

A blurred background image of a financial chart with multiple colored lines (white, yellow, red, blue) and a dotted trend line, set against a dark blue gradient.

A DEEP DIVE INTO DEI: HOW – AND WHY – TO USE YOUR INVESTMENT PROGRAM TO PROMOTE DIVERSITY, EQUITY AND INCLUSION, PART 2

Using Investing to Bring DEI Goals Within Reach

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USING INVESTING TO BRING DEI GOALS WITHIN REACH



William Forde, CFA, CAIA

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Diversity has been an area of interest for endowments, foundations and nonprofits for decades. Promoting diversity has long been viewed as a way to dismantle structural inequities and generate opportunities for minorities, women and other underserved communities, outcomes that are often in alignment with these organizations' missions.

But 2020 was the year where racial injustice came into sharp focus. The killing of George Floyd put protestors on the street, shining a spotlight on the racial disparities laid bare by the COVID-19 pandemic. The desire to redress these wrongs has led to heightened interest in diversity initiatives – in fact, it's one of the most frequent topics our clients raise.

In the second installment of this series, we lay out what it means to incorporate diversity, equity and inclusion (DEI) into your investment program, and explain why we believe it's not only a valid strategy, but also a necessary one.

While implementing DEI has benefits in all walks of life, the investment marketplace is a highly impactful arena for driving DEI outcomes. This piece will explain why it makes sense to consider DEI in your investment portfolio, and how NEPC pursues DEI goals.

PURSUING THE DEI EFFECT

We point out in the [first installment](#) of this series that diverse ownership or leadership has been linked to better performance; an [NAIC study](#) indicated that a majority of diverse private-equity funds posted top-quartile results between 2011 and 2018. The reasons boil down to three concepts:

- **Higher growth potential.** Diverse organizations have a broader range of vision to identify opportunities and deeper cultural competencies to address the evolving needs of consumers (or stakeholders).
- **Greater innovation.** Diverse, equitable and inclusive organizations can tap a wider pool of talent.
- **Greater risk control.** Diverse organizations understand the concerns of a wider range of stakeholders and are less likely to be pulled into groupthink.

These 'DEI effects' are highly compelling to any investor, in addition to the positive social benefits that appeal strongly to endowments, foundations and nonprofits. From our perspective as an investment advisor, placing assets in the hands of diverse leadership is a powerful and direct way to pursue both sets of benefits. But it requires discipline and detail to do it effectively.

CASE STUDY: NEPC

NEPC has worked with clients over several decades to develop a substantial DEI toolkit. The toolkit has four main components, each one proven to be an essential element of pursuing DEI goals.

1. DEI Definitions

A good DEI program starts with having clear definitions for what diversity means to your organization. NEPC defines diversity among investment managers as follows:

- A diverse-owned manager can certify greater than 50% ownership by persons who identify with at least one under-represented group.
- A diverse-led manager can certify 33% to 50% ownership by persons who identify with at least one under-represented group.
- Under-represented groups for diverse manager status at NEPC include:
 - Black/African-American
 - Latinx/Hispanic
 - Asian/Pacific Islander
 - Native American/Alaskan Native
 - Women
 - Disabled Persons
 - Veterans

It's worth noting that definitions are an important area for reconsideration over time. For example, a strong case can be made to include under-represented portfolio managers at non-diverse owned/led firms in the diversity definition.

2. DEI Self-Assessment

In our experience, successful DEI policies are built on a foundation of authenticity, so before looking at the DEI records of others, it pays to look inward. Gather data that shows where you stand on key qualitative and quantitative measures. In NEPC's case, for example:

"Diversity facilitates friction. In markets, this friction can disrupt conformity, interrupt taken-for-granted routines, and prevent herding. The presence of more than one ethnicity fosters greater scrutiny and more deliberate thinking, which can lead to better outcomes."

- [PNAS research](#)

- 14 of 47 partners are women; four are minorities
- 37% of all employees are women; 24% are minorities
- NEPC clients have \$34.7 billion invested across 175 strategies managed by diverse firms
- We have developed a multi-year DEI business plan that spans our workforce, workplace and the marketplace
- We have established internal resources through the Diversity, Equity and Inclusion Network (DEIN) and Women's Leadership Forum to promote inclusive and equitable corporate behaviors and to provide direct support for under-represented groups

Today, not every organization can lay claim to inclusive teams, equitable policies, or high levels of diversity. While the absolute data is important, it's equally important to show a willingness to improve, and to demonstrate that improvement by tracking relevant data that shows how behaviors are changing.

3. NEPC's Diverse Manager Policy

Once you have the basics down, you're ready to develop a fully articulated DEI policy. The purpose of any policy should be to outline specific actions a firm will take to achieve its goals.

[NEPC's Diverse Manager Policy](#), for example, lays out a plan to move to 10% diverse-manager placements by 2021 from 6% in 2018. To get there, NEPC will increase its planned number of meetings with diverse managers by 10% at the end of 2020 – a significant step that will position us to achieve this larger goal.

In addition, we believe accountability and transparency will contribute to our success. We are sharing our targets widely, and we plan to publish progress reports that will track and report the achievements of the Diverse Manager Policy.

4. NEPC's Diverse Manager Committee.

A policy is only as effective as the leadership that implements it. So, in addition to setting targets through the Diverse Manager Policy, NEPC maintains a committee directly responsible for achieving those targets, and identifying the processes needed to follow through on NEPC's commitments.

The committee also plays a role in evaluating client interests and updating the policy over time to reflect clients' concerns.

DIVERSIFY THE CONVERSATION

DEI doesn't just have to be an abstract idea – with the right tools and a genuine commitment, it can become an implementable program that provides measurable and lasting benefits. Your relationship manager has answers that can enhance both your social and financial goals. All you have to do is start the conversation.



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