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Case Study Offers Insight Into Mgr. Diversity At Foundation

Institutional investors and their consultants need to conduct a true audit of their inclusion of diverse managers in their investment portfolio, as perception is not always met by reality, a new case study shows.

The first-of-its-kind study, conducted by the Silicon Valley Community Foundation and its general investment consultant Colonial Consulting, provides rare insight into the manager vetting processes in the nonprofit space as both organizations bare all for the benefit of manager diversity across the industry.

"What I hope will be transformative is that by getting the investment consultant to review, monitor and track its process more carefully, everybody will be the beneficiary of that throughout their database of clients," said Emmett Carson, president and ceo of the \$4.7 billion Silicon Valley Community Foundation.

The findings have already resulted in changes in how the foundation and Colonial will conduct business moving forward.

"We need to have a process where we know that qualified women- and minority-owned managers were considered," said Michael Miller, managing director of Colonial, explaining that with the Silicon Valley Community Foundation, the initial focus is on building a bench list of firms in each asset class to be provided to the investment committee that will highlight the ownership structure of each firm.

Carson said that having a way to track the effort is important. "It is a systematic look at the work where we can look year over year at what we did as an institution but also how others did overall. That

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Emerging Manager Awards

18 Nominees Vie For Eighth Annual Awards

Emerging Manager Monthly is proud to present the nominees for the 8th Annual Emerging Manager Awards.

Nominees in seven categories were ranked based on the following criterion: excess returns over the benchmark, performance versus peers, product asset growth and product asset percentage growth, with the final 10 managers in each class also ranked by information ratio.

The categories are domestic large-cap equity, small-cap equity, small- to midcap equity, mid-cap equity, all-cap equity and international equity. Overall, over 349 products were considered.

The top three managers in each category will now be handed over to a commit-

tee made up of industry experts in the plan sponsor and consulting communities.

For the list of finalists in each category, see pages 5-6.

Award recipients will be announced on April 2.

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The committee will evaluate the merits of each firm based on quantitative and qualitative measures before selecting the winners, who will then be announced in the April issue of Emerging Manager Monthly. The committee will remain anonymous during the selection stage to maintain the integrity of the process.

To be eligible for the awards, managers must have submitted year-end 2013 and 2012 data to eVestment by Jan. 31, have less than \$2 billion in assets under management and have full-year 2013 performance figures.

See our full disclaimer on page 6.

Broadleaf Closes Out 2013 With Top Quarterly Return

Broadleaf Partners finished out 2013 strong, leading all emerging managers in returns for the fourth quarter, according to EMM's fourth quarter performance report.

Broadleaf's domestic large-cap growth equity strategy posted a 33.66% return for the quarter to take the top spot in the rankings.

The top one- and three-year performers were all-cap value manager Zevenbergen Capital Investments and global value equity manager Mittleman Investment Management, respectively.

Overall, 879 products are included from 341 firms. Large-cap growth was the most populated strategy, with 58 products.

Please see the disclaimer in the full report for details on how the information is collected from eVestment.

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Case: Colonial Adjusts Research Process To Address Diversity

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will be the proof point for us but also for Colonial's work that they are identifying a bigger pool because we have the baseline of the prior year. We will know overall they are recommending more and we will have another proof point," he said.

While Miller had always believed the firm was active in its vetting of women- and minority-owned firms, it was only when they reviewed the firm's database to evaluate what firms had been met with over the past year, what firms were rated positively and broke down the information by ownership that he found an unexpected and disappointing outcome.

Miller explained that in calculating the percentages, Colonial found that the number of women- and minority-owned firms being recommended versus those in the eVestment universe was relatively even, however the firm was below average in the number of meetings it was holding.

"Providing opportunities for qualified women and minority-owned firms is not difficult and our shortcoming in this regard was disappointing," he said, calling the approach "benign neglect...we didn't think about it."

Carson says the diversity of Colonial's staff shows that the issue isn't as simple as hiring more women and minorities at consulting firms, but goes deeper to the criteria used to vet and track managers.

"I do think asking foundations to ask the question, 'Are we as diverse as we could be and are we seeing as many managers as we should be,' and asking questions of their investment consulting firms is very low hanging fruit that gets to a better result," he said.

He added, "We didn't come at this as say, 'Oh Colonial, we need to have 'x' number of new managers of color or women-owned and that is going to satisfy us. We went deeper to say, 'what are you doing with the clients across the board'...it was that discussion and review that revealed that even with a diverse staff, we aren't doing this nearly as often or frequently as we thought we were doing."

Miller believes the lack of a push to use emerging managers in a meaningful way likely affects how many nonprofit consultants conduct their business. "I can't actually find a structural bias in what we are doing other than the fact that our sourcing of managers comes from our network and this can lead to unintended consequences," Miller said.

That notion, coupled with the way consulting businesses are structured, only compounds the issue. "If you think about the way the consulting model works, and Colonial is not a great example because we are smaller...at the end of the day as a business person to dedicate research and time to emerging managers is of limited value given the small percentage of our client capital that could be allocated to such firms. We're willing to make this investment though," Miller said.

As a result of its internal review, Miller said the first change at Colonial is requiring the 20-person investment research team to fill out the data fields related to women and minority ownership.

"Without specific quotas, we did say to them, 'listen, we expect to see the numbers and percentages of managers you are talking to that are women- and minority-owned go up from what they were last year,'" he said.

Miller said the focus for Colonial is on providing more opportu-

ABFE Creating MWBE Mgr. Directory

The Association of Black Foundation Executives is creating a directory of women- and minority-owned asset managers to distribute to its membership and philanthropic partners.

The directory, part of the organization's expansion of its network to include Industry Partners, will provide firms that partner with ABFE a means to access foundations and endowments.

The industry partner fees vary by a firm's assets under management, with firms with less than \$500 million paying an annual fee of \$750, firms with between \$500 million and \$1.9 billion paying \$1,500 and firms with more than \$2 billion in assets paying \$2,500.

The industry partner level also provides managers with priority registration and discount admission to ABFE events, invitations to networking and other events with ABFE members, speaking and presenting opportunities through Webinars, professional development sessions and conference workshops, among other benefits.

Managers that would like to include their information in the directory can fill out a form at http://www.lenoxpark.us.com/abfe_manager_form.html.

nities for women- and minority-owned firms.

Carson believes the changes Colonial is making will benefit not only the Silicon Valley Community Foundation, but all of the firm's clients and others in the space. "I'm more optimistic that this is a shift that will benefit not only all Colonial clients, but will be a model for all foundation managers to talk to their investment consultant about what are you doing with all of your clients," he said.

Miller said the firm also hopes to participate in more conferences and emerging manager events to raise its profile among women- and minority-owned firms.

The effort is also being supported by the Association of Black Foundation Executives, which has taken a leadership role in promoting diversity in investment management among foundations over the past few years.

"I am very pleased that the Association of Black Foundation Executives is championing this," Carson said. "I do think this is a leadership issue for the boards and staff and leadership of foundations to just ask the question and if they start to ask the question in a thoughtful and responsible way, each foundation will be able to start and share their experiences," he said.

Erika Davies, director of external affairs for ABFE, said the organization will share the case study directly with its membership and other affinity groups such as the Council of Foundations. The case study will also be the focus of a session at ABFE's Annual Conference, which will be held in Washington, D.C. on June 6-8.

"This is part of our entire SMART Investing initiative. We are really committed to changing the field around this particular issue," said Davies, who encourages anyone interested in learning more about ABFE's efforts to e-mail her at edavies@abfe.org. "We want it to become part of normal business practices."

The full case study can be found here (www.emergingmanagermonthly.com).