



# BEING DELIBERATE IN DEVELOPING DEI MANAGER SOURCING CHANNELS

## What does the process of including diverse managers in an investment portfolio entail?

**Cassidy Orr:** Clients overseeing pools of capital have a responsibility to support the mission of the institution they serve. While some focus on reflecting the population(s) of the institution, others believe a diverse pool of managers comprised of investors with various backgrounds and experiences as members of underrepresented racial or ethnic groups, genders, or socioeconomic statuses, yield greater diversity of thought and potential for increased returns. For these reasons, it is imperative that institutions collaborate with their advisor.

## How has diversity in the asset management industry been defined?

**CO:** It hasn't. When discussing diversity in the U.S. asset management industry, the biggest challenge is the absence of a universal definition to classify managers as a diverse. In their Diversity of Asset Managers Research Series, The Knight Foundation<sup>1</sup> defined a diverse-owned firm as one with 50% or greater firm ownership by females or members of underrepresented groups. Conversely, clients may view a manager or firm as diverse for a myriad of criteria, such as: the chief investment officer/portfolio manager is a female or member of an underrepresented group (regardless of equity ownership); at least half of the firm's partners are female or members of underrepresented groups; the firm is owned or led by members of the LGBTQIA+ community or veterans; the firm has diverse representation in the overall staff. It is important for institutions to understand the various ways diversity is defined and determine which definition best aligns with their diversity, equity, and inclusion ('DEI') priorities.

## Why is it important for your advisor to be deliberate in developing new diverse manager sourcing channels?

**CO:** The U.S. asset management industry has historically consisted of firms owned and led by white men; however, in recent years, the industry has recognized the need for a significant shift in the amount of capital allocated to women and members of underrepresented groups. In December 2021, The Knight Foundation<sup>1</sup> released a study surveying \$82.24 trillion of U.S.-based assets under management ('AUM') and found that only 1.4% was invested in diverse-owned firms, meaning 98.6% of all U.S.-based AUM was managed by white, male-owned firms. Further still, the overall percentage of U.S.-based investment firms owned by underrepresented groups and those owned by women were only 6.1% each (also noted in, [Incorporating Diversity, Equity & Inclusion in a Policy Statement](#)). While the asset management industry has placed greater emphasis on elevating the visibility of diverse managers in recent years, it remains important that advisors deliberately seek new sourcing channels for diverse managers.

## Are there sourcing channels for diverse managers that investment advisors can utilize?

**CO:** As the industry has continued recognizing the need to allocate capital to more women and members of underrepresented groups, new sourcing channels focused on advancing the visibility of diverse managers have emerged. The largest and most well-known channel is the Institutional Allocators for Diversity, Equity, & Inclusion (IADEI). The Colony Group is a member of IADEI and actively utilizes their database of nearly 1,000 diverse managers to ensure they included in all manager searches. Other specialized groups are dedicated to creating accessibility to managers from specific backgrounds, including Culture Shift Labs (dedicated to Black and Latino managers), Sponsors for Educational Opportunity ('SEO') (dedicated to Black, Latino, and Native American managers), and The Association of Asian American Investment Managers (AAAIM), (dedicated to the Asian American and Pacific Islander community of managers). These groups host events to highlight exceptional managers from these backgrounds and facilitate introductions to investors who may not have otherwise had the opportunity to meet these managers. DEI-focused conferences also offer opportunities to meet diverse managers.

<sup>1</sup>Note: The Knight Foundation is a leader in collecting and reporting on diversity data in the asset management industry and is clear that their study measured diversity of ownership because it is the most widely available metric. Large institutions, such as endowments and foundations, do not widely report on the DEI metrics of their portfolio and are not subject to federal regulatory reporting. Thus, diversity studies face inherent limitations on publicly available data, resulting in no universal definition to classify managers as diverse.

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**CASSIDY ORR**

Research Analyst

*Cassidy is a research analyst at the Colony Group. She supports the Institutional Advisory Practice team in New York, serving non-profits, and high-net-worth families. She also conducts due diligence on prospective and existing external investment managers for clients' portfolios.*

*After graduation, she joined the University of Virginia Investment Management Company (UVIMCO) as an Investment Analyst. She worked as a generalist, covering manager due diligence across asset classes for a \$14.5 billion endowment.*

*She attended the University of Virginia and earned a Bachelor of Arts in Economics.*

## CONTACT

cassidy.orr@thecolonygroup.com

(646) 292-1299

[www.thecolonygroup.com](http://www.thecolonygroup.com)