



"A life is not important except in the impact it has on other lives."

-- Jackie Robinson

Looking for the Next Branch Rickey

As with all our notes, we start with a quote. However, this is not our regular quarterly dispatch. As a minority and women owned firm, we thought it necessary to share our views on race and diversity within the investment management industry in light of the current social climate. There are many worthy individuals worth quoting about race, but for us, Mr. Robinson is quite appropriate and emblematic of our lives as collegiate athletes, sports enthusiasts and pioneers for change.

Like many Americans, we have watched with shock, anger, sadness and frustration as events have unfolded over the last few weeks. Unfortunately, we must acknowledge these tragic events are not new. We are encouraged by the outpouring of support that has compelled many to make a statement, acknowledge and validate past injustices. However, if we are honest, much more needs to be done to make things right in America. Attitudes need to change to address systemic racial biases within our society. This must entail the crucial challenge of dislodging the many forms of bias, both structural and subconscious, buried within many people unaware of the need for change.

Race affects all aspects of life in America. In this note, we hope to share our experiences and hopes for change in the world of investing. As the sole African American and woman owned OCIO provider, we have a unique perspective on these issues within the investment management industry.

Providing an Opportunity

While Jackie Robinson was an amazing individual who had a remarkable impact on society and African Americans, he needed help to do it. He needed

someone to give him an opportunity. If it were not for the thoughtful insights of Branch Rickey, part owner and baseball executive with the Brooklyn Dodgers, most of us may never have heard of Jackie Robinson. True baseball purists may have noted Robinson's contributions on the field along with other Negro League legends like Satchel Paige or Josh Gibson. Yet, without Mr. Rickey, he might have just been another gifted ball player who never got the opportunity that his talents warranted.

Players like Robinson were not looking for a handout or preferential treatment; he was just looking for an opportunity to compete as any other talented athlete would. While Jackie got his opportunity, it was far from fair. For him to succeed, he had to be perfect in very difficult conditions. Just being a good player would not cut it, he had to be head and shoulders above white players to justify a spot in the starting lineup. His character and temperament had to be impeccable to endure the taunts he would hear from fans and even his teammates. If he had taken the bait and gotten into a fight, he might have set back the opportunity for himself and other Negro League players for years.

Fast forward to today and we find that there are not nearly enough Branch Rickey's in the world of investment management affording diverse owned firms, in particular minority owned firms, opportunities warranted by their talents. While the industry has made some advances such as diversity and pipeline initiatives through scholarships, there are still several obstacles for minority and women owned firms to overcome to be successful.



Clearing Away the Hurdles

Jackie Robinson was a talented athlete with skills that extended beyond the baseball field. While at UCLA, he was also on the football and track teams. The practice of clearing hurdles was a skill that certainly served him well later in life. In the world of investment management, there can also be many hurdles to clear. Some justifiable hurdles are education, professional experience and track record, while others are not justifiable and create key hurdles for investment firms like ours. These include:

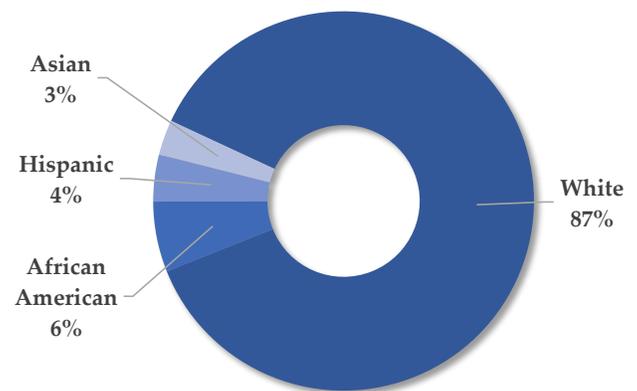
- *Subconscious Bias*
- *Structural Bias*
- *Diversity Gap Amongst Decision-makers*
- *Misconceptions of Funding Gaps*
- *Representation versus Ownership*

Subconscious Bias: A number of studies, including one in 2019 led by Stanford University, have shown that minority and women owned firms are not appropriately considered when making allocations.¹ Of the \$69.1 trillion in global financial assets under management across mutual funds, hedge funds, real estate, and private equity, fewer than 1.3% are managed by women and people of color.² The report attempts to explain why this is so low. They find that when evaluating equally qualified investment firms, asset allocators rated white-led firms to be of higher quality than minority owned firms. One of the report's authors stated, "While it is important to work on populating the pipeline, we need to think about how to continue supporting diverse teams who have already established themselves as strong performers."

Structural Bias: Subconscious omission can be hard to combat and quantify. There are several clear structural biases that prevent firms like ours and other fund managers from gaining a foothold. More times

than we care to remember we have heard the phrase "you have such an impressive background and we would love to work with a MWBE firm! Call us when you have a five-year track record, over \$1 billion in assets under management, manage clients just like our institution, etc....." In reality, isn't this why we perform due diligence versus waiting for external validation? If Mr. Rickey had these biases, Major League Baseball and the nation may have never heard of Jackie Robinson, or Branch Rickey for that matter.

Diversity Gap Amongst Decision-makers: In the OCIO market, firms such as ours must gain the favor of nonprofit boards and management teams to win new mandates and grow assets. However, despite their mission of serving diverse communities, the leadership and decision-making bodies of non-profit organizations tend to lack diversity. In 2017, executive search firm Battalia Winston analyzed leadership teams of the 315 largest foundation and nonprofits in the U.S. Their findings are noted in the graphic below:



Considering these findings, it is no surprise that personnel searches, board members and procurement needs are perpetually sourced from homogeneous networks. Fortunately, the same survey found that females accounted for 42% of the leadership at these

¹ <https://news.stanford.edu/2019/08/12/race-influences-professional-investors-judgments/>

² <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

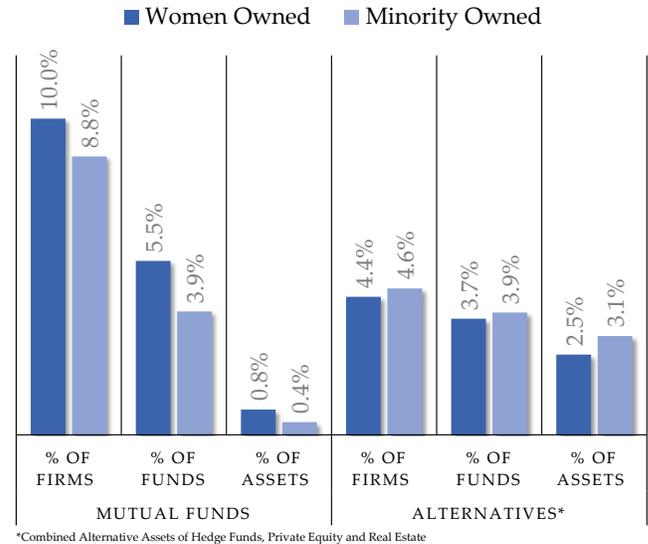


not for profits. Nevertheless, organizations need to become more deliberate across all facets of their institutions (philanthropy, personnel, procurement) if they wish to make an impact on diversity.

Misconceptions about the "Funding Gap": Another misconception comes from the fact that there are pools of capital focused on "emerging" aka MWBE investment managers. We sometimes hear "Oh, you're a minority and woman owned firm; it must be easy to raise money". There are a few errant assumptions within that statement. First, these programs are often run by state, municipal or union pensions that legislate these requirements. Corporate or non-profits that rarely have these requirements. In addition, they are often geared towards specific strategies within the fixed income and equity markets that happen to be the most commoditized and low margin strategies within the investment management industry. Finally, the application requirements for these programs are very rigid, often supervised by understaffed or underqualified teams, leading to many of these programs not being fully invested, thus limiting their intended impact.

While there has been an increase in the *number* of MWBE investment firms, they have garnered barely a sliver of the pie of investable assets. According to the Knight Foundation study³, and the chart below, minority and women owned firms manage only 0.8% and 0.4% of mutual fund assets, and 2.5% and 3.1% of alternatives assets, respectively. This is despite these firms making up 10.0% and 8.8% of mutual fund industry, and 4.4% and 4.6% of the alternatives industry, respectively. In addition, the study found "little evidence that women- or minority-ownership affects fund performance." This is not a "pipeline"

issue, these talented firms need support to grow and prosper.



Representation versus Ownership: Many non-profit institutions have missions that aim to support minority and disadvantaged groups. So, there is often an appreciation and embrace of minority and female sales representatives from their service providers. However, if these institutions dug a bit deeper, they would find the firms that these individuals represent are hardly diverse, especially in senior management. For instance, within the senior leadership/executive committees of the ten largest providers of OCIO services, we found that women accounted for approximately 27% and African Americans only 6%. These firms account for over \$1.2 trillion of assets. By contrast, diverse owned firms are diverse from the top, which perpetuates diverse hires, service providers, consumption and philanthropy within diverse communities. If organizations want to truly effect change, they need to partner with firms who are committed to diversity, from top to bottom not bottom to top.

³ <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>



Diversity is Nothing New at Disciplina

As the latest chapter in U.S. race relations develops, you are going to hear from organizations starting new initiatives to make their workforce more diverse and “redoubling” their efforts to engage with their communities. At Disciplina, you will not hear any such announcements. For us, diversity in both our team and the investment managers we select has always been a way of life. It starts with our leadership from Matthew Wright CFA, the first African American ever to manage a \$1 billion-plus college endowment when he took the helm at Vanderbilt University in 2007. In 2013, he became the first African American to start and lead an OCIO firm. Disciplina Partner Alena Kuprevich has worked with Matthew since 2001 when they were at Emory University and has allocated capital to alternative investments globally for over twenty years. Half of our team is female and a third is African American. Diversity is built into our firm’s DNA; it’s just the way we do things. This diversity of thought has led to strong investment returns during our twenty plus years together as a team.

Here is the formula we have followed to remove hurdles and expand our exposure to diverse-owned firms:

- 1) *Build proactive MWBE pipeline with a focus on results*
- 2) *A due diligence process that builds conviction for early adoption versus superficial constraints*
- 3) *Embrace diverse perspectives and influence across all levels of the decision-making process*
- 4) *Acknowledge ownership as a better alignment of interest versus simply diverse representation*
- 5) *Take responsibility to address funding gaps*

For Disciplina, this process has translated into client portfolios where 25-35% of the assets are allocated to MWBE firms.

Conclusion

We started this firm with the goal of having an impact on other lives, just as Mr. Robinson stated. Our version of impact includes offering non-profits professionally managed portfolios with investment and service capabilities comparable to having their own in-house investment team. This expands their philanthropic capacity and ability to serve diverse communities. We also aim to make a difference by building a diverse team and creating opportunities for strong performing minority and diverse owned investment firms to scale, grow and expand their philanthropic capacity across diverse communities.

Disciplina has long been a pioneer in the industry. Going forward, we look to change the script for minority and diverse owned firms. We are looking to discover capital allocating institutions aligned with our mission in this journey. To truly succeed in our mission of impact, we need more Branch Rickeys spanning various backgrounds, ethnicity, race and gender willing to remove hurdles for talented firms like ours poised to effect change. As we grow our assets, we aim to continue our history of creating opportunity and accruing the benefits of allocating to talented MWBE firms. Our expertise and mission-based approach can help your institution’s portfolio reach its full potential, not only on its bottom-line, but also amongst the varied communities it will bring a positive impact.

Best regards,

Matthew Wright and Alena Kuprevich