The Colony Group

PERSPECTIVES
Institutional Series

INCORPORATING DIVERSITY, EQUITY & INCLUSION IN AN INVESTMENT POLICY

Why should you consider including diversity, equity, and inclusion ('DEI') in your investment policy statement ('IPS')?

Doing so ensures that the institution's DEI objectives remain priorities, even in times of committee/board turnover. Consistent DEI goals as an integral part of an institution's IPS objectives not only create explicit guidelines for the DEI commitments that matter most, but also increase the probability of capital being truly impactful over time.

Who is responsible for setting DEI objectives?

Ultimately, it is the board's/committee's role to establish the criteria and framework for incorporating DEI goals into an IPS. The advisor should review and provide recommendations regarding execution and provide feedback on the effectiveness of the framework. Importantly, DEI objectives should reflect the principles of an organization and serve to further its mission through incorporating DEI values in the portfolio.

Where to begin?

The starting point should always be to question: what is the institution striving to *accomplish*? Then, are there specific *components* of the portfolio that should intentionally seek diversity? If so, is the focus on supporting these initiatives as a *whole or on specifically seeking gender and/or racial/ethnic diversity* and to what extent (e.g., Black or Latinx managers)? Finally, it must be decided how *much* of the portfolio should be allocated to DEI objectives.

How?

First, the institution must determine how it defines a diverse manager or investment (e.g., ownership, management, total firm composition, etc.). Then, how will the number of diverse managers in the portfolio be *quantified*: are a certain *number* of diverse managers or investments required; a *percentage* of the total number of managers; or a percentage of *assets under management* allocated to diverse managers?

What challenges are likely when incorporating DEI into an IPS?

Over time, not all board/committee members will have the same views regarding DEI priorities within an institution's portfolio. Furthermore, as board/committee members' terms end, new members may not be as familiar with the importance of DEI, reinforcing the need to codify these guidelines within the IPS. An additional challenge may arise due to a relative imbalance of available diverse managers and investment opportunities within specific asset classes. This could delay the institution's ability to reach its DEI objectives within a specific timeframe. For example, a 2021 study released by The Knight Foundation found that the overall percentage of U.S.-based investment firms owned by underrepresented groups was 6.1%, while women ownership was also only 6.1%. This data underscores why it is crucial that investment advisors be deliberate in seeking multiple sourcing channels to identify diverse managers to fulfill stated DEI goals in an institution's IPS.

The Knight Foundation data includes firms with 50% or greater firm ownership by members of underrepresented groups or women, respectively.

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