

# Yale OFFICE OF THE PRESIDENT

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July 30, 2020

The Honorable Emanuel Cleaver, II  
The Honorable Joseph P. Kennedy, III  
U.S. House of Representatives  
c/o Alex Ndikum and Qais Roshan  
Via email: Alex.Ndikum@mail.house.gov; Qais.Roshan@mail.house.gov

Dear Congressman Cleaver and Congressman Kennedy,

I am grateful for your letter of July 10, 2020, which highlights an important issue that concerns Yale University: the need for greater diversity among asset management firms, including those with which Yale invests its Endowment.<sup>1</sup> The Yale Investments Office has made this a point of engagement with its managers and is developing plans to do more. As a leading institutional investor, Yale is in a position to exert a positive influence on its investment partners regarding issues of diversity and inclusion. Moreover, through its own recruiting, training and mentorship, Yale directly contributes to a more diverse talent pipeline. We describe below Yale's current experience with manager engagement and efforts to improve diversity and inclusion within our own Investments Office.

Yale's Investments Office, led by Chief Investment Officer David Swensen, has recognized the need for greater diversity within the asset management industry, and has made this topic a regular point of discussion with the university's outside endowment managers.<sup>2</sup> Prior to the receipt of your letter, the Investments Office had initiated a review of this issue, which is currently underway, with the goal of developing a more systematic approach to strengthening diversity and inclusion. We have had a series of manager engagements that have included, for

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<sup>1</sup> The Yale Endowment comprises over 7,000 individual endowment funds with various purposes and restrictions. These funds may be restricted by donors for use to support faculty and staff, research programs, institutes, museums, libraries, publications, performances, student activities and clubs, as well as operational and capital costs, such as security, transportation, maintenance, and infrastructure. Many of the funds are restricted to support financial aid for undergraduate, graduate, or professional students. How Yale manages these funds is subject to state law, specifically, the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which was promulgated by the National Conference of Commissioners on Uniform State Laws ("NCCUSL") in 2006 and adopted by Connecticut in 2007. These legal restrictions impose fiduciary requirements upon the university with respect to the management of assets, delegation of management authority, and appropriations for expenditure.

<sup>2</sup> For background, Yale's primary strategy is to identify and hire external investment managers in various asset classes with whom to invest. Except with respect to the fixed income portfolio, which is managed in-house, the Investments Office staff relies on these external managers to manage Yale's Endowment assets.

example, speaking directly with senior leadership about diversity; encouraging firms to restructure their recruiting processes to tap into a more diverse pool; pushing firms to take more control over training, mentoring, and retaining diverse talent; and connecting diverse Yale students seeking careers in finance with Yale's established managers. Yale is a member of many investor advisory committees, which gives the university an additional forum in which to engage with managers.

Our ongoing review will include the development of data to help us understand current and future trends in diversity among Yale's managers. The Investments Office does not believe that firm ownership is the best metric to assess asset management firm diversity. While ownership describes the share of firm equity held by various parties, it does not capture more important factors, such as leadership responsibility, portfolio contributions, and compensation. The data we collect on these factors will help us identify areas for further engagement.

With respect to manager sourcing, Yale's openness to less established firms provides diverse investors opportunities to manage a part of Yale's Endowment. This openness, though primarily driven by a desire to produce market-beating returns, complements our desire to attract investors of diverse backgrounds to our manager selection process. As part of its open approach to hiring managers, Yale reviews every single inbound solicitation (numbering in the thousands) and affirmatively engages in expansive searches throughout the industry. The Investments Office website expresses genuine eagerness to hear from investors across a range of strategies and stages and provides a portal to submit solicitations:

*Start-up managers play a central role in the Endowment's portfolio. Yale readily partners with early-stage managers without formal track records or a substantial capital base. We encourage investors of all types to contact us – large or small, traditional or nontraditional. Looking back, many of our least conventional partnerships have been our longest lasting and most fruitful.*

This open invitation contrasts with an alternative approach that, for example, imposes minimum requirements with respect to assets under management or length of track record, which would preclude nascent teams from being looked at, let alone seriously considered.

Yale University prominently displays its equal opportunity statement, which has always applied with full force to the Investments Office as part of the university. Your letter has prompted us to make that commitment even more clear by adding a direct link to the statement from the Investments Office website.<sup>3</sup>

In addition to inviting solicitations through the website, the Investments Office conducts a range of research and direct outreach initiatives to identify exceptional investors. These include

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<sup>3</sup> The statement can be found at <http://catalog.yale.edu/dus/university-policy-statements/equal-opportunity/>. For additional information regarding the University's commitment to diversity and inclusion, please visit <https://oiea.yale.edu>.

scouring regulatory filings, newsletters, social media, blogs, industry publications, and manager databases; getting in touch with industry groups; and attending conferences. These sourcing efforts have resulted in material participation of smaller and/or newer firms. Approximately 68 percent of new partnerships over the past decade could be classified as startup or emerging managers.

Yale's selection process for external asset managers is continuous, without any structural requirements. Yale's openness and flexibility in sourcing new managers—including emerging and start-up managers, and its ongoing efforts to encourage existing managers to prioritize diversity and inclusion—have resulted in more diverse investment teams managing Yale's Endowment. A number of Yale's external partners include women and/or people of color within their leadership ranks. A preliminary assessment indicates that 50 percent of Yale's assets that are managed by U.S.-based managers are managed by diverse-led firms.<sup>4</sup> More specifically, Yale is proud to have been an anchor investor of multiple women-led firms, including one of our largest investment managers. We will continue to work towards having more success stories.

In addition to manager engagement and sourcing, the Investments Office has stepped up efforts to focus on diversity and inclusion among its own staff. Not only is the office a source of potential diversity for the industry talent pipeline, but we strongly believe that having a diverse investment staff with different perspectives and experiences enhances Yale's investment process. The office has expanded its efforts over time to ensure diverse, high-quality candidate pools for staff positions. These efforts include systematic and targeted outreach to thousands of potential applicants. The office is fortunate to have proximity and access to the Yale student body and alumni communities, which are incredibly talented and richly diverse. Currently, women and people of color represent 38 percent of Yale's investment staff and 30 percent of its senior investment staff.

In addition to recruiting from a diverse talent pool, the Investments Office understands the importance of mentorship and recognizes that all investment professionals require ongoing support and training. The Chief Investment Officer has provided decades of mentorship and support to members of the investment management community. Of the 15 Investments Office alumni who have gone on to be Chief Investment Officers at endowments and foundations, ten are women. For these women, as for any of the Investments Office alumni and staff, the Chief Investment Officer and senior investments staff routinely make themselves available for feedback and support. Furthermore, recognizing the importance of role models from outside the organization, the Investments Office hosts a series of mentorship workshops for the entire staff, featuring accomplished investment professionals of diverse backgrounds with successful financial careers.

In conclusion, we fully subscribe to the vision that animates your letter and are grateful you have elevated this important issue. Yale wishes to be part of the solution and is actively planning to

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<sup>4</sup> U.S.-based managers represent 61% of Endowment assets at June 30, 2020. For the purposes of this analysis, Yale defines diverse-led firms as those where women and/or people of color make a material contribution to a firm's investment leadership and decision-making.

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build upon its existing efforts. Our top priority is to find the best performing partners with the highest integrity, and we will continue to make and improve efforts to find partners from a variety of backgrounds. We will continue to challenge our investment managers to promote diversity and inclusion through recruiting, training, mentorship, and retention. The efforts we have made are consistent with Yale's fiduciary responsibilities. Our hope is that with the concerted effort of institutional investors like Yale and their investment partners, the industry will eventually reflect the kind of diversity that proves "equal opportunity" is not just a byword, but a reality experienced by investors (and aspiring investors) of all backgrounds.

Sincerely,



Peter Salovey  
President  
Chris Argyris Professor of Psychology