in its asset class along the three elements of organization, track record, and investment edge.

**7. How much of your institution's endowment assets are under management with diverse-owned firms?**

To inform its definition of "diverse-owned firms," HMC looked to three primary sources for guidance: The Knight Foundation's February 2020 report *Diversity of Asset Managers in Philanthropy*, the University of California's December 2019 *Office of the Chief Investment Officer Report*, and the Rockefeller Brothers Fund March 2020 statement on *Aligning Investment with our Mission: Diversifying Investment Managers*.

As you note in your letter, firms majority-owned by women and minorities represent just 1.3% of assets in the asset management industry. Consistent with the Knight Foundation report, HMC defines "majority diverse" firms as majority-owned (50% or more) either by women or by racial and ethnic minorities, including African American/Black, Latinx, Asian, and Native American/Pacific Islander. HMC currently relies on its own familiarity with its managers to assess demography and has not surveyed its managers for self-identified demographic information.

Based on this approach, as of June 30, 2020, 27% of HMC's total active manager relationships are with "majority diverse" external managers, which represents approximately 26% of our assets managed by active external managers.<sup>1</sup> With respect specifically to HMC's U.S.-based managers, 19% of active

---

<sup>1</sup> On a global basis, 17% of HMC's active and inactive manager relationships are "majority diverse," representing approximately 22% of capital managed externally.

manager relationships are “majority diverse,” which represents approximately 18% of our capital with active external managers.

## In Closing

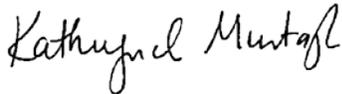
Recent activism has emphasized the necessity of rapid individual and collective action to achieve lasting social change. While no one economic actor can repair centuries of systemic racial, ethnic, and gender discrimination, each of us must do our part to expand opportunities for women- and minority-owned firms and encourage our peer institutions to do the same.

At HMC, we accept that challenge to do the work necessary to make true gender, racial, and ethnic diversity a reality in the management of Harvard’s endowment.

Sincerely,



N.P. “Narv” Narvekar  
Chief Executive Officer



Kathryn I. Murtagh  
Chief Compliance Officer  
Managing Director, Sustainable Investing