



Smithsonian Institution

Office of Investments

Diversity, Equity and Inclusion Report

The Smithsonian Institution's Office of Investments

Diversity, Equity and Inclusion Report - May 2023

The Smithsonian Institution was established by Congress in 1846 and is a trust instrumentality of the United States. The Smithsonian has the authority to accept gifts. Its endowment does not have federal funds and is instead composed entirely of trust funds (private donations and money raised through revenue-generating activities), which are managed as a pooled endowment. As part of the Smithsonian, the Office of Investments manages the endowment by employing external investment managers across a diverse set of assets. In regard to Diversity, Equity and Inclusion (DEI), the Office of Investments' efforts are to:

- 1) Promote diversity and inclusion within its endowment practice and commit to engaging managers of diverse backgrounds and ensure they are afforded a fair and equal opportunity to participate in the management of the endowment's assets.
- 2) Align with the Smithsonian Strategic Plan to make diversity and inclusion integral to all aspects of the Smithsonian's operations and key components.
- 3) Ensure best institutional investment practices of enhancing returns through the use of diverse investment teams.

Goal

Our mission to increase and diffuse knowledge continually challenges us to ask how we might best use the Smithsonian's strengths and new technologies to better serve communities. When embraced and managed sincerely and effectively, diversity increases productivity, broadens perspectives, improves morale and fosters creativity. The Smithsonian ensures that employees, interns, volunteers and all associated individuals are treated equitably in an environment free from discrimination based on race, color, national origin, religion, sex, age or disability. Its endowment objective, using external managers, is to generate sufficient long-term returns to provide stable and growing payouts with an acceptable level of risk. We strive to identify the best investment managers in each asset class and are committed to ensuring the inclusion of diverse managers in our assessments.

The History of the Review of Diversity, Equity and Inclusion Practices

In September 2017, the Government Accountability Office (GAO) published the report "Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers."¹ The GAO undertook this study because asset management firms managed more than \$70 trillion, but only 1% of those assets were identified as managed by minority- and women-owned (MWO) asset managers.² To produce the report, the GAO interviewed 14 state, local and private retirement plans and foundations in addition to 10 MWO asset managers. Its aim was to review the challenges and develop key practices to increase opportunities for MWO asset managers.

The GAO report identified four key practices, listed below, that can be used as part of investors' asset manager selection to help broaden the processes and ensure that qualified MWO firms are considered. The practices do not require investors to develop targets or allocations for MWO asset management firms or to change performance standards. The GAO identified the Smithsonian as having all four key practices in place prior to the publication of the report. These practices are:

¹ See <https://www.gao.gov/assets/gao-17-726.pdf>

² GAO based estimates of the asset management industry on regulatory assets under management reported to the SEC as of May 2017

- **Top leadership commitment**
 - Demonstrate commitment to increasing opportunities for MWO asset management firms
- **Remove potential barriers**
 - Review investment policies and practices to remove barriers that limit the participation of smaller, newer firms
- **Outreach**
 - Conduct outreach to inform MWO asset managers about investment opportunities and the selection process
- **Communicate priorities and expectations**
 - Explicitly communicate priorities and expectations about inclusive asset management practices to investment staff and consultants and ensure those expectations are met

The Office of Investments has developed inclusive policies and taken other steps to increase opportunities for MWO asset managers.

In March 2017, the Office of Investments revised its investment guidelines by adding “environmental, social, and corporate governance considerations in the investment process” as one of its selection criteria. This change allowed the Office of Investments to incorporate diversity as additional criteria for asset manager selection. Furthermore, the Board of Regents and its Investment Committee encourage looking broadly at portfolio diversification not only in terms of asset classes and investment strategies, but also the racial and gender diversity of asset managers. In addition, the Office of Investments does not have requirements for minimum size or length of track records, which has allowed smaller asset managers, including small MWO firms, to compete for asset management opportunities with the endowment.

The Office of Investments also conducts outreach to MWO firms; investment staff meet with MWO asset managers on an ongoing basis. Staff participate in conferences focused on women-owned and emerging managers. Additionally, the Office of Investments has communicated its priorities and expectations about inclusive-selection processes by asking its consultants for a list of diverse managers. Investment staff proactively identify MWO asset managers to add to this list based on their capability and expertise. Given the size of the endowment (approximately \$2.4 billion in June 2022), it is often able to invest with smaller asset managers (including smaller MWO firms). These tend to be entrepreneurial and more successful when dealing with changing market dynamics, increasing the chance of delivering superior investment returns to the endowment. The Office of Investments has a small staff and limited resources, but it has not found it difficult to identify MWO asset managers for the endowment.

The Office of Investments defines “MWO asset managers” as firms or managers led by women- and/or racial/ethnic minorities with at least 50% or greater equity ownership of their respective firms. Additionally the individual must be a U.S. citizen or permanent resident and the firm must be domiciled or headquartered in the U.S. (U.S. Managers).

The Office of Investments has hired MWO firms since the formation of the office; we have grown our efforts since 2016 from approximately 12% MWO firms at that time to 38% MWO firms in 2022 of U.S. Managers. We do not relax our standards in pursuit of these goals, but we have refreshed our pipeline and are using multiple paths to identify high-quality, top-tier managers.

