

**Written Testimony before the  
U.S. House of Representatives, Committee on Financial Services Subcommittee on  
Diversity and Inclusion**

**Hearing: “Diverse Asset Managers: Challenges, Solutions and Opportunities for Inclusion”**

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Managers Generate Higher Returns (And How You Can Too)”**

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Chairwoman Beatty, Ranking Member Wagner and distinguished Members of the Subcommittee, it is an honor to appear before you today at this important hearing on how to achieve greater diversity in the asset and investment management industry.

By way of background, I am a 21-year veteran of the investment management industry. I began my investing career in 1998 at a small hedge fund firm in Nashville, TN when I was hired by a male CEO and financial services gender contrarian who believed that women made better financial analysts than men. While I worked my way up from my entry-level position as a hedge fund analyst to become the head of research and a member of the firm’s investment committee, I never doubted my boss’s hiring wisdom (although, always a fan of diverse opinions, I did eventually integrate the department to include men during my tenure).

Employed roughly 1,000 miles from Wall Street, I did not initially realize that other asset management and investment firms had far less gender diversity than mine. In fact, it wasn’t until I started regularly speaking at investment industry conferences (where I was often one of few, if not the only, female speaker) that I began to recognize how little gender and racial diversity existed in my chosen profession. I began to research diversity in asset and investment management in 2010 and, over the past nine years, have come to appreciate just how unique my investment “upbringing” was, as well as how unlikely it would have been for me to be sitting here today without my original boss’s unorthodox hiring preferences. However, even with that leg up, admittedly it has been a rather solitary career path, with few diverse role models, mentors, and sponsors along the way.

As challenging as the lack of diversity may have made my personal journey, that pales in the face of the systemic cost of homogeneity in asset management. In fact, nine years of research has left me with the unshakable knowledge that **the lack of women and minorities in the asset management and investment industries is making everyone, from Wall Street to Main Street, poorer.**

While this may be a bold statement, I believe a number of factors support the assertion that, as a society, we are missing out on a “diversity dividend.”

- 1) **A wealth of investment research suggests that diverse asset managers may provide similar or even higher returns.** Studies from the [NAIC<sup>1</sup>](#), [CityWire<sup>2</sup>](#), [BarCap<sup>3</sup>](#), [Babalos<sup>4</sup>](#), [Morningstar<sup>5</sup>](#), [Rothstein Kass<sup>6</sup>](#) and others show that diverse fund manager performance (either within separate funds or in mixed gender teams) is at least equal to and, in many instances, greater than that of the total investment fund universe. A 2016 study by Oleg Chuprinin and Denis Sosyura found that [hedge funds run by individuals that grew up poor \(bottom 20 percent of households in terms of wealth\) outperformed those managed by managers from the top 20 percent by over 1 percent per year<sup>7</sup>](#). A 2019 study from Harvard University's Bella Research Group further found that women and minority owned hedge funds, mutual funds and private equity firms had [disproportionate representation in top quartile performance figures<sup>8</sup>](#). Another [Harvard study found<sup>9</sup>](#) that the chance of a venture capital-backed company filing for an Initial Public Offering increased by 20 percent if the backing investors were from different ethnic backgrounds, while venture capital firms that "increased their proportion of female partner hires by 10% saw, on average, a 1.5% spike in overall fund returns each year and had 9.7% more profitable exits," [again per a Harvard Business Review study<sup>10</sup>](#).

**These studies and others like them strongly suggest that investors, from the wealthiest of individuals to the police, firemen and teachers that depend on well-invested pension portfolios, may in fact have inadequate financial resources due to lack of access to diverse investment talent.**

- 2) **Access to diverse asset management talent may provide another diversification tool within portfolios, and may also help mitigate volatile market behavior, which is currently dominated by a single cognitive and behavioral pattern.** At least one study has found that having [more women on Wall Street could reduce market volatility<sup>11</sup>](#) due to the introduction of differentiated investing behavior. Another review by [investing platform Stash found men 87% more likely to sell<sup>12</sup>](#) during periods of market volatility, which means diversity potentially provides both stability and liquidity in the markets.

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<sup>1</sup> <http://naicpe.com/wp-content/uploads/2017/10/2017-performance-report.pdf>

<sup>2</sup> <https://citywireselector.com/news/alpha-female-2018-mixed-gender-teams-produce-better-returns/a1145784>

<sup>3</sup> <https://www.managedfunds.org/industry-resources/industry-research/affirmative-investing-women-and-minority-owned-hedge-funds-a-barclays-capital-report/>

<sup>4</sup> <https://www.sciencedirect.com/science/article/pii/S0275531915000264>

<sup>5</sup> <https://www.fa-mag.com/news/morningstar--the-gender-lens-doesn-t-magnify-your-bottom-line-37579.html>

<sup>6</sup> <https://www.managedfunds.org/industry-resources/industry-research/women-alternative-investments-marathon-sprint-rothstein-kass/>

<sup>7</sup> <http://webuser.bus.umich.edu/dsosyura/Research%20Papers/FamilyDescentDec2016.pdf>

<sup>8</sup> [https://kf-site-production.s3.amazonaws.com/media\\_elements/files/000/000/281/original/2019\\_KF\\_DIVERSITY\\_REPORT-FINAL.pdf](https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/2019_KF_DIVERSITY_REPORT-FINAL.pdf)

<sup>9</sup> <https://hbswk.hbs.edu/item/in-venture-capital-birds-of-a-feather-lose-money-together>

<sup>10</sup> <https://hbr.org/2018/07/the-other-diversity-dividend>

<sup>11</sup> <https://www.aeaweb.org/articles?id=10.1257/aer.20130683>

<sup>12</sup> <https://qz.com/work/1386775/study-of-investors-shows-differences-between-men-and-women/>

Furthermore, Hedge Fund Research's Diversity Index ([HFRI Diversity Index](#)<sup>13</sup>) has posted a flat return (0.00%) over the last 12 months, which compares favorably to the HFRI Fund Weighted Index -1.24% loss in value over the same period, further evidence of return diversification.

In addition, according to the National Association of Investment Companies ("NAIC"), one reason for outperformance of diverse private equity managers may be differentiated deal flow. [The report concludes](#)<sup>14</sup> that "[m]any diverse fund managers have educational and work experience similar to investors in non-diverse funds. However, some also report having expanded, differentiated networks that allow for deal flow off the beaten path. To the extent that a fund manager has access to such deal flow and can strike deals with less competition, their returns, and investors, may benefit. For example, firms and funds focused on the EDM may have access to companies on the cusp of growth due to changing demographics and shifts in the global economy."

Despite clear advantages to cognitive and behavioral diversification, some estimates indicate that as many as 95% of those taking risk with capital on Wall Street and in the asset management industry are white males, and we certainly know from a variety of sources that asset and investment management generally lacks diverse participants in any meaningful way. For example, per the [Bella Research Group study](#)<sup>15</sup> referenced above, "the number of substantially or majority diverse-owned funds represented just 8.6 percent of the total in 2017" and women-owned firms managed a mere 0.8% of all assets under management while minority-owned firms controlled 1.2% of fund assets. Leaving fund ownership aside, a [2017 review of the alternative investment industry by Preqin](#)<sup>16</sup> found that women comprised less than 21% of all employees in private equity, venture capital, hedge funds, real estate, infrastructure, natural resources and private debt funds, and that, of these employees, only 11% (or less depending on the asset management segment measured) occupied senior roles. And [TechCrunch reported that 81%](#)<sup>17</sup> of venture capital firms don't have a single black investor.

- 3) **Concentration of venture capital investments into similar companies perpetuates unmet consumer needs and lack of investment and jobs into diverse and underserved communities.** It has been repeatedly shown that the East and West Coasts dominate the venture capital landscape, with the [Bay Area and the New York-Washington-Boston corridor landing an astonishing two-thirds of all venture capital investment](#)<sup>18</sup>. This creates a vast, unexplored economic desert throughout much of the continental United States. In addition, [female founders received just 2.2%](#)<sup>19</sup> of all venture

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<sup>13</sup> <https://www.hedgefundresearch.com/family-indices/hfri>

<sup>14</sup> <http://naicpe.com/wp-content/uploads/2017/10/2017-performance-report.pdf>

<sup>15</sup> <https://www.institutionalinvestor.com/article/b1cwwq3mc37xwk/Asset-Managers-Owned-by-Women-and-Minorities-Have-to-Work-10X-as-Hard-for-Assets>

<sup>16</sup> <https://docs.preqin.com/reports/Preqin-Special-Report-Women-in-Alternative-Assets-October-2017.pdf>

<sup>17</sup> <https://techcrunch.com/2018/11/08/81-of-vc-firms-dont-have-a-single-black-investor-blck-vc-plans-on-changing-that/>

<sup>18</sup> <https://www.citylab.com/life/2017/10/venture-capital-concentration/539775/>

<sup>19</sup> <http://fortune.com/2019/01/28/funding-female-founders-2018/>

capital in 2017 and 2018, while from [2007 to 2012 black and Hispanic founders each received about 1%](#)<sup>20</sup> each in venture capital investments. These statistics are both stark and critical for understanding lost economic opportunities.

Women influence [83% of consumer spending and \\$7 trillion of spending](#)<sup>21</sup> in the U.S. annually, and consumer spending drives an ever-increasing percentage of the GDP, and yet women's needs currently may not be met by venture-funded companies. [A study by Neilson found](#)<sup>22</sup> that "African American income growth rates outstripped non-Hispanic whites at every annual household income level above \$60,000 and the largest increase for African American households occurred in the number of households earning over \$200,000, with an increase of 138%." Yet, their consumer needs may not be represented by current venture-capital funded companies. And "between 2016 and 2017, [Hispanics increased their real median income by 3.7 percent](#)<sup>23</sup>, the highest of any demographic."

The lack of funding outside of traditional money centers as well as the near exclusion of diverse founders represents a tremendous lost opportunity for investment, economic expansion and job creation in diverse and underserved communities. Additionally, this compounds the lost opportunities for higher investment return generation, where less competition for portfolio companies creates more reasonable valuations for investors.

In my opinion, these three factors lead to one powerful conclusion: Diversity pays a dividend in asset management, one that, at least with the status quo, we have no hope of collecting.

To address the continuing lack of diversity in asset and investment management, I believe we need to focus on educating three primary groups:

- 1) **Investors** – With [pension liabilities funded at only 73.7%](#)<sup>24</sup> and with an astonishing [78% of Americans extremely or somewhat concerned about being able to comfortably retire](#)<sup>25</sup>, it is critical that the return enhancement and diversification benefits available through investment with diverse asset managers be highlighted and pursued. After all, demand from investors almost always drives innovation and change on Wall Street.
- 2) **Asset and Investment Management Firms** – While investors stand to reap the benefits of higher returns, asset managers and investment firms will profit as well through higher income from fee generation. In addition, firms that maximize diversity for returns and diversification may be able to capture a higher percentage of investable assets as investors seek higher return products. Companies that understand how the "diversity dividend" can directly impact their bottom line are more apt to support educational

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<sup>20</sup> <https://money.cnn.com/2016/04/12/smallbusiness/latino-venture-capital/index.html>

<sup>21</sup> <http://www.genderleadershipgroup.com/the-inclusionary-leadership-blog/210>

<sup>22</sup> <https://www.nielsen.com/us/en/insights/reports/2015/increasingly-affluent-educated-and-diverse--african-american-consumers.html>

<sup>23</sup> <http://hispanicwealthproject.org/resources/blog/new-hispanic-wealth-project-report-confirms-critical-role-of-hispanics-in-u-s-economic-growth/>

<sup>24</sup> <https://www.bloomberg.com/graphics/2018-state-pension-funding-ratios/>

<sup>25</sup> <https://news.northwesternmutual.com/2018-05-08-1-In-3-Americans-Have-Less-Than-5-000-In-Retirement-Savings>

efforts in pre-hire cohorts, recruit diverse talent, uncover and mitigate unconscious bias in hiring and promotion decisions, and provide mentoring, sponsorship and affinity groups as part of a robust inclusion effort. Finally, given the generational wealth transfer taking place to diverse individuals (and the gains in diverse economic status cited above), failure to serve these demographic groups as a client base will almost certainly take a toll on asset and investment manager profitability in the future, further prioritizing this issue.

- 3) **Diverse individuals** – Providing financial and investment literacy education to girls and people of color at a young age (high school or earlier) is critical to building a pipeline of qualified diverse asset management candidates. For example, [studies have shown that girls opt out of math-related subjects as early as age 11 or 12<sup>26</sup>](#), meaning that it is not sufficient to intervene at the college or graduate school level, when qualified candidates have already self-selected into other academic areas. As a board member for a non-profit that provides financial education to girls (with 69% minority representation), I can say that Rock the Street Wall Street sees a [97% increase in understanding of financial concepts and, perhaps most importantly, 67% of the girls indicate they are now extremely or very likely<sup>27</sup>](#) to explore a major or minor in finance and economics. This type of early intervention is therefore beneficial in building a pipeline of talent for companies and investors, and of course benefits diverse asset management talent as well.

In conclusion, I certainly recognize that diversity in asset management is a complex and costly issue. It is one that has no single, simple solution as it ultimately springs from historical and ongoing conscious and unconscious bias, as well as access to opportunity, education and capital. I do believe, however, that through robust public-private educational partnerships, common-sense transparency requirements (to both measure progress and so investors can adequately assess the level of alpha-generating diversity at asset management firms) and suitable anti-discrimination and harassment statutes, we can change the face of asset management for the future, and enhance the economic well-being of both Wall Street and Main Street in the process.

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<sup>26</sup> <https://techcrunch.com/2016/01/05/why-stems-future-rests-in-the-hands-of-12-year-old-girls/>

<sup>27</sup> <https://rockthestreetwallstreet.com>