



DEI RATINGS: BETTER DATA AND DEEPER INSIGHT FOR ENDOWMENTS AND FOUNDATIONS

NEPC Endowments and Foundations Team

September 2023

Diversity, equity and inclusion—commonly known as DEI—are a common consideration for endowments and foundations (E&Fs). Many of NEPC’s E&F clients are pursuing new and creative ways to incorporate DEI. At the same time, E&Fs vary considerably in their DEI goals and how they wish to reflect them in their investments.

The wide-ranging client demand for information around diversity has been a key impetus behind NEPC’s new DEI Ratings platform. The platform aims to provide greater detail, more consistently, to enable E&F clients to pursue an approach that is tailored to their goals and mission.

DIVERSE THINKING ABOUT DIVERSITY DATA

A sizable (and growing) segment of the E&F market seeks opportunities to emphasize diversity as they put their assets to work. The reasons are substantive, but they aren’t all the same:

1. Performance. Many clients seek a performance advantage, citing studies that show superior results for diverse management groups. They are seeking information to help them cast a wide net for the best managers.

2. Mission alignment. E&F clients often want to ensure their assets are invested in a way that clearly supports or aligns with their organizational missions. For example, a foundation focused on shrinking the wealth gap across racial lines might want data that shows each manager’s depth of commitment to DEI.

3. Mission advancement. Some clients go beyond alignment and prioritize using their portfolios to drive change. These clients want comparative data about the investment managers they work with. They may also want to place assets with women- or minority-owned managers, making the industry more inclusive and diverse as a whole. An additional consideration may be looking for opportunities to invest in different communities or entrepreneurs.

Regardless of reason, the key for every client is consistent diversity data that offers depth and detail for each investment manager. Historically, that hasn’t been easy to do. While human resources trade groups like the Society for Human Resources Management (SHRM) are developing increasingly high-quality models for assessing company diversity¹, not all investment managers track in depth data, and many are hesitant to report on it.

There are also deep disagreements about what diversity is and how best to pursue it. What constitutes a diverse hire? Is diverse ownership more important, or diverse leadership? How much diversity is enough?

¹ Source: <https://www.shrm.org/executive/resources/people-strategy-journal/winter2022/pages/feature-diversity-data-eaton.aspx>

As a result, NEPC has seen a rising desire among our E&F clients for a clearer way to assess, rate and compare DEI-driven strategies and investment managers. This is the role that our DEI Ratings are designed to fill.

DEI RATINGS: DEPTH, DETAIL AND CONSISTENCY

Will Forde, a partner and co-chair of NEPC's Diverse Manager Committee, has played an instrumental role in creating a DEI ratings system that meets the needs of clients, whether they are seeking diversity in their manager choices or awareness around the role diversity plays.

"Our ratings try to measure each firm's commitment to diversity – how it is implemented at a high level, but also how it is integrated throughout the business," says Forde. "We're trying to get past statements and good intentions to measure actions in detail." For example:

- Is the manager's DEI policy written broadly, or does it include tangible goals?
- Is there a clear line of management responsibility for policy tracking and results?
- Do diversity discussions end at leadership, or do they filter down to employees and supply chains?

These details give organizations that seek diversity among their suppliers a better base of information to make apples-to-apples comparisons; because the ratings are updated annually, they also capture the investment manager's progress – or the lack thereof.

Forde feels the ratings do more than simply help clients address their interest in diversity – they also provide insight into the quality of the investment managers as a whole. "Our internal research teams have quickly integrated these DEI Ratings into their wider evaluation efforts," he says. "The ratings provide insights that they believe can have a material impact on a firm's ability to produce desirable long-term results."

A POWERFUL TOOL TO LEVERAGE IMPACT

By providing actionable information for investment decisions, NEPC's DEI Ratings can provide an entirely new avenue for clients to expand their impact.

Krissy Pelletier, a partner and co-head of the Impact Investing Committee, explains that many E&Fs think of impact in terms of their annual grants, which typically make up about 5% of their total endowment. But an impact investing program that incorporates DEI Ratings allows clients to pursue impact with the entire weight of their asset base.

"Clients sometimes say – we don't just want to use the fumes to pursue our mission. We want to use the engines themselves," she says. If taking action to support diversity is meaningful to your organization, reach out to your NEPC consultant for more information about the role that DEI Ratings can play in your portfolio.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

