



Smithsonian Institution

Office of Investments

Manager Diversity Report

## Overview

The Smithsonian Institution was established by Congress in 1846 and is considered a trust instrumentality of the United States. The Smithsonian Institution has the authority to accept gifts. The Smithsonian Institution's 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 "the Endowment". As part of the Smithsonian Institution, the Office of Investments manages the Endowment by employing external investment managers across a diverse set of assets. The focus of the Office of Investments with regards to Diversity and Inclusion efforts is to:

- 1) Promote diversity and inclusion within its endowment practices, commit to engaging managers of diverse backgrounds, and ensure the managers 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 Office of Investment's operations and key components.
- 3) Ensure best institutional investment practices of enhancing investment 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 overall ensures that employees, interns, volunteers, and all affiliated individuals have equal opportunity in an environment that is free from discrimination based on race, color, national origin, religion, sex, age or disability. The Smithsonian's endowment objective is to generate sufficient returns over the long-term to provide stable and growing payouts with an acceptable level of risk using external managers. We strive to identify the best investment managers in each asset class and to ensure the continued inclusion of managers with diverse backgrounds.

## History of Review of Diversity 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".<sup>1</sup> The GAO undertook this study as asset management firms managed more than \$70 trillion but only 1% of those assets were identified as managed by minority- and women-owned asset managers ("MWO"). The report interviewed 14 state, local, private retirement plans and foundations, in addition to 10 MWO asset managers to review the challenges and develop key practices to increase opportunities for MWO asset managers.

The GAO report identified four key practices below, that can be used as part of investors' asset manager selection processes to help broaden the processes and ensure that qualified MWO

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

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 Institution as having all four key practices in place prior to the publication of the report. These practices are:

- **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

In 2023 GAO conducted another engagement on the same topic as the 2017 GAO report, to review the use of minority and women-owned asset management firms in federal retirement plans and endowments. The Office of Investments submitted additional information on this topic to GAO in December 2023.

The Office of Investments has developed inclusive policies 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 an additional criterion for asset manager selection. Furthermore, the Board of Regents and Investment Committee encourage looking broadly at portfolio diversification not only in terms of asset classes and investment strategies, but also in terms of ensuring a broad and diverse pool of managers and equal opportunity for all qualified managers. In addition, the Office of Investments does not apply minimum requirements for size or length of track record, which has allowed smaller and/or newer 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 with investment staff meeting 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 (~\$2.5 billion as of April 2024), it is often able to invest with smaller asset managers (including smaller MWO firms)

which 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 defines “Diverse Asset Managers” as firms led by women or racial/ethnic minorities with 50% or greater equity ownership that are headquartered in the U.S. or “U.S.-based Managers.” This definition aligns with comparable industry studies and analyses.

The Office of Investments has hired Diverse Asset Managers since its formation; we have grown our efforts since 2016 from approximately 12% Diverse Asset Managers to 40% of U.S.-based Assets Under Management (“AUM”) with Diverse Asset Managers in 2024. As of April 30, 2024, \$1.66 billion was managed by U.S.-based Managers. We do not relax our standards in pursuit of these outcomes, but continually refresh our pipeline and pursue multiple paths to identify high quality, top tier managers.

The below table shows assets under management with Diverse Asset Managers and its demographic composition.

<b>US-based Managers</b>	<b>US Manager AUM<sup>2</sup> April 2024</b>	<b>US Manager AUM<sup>2</sup> June 2022</b>
<b>Female Managers</b>	9%	10%
<b>Minority Managers</b>	34% <sup>3</sup>	37%
African American	5%	5%
Asian/Pacific Islander	23%	26%
Hispanic	7%	6%
<b>MWO/Diverse Managers<sup>4</sup></b>	<b>40%</b>	<b>44%</b>
US Assets Under Management	\$1.66bln	\$1.58bln

<sup>2</sup> US Manager AUM does not include managers headquartered outside of the US, cash and cash equivalents, assets managed by public firms, and managers considered to be inactive with assets less than \$2 million.

<sup>3</sup> Summing difference due to rounding

<sup>4</sup> This percentage reflects the fact that some managers are reflected in both the female and minority manager percentages noted above.