

ESG RESEARCH

Diverse Owned Manager Initiative: 2020 in Review

“Because investment consultants play a gatekeeping role in determining with which asset class managers pension funds do business, they are uniquely positioned to either promote or obstruct manager diversity.”¹

In 2018, we announced an enhanced initiative to increase awareness of diverse owned managers among our clients and consultants, and to create a proactive outreach from Wilshire to the community of these managers. While much work remains on the path to equity, Wilshire is proud of our contributions to lead peers in promoting manager diversity and progress made. As we continue to develop and implement our strategy, we are providing this annual report as a way to hold ourselves publicly accountable for doing our part to highlight diversity and inclusion in the asset management industry.

The data reveal definitive successes, and some ongoing challenges. The initiative has had a demonstrable impact on the awareness of diverse owned firms among Wilshire consultants and clients, including these highlights:

Summary Findings

- **Growth in mandates awarded:** Across all manager searches from 2018-2020, the total number awarded to diverse owned firms nearly doubled: from approximately 10% to 13% to 18% in 2018, 2019 and 2020, respectively.
- **Growth in number of tracked firms:** From 2018-2020, the total number of diverse owned firms tracked by the Compass manager database grew 4% annually.
- **Growth in proportion of firms evaluated and rated highly:** From 2018-2020, the percentage of diverse owned firms in the Wilshire database, evaluated by Manager Research and rated in the top four deciles grew from 16% to 17% to 22% in 2018, 2019 and 2020, respectively.
- **Growth in number of managers and products rated highly:** From 2018 to 2020, the number of diverse owned managers and products rated in the top four deciles grew annually by 22% and 30%, respectively.
- **Growth in number of consulting meetings, scope of contact:** From 2018-2020, total consulting meetings with diverse owned firms grew from 39 to 58 to 85 in 2018, 2019 and 2020, respectively, representing an annual growth rate of 48%.
- **Number of clients investing with diverse managers grew, hurdles remain for asset growth:** From 2018-2020, the proportion of Wilshire clients investing with diverse owned firms grew from 20% to 35% and clients affirm an interest in diverse owned managers; nevertheless, assets under management remain low.
- **Pandemic curtailed high impact in-person events, commitment to the initiative and creative thinking shifted meetings to video:** The “Welcome to Wilshire” events were very well received, but were suspended in 2020 due to COVID-19. In the absence of these events, the consulting team stepped-up its proactive efforts and conducted one-on-one meetings by videoconferencing.

¹ Talia L. Schank, “Casting a Wider Net: Increasing Opportunities for Minority and Women Owned Asset Managers in Institutional Investments.” Roosevelt Institute, ReFund America Project, & Service Employees International Union, 2016. Available at <http://www.seiu.org/diversity>

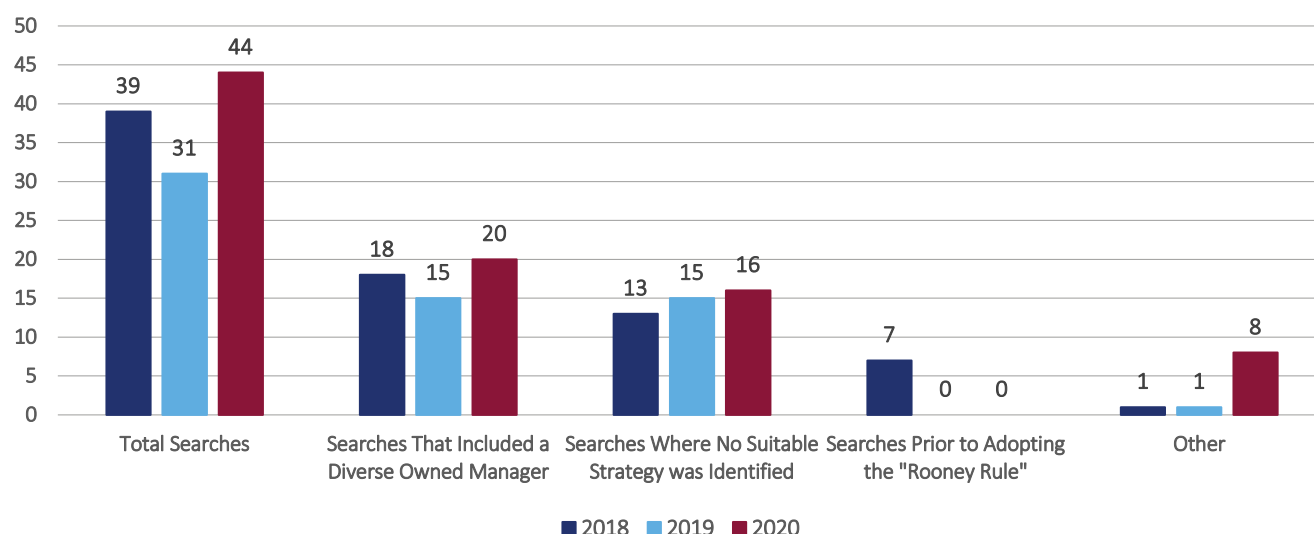
Search Activity and Growth in Mandates Awarded

One of the cornerstones of our diverse owned manager initiative is the requirement to include a diverse owned firm in every public securities manager search conducted for non-discretionary consulting clients (often referred to as the “Rooney Rule”). In fact, Wilshire was one of the first consultancies to initiate the Rooney Rule for all public searches. For the year ended December 31, 2020, our consultants conducted 20 searches where diverse owned manager products were available and fit the client mandate, with eight searches resulting in wins for the diverse owned manager. However, there were 24 additional searches where a suitable product or vehicle from a diverse owned manager was not identified and therefore was not included in the search process. In examining these instances, eight searches were limited by non-investment factors, for example, six searches were restricted to managers that were available on the recordkeeper’s platform. Among the remaining 18 searches where a diverse owned manager was not included, they tended to be niche strategies including real assets, non-core fixed income (TALF, unconstrained bond), and target-date funds. Going forward, Wilshire will work to fill the gap in approved managers for the asset classes where diverse representation is challenged. See **Exhibit 1** for a year-by-year comparison of Wilshire’s search experience: from 2018 to 2020, the inclusion rate of diverse owned firms in client searches remains stable between 45%-48% of all searches. The search opportunities included 14, 15, and 18 different diverse owned firms in 2018, 2019, and 2020, respectively. Overall, from 2018 to 2020, 29 different diverse owned firms were included in Wilshire manager searches. In 2020, 18.2% of all searches were awarded to diverse owned firms, versus 12.9% in 2019 and 10.3% in 2018. Finally, when a diverse owned firm is included in a search the win rate has accelerated: 22.2%, 26.7%, and 40.0% in 2018, 2019, and 2020, respectively.

Exhibit 1

Although the total number of searches varies from year to year, the inclusion rate of diverse owned firms remains stable at just under half of all searches. While Wilshire’s aim is to increase inclusion of diverse owned firms, various factors have limited participation. For example, searches may be restricted to managers available on the recordkeeper’s platform, or an asset owner may impose minimum assets under management requirements. Additionally, as both equity and bond markets are fully valued, asset owners are seeking diversification opportunities by initiating searches in niche asset classes such as real assets and nontraditional fixed income, where diverse owned managers are less prevalent.

Manager Searches



“Other” refers to non-investment related circumstances including a 2018 search conducted by an RFP process where no diverse owned manager responded, and a search in 2019 where the client opted to eliminate a manager and consolidate assets with incumbent managers, none of whom was diverse. In 2020, six defined contribution searches were limited by the recordkeeper platform and in two other searches, the client imposed minimum qualifications.

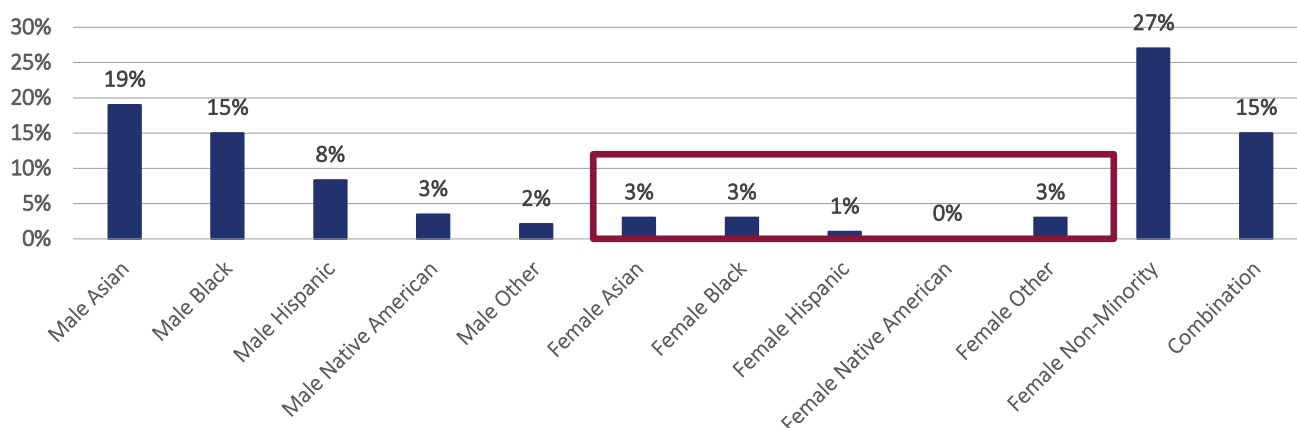
Database and Growth in Number of Tracked Firms

As noted by the Knight Foundation,² the greatest challenge to research on diverse ownership or management is the lack of data. Therefore, Wilshire has focused on analyzing our database of diverse owned managers and understanding the profile of this population and holdings within our client base. Wilshire CompassSM is a proprietary software application offering access to the Wilshire Investment Database and a sophisticated suite of analytics and reports for asset allocation modeling, manager search and evaluation, and total fund analysis. Originally developed in 1992 for the asset owner community, Wilshire Compass includes detailed information on approximately 2,000 investment managers. Within this database, our diverse owned manager committee has identified 144 viable diverse owned firms managing public securities portfolios. This number is an increase from the 134 diverse owned firms identified in 2018. However, year-over-year from 2019 to 2020, the number of diverse owned firms contracted from 145 to 144. While Wilshire connected with new firms in 2020, others were felled by the operating pressures of COVID-19, the closing or paring of prominent diverse owned manager programs run by asset owners and managers-of-managers, and/or the persistence of investment regimes (for example, growth outperforming value) which challenged the performance of managers whose styles were out of favor. **Exhibit 2** details the demographics of the diverse owned firms in the Wilshire Compass database. Of these 144 firms, the owners primarily identify as non-minority women and male Asian and Black Americans. As highlighted in the graphic, firms owned by minority women are the most underrepresented at only 10% of the diverse owned manager universe.

Exhibit 2

Within the Wilshire CompassSM manager database, our diverse owned manager committee has identified 144 viable diverse owned firms managing public securities portfolios. Of these 144 firms, the owners primarily identify as non-minority women and male Asian and Black Americans. As highlighted in the graphic, firms owned by minority women are the most underrepresented at only 10% of the total diverse owned manager universe.

**Demographic Breakdown of
Diverse Owned Manager Segment of Wilshire Manager Database**



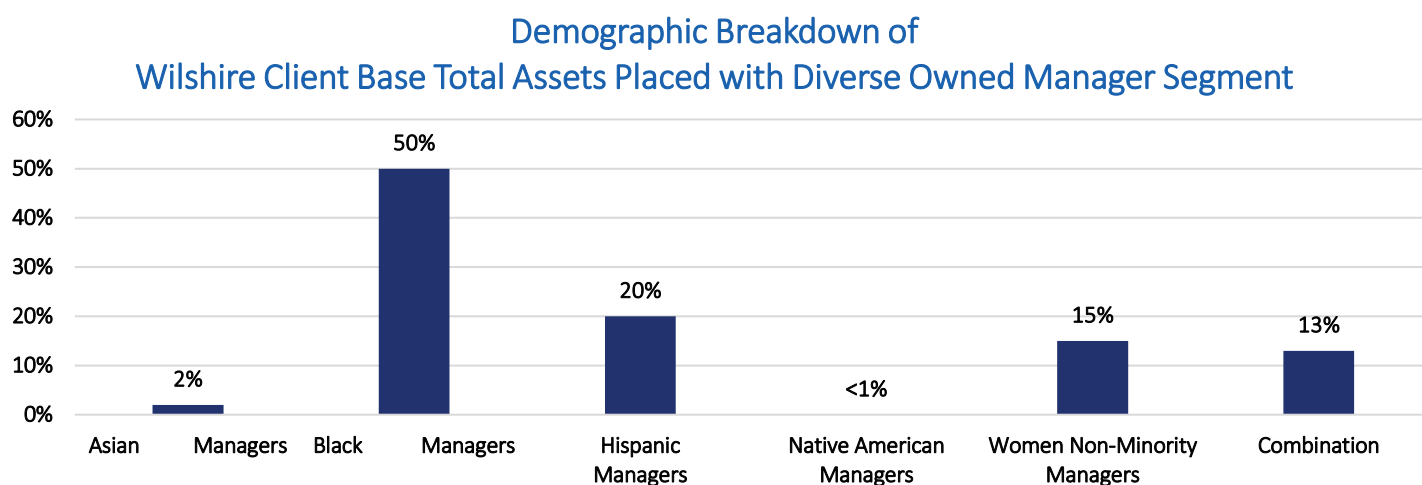
² Professor Josh Lerner (Harvard Business School) and Bella Research Group, "Diversifying Investments: A Study of Ownership Diversity and Performance in the Asset Management Industry." The Knight Foundation, 2019. Available at <https://www.knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry>

Assets Managed by Diverse Owned Firms

Turning to holdings of diverse owned managers, 34.7% of Wilshire’s discretionary and non-discretionary client base has placed assets with diverse owned managers. This is a material uptick from 22.7% and 19.8% of the client base investing with diverse owned firms in 2019 and 2018, respectively. As shown in **Exhibit 3**, Black asset managers have captured 50% of all assets managed by diverse owned firms within the Wilshire client base. By comparison, Hispanic, Women (non-minority), Combinations of minorities and Asian American asset managers manage 20%, 15%, 13%, and 2% of Wilshire client assets, respectively. Industry-wide, firms owned by women and minorities represent 8.6% of the industry’s total number of firms but manage just 1.3% of assets.³ At Wilshire, diverse owned firms represent 9.9% of our manager database and manage 1.7% of our clients’ assets. While our numbers are higher than industry averages, they remain at low levels and reveal that these managers are under-owned relative to their prevalence. This implies smaller average mandate size than majority owned firms.

Exhibit 3

At Wilshire, diverse owned firms manage 1.7% of our clients’ assets versus an industry average of 1.3%. This graphic details the identity distribution of the diverse owned managers who manage Wilshire client assets. While Black asset managers are just 18% of the Wilshire CompassSM manager database (see **Exhibit 2**), they have captured 50% of all assets managed by diverse owned firms within the Wilshire client base. Hispanic, Women (non-minority), Combinations of minorities and Asian American asset managers manage 20%, 15%, 13%, and 2% of Wilshire client assets, respectively. Note that this data remains a small sample size as it is only 1.7% of our clients’ assets.



“Combination” ownership configurations include Asian/Black, Asian/Hispanic, Asian/Hispanic/Women Non-Minority and Black/Women Non-Minority

Growth in the Number of Managers and Products Rated Highly

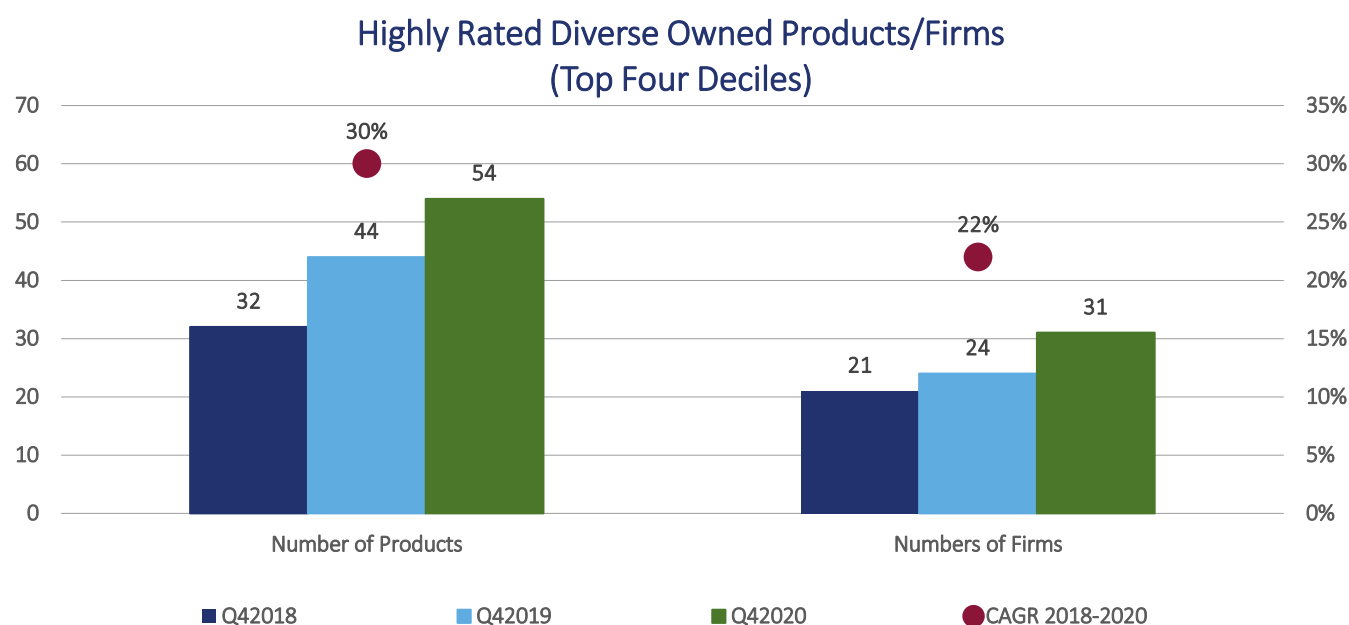
To address the imbalance between the number of diverse owned managers and relatively lower assets under management, we believe it is incumbent upon our consultants to ensure that diverse firms are represented in searches and to continue to educate our client base on the value proposition of diverse owned managers. To that end, we have increased the number of diverse owned strategies that we are evaluating which has led to an expansion in the number of diverse owned firms and products rated in the top four deciles, the minimum rating to be short-listed for a search. From 2018 to 2020, the number of

³ Professor Josh Lerner (Harvard Business School) and Bella Research Group, “2018 Diverse Asset Management Study.” Available at <https://bellapivatemarkets.com/insights/2019/2/21/2018-diverse-asset-management-study>

highly rated diverse owned firms has increased from 21 to 31 while the number of highly rated products has grown from 32 to 54. With double-digit growth in the opportunity set, we seek to offer clients greater choice among diverse owned firms while potentially increasing the likelihood of matching mandates to managers. **Exhibit 4** provides greater detail on the expansion of the list of highly rated diverse owned managers and products.

Exhibit 4

Ushering diverse owned firms through the Wilshire manager research process is a critical prerequisite to diverse owned firms being highly rated and eligible for searches. To that end, we have generated double-digit growth in the number of diverse owned firms and products rated in the top four deciles, the minimum rating to be short-listed for a search. Greater choice among diverse owned firms potentially increases the likelihood of matching mandates to managers.

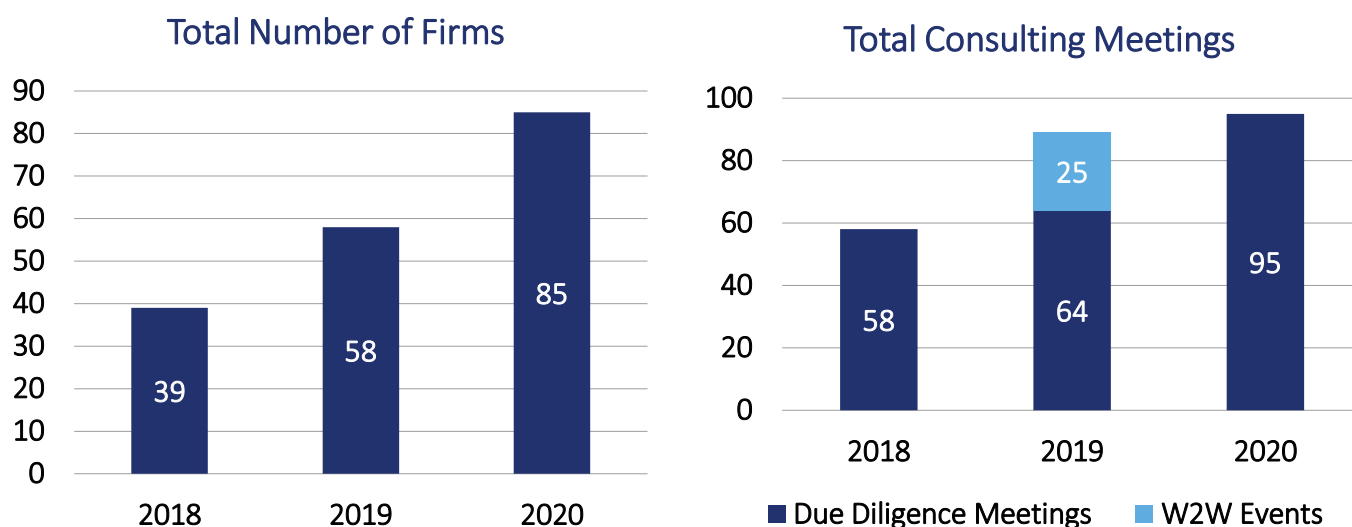


Growth in the Number of Consulting Meetings

Another key part of Wilshire’s diverse owned manager initiative is outreach to the diverse owned manager community. We view quality interactions with diverse owned firms as so critical to success that it has been integrated as one of the criteria for each senior consultant’s discretionary compensation. As such, Wilshire consultants conducted 95 meetings with 85 diverse owned firms in 2020. For context, Wilshire’s Manager Research team meets with approximately one-third of the manager universe in any given year. Given 144 diverse owned firms, the consulting team met with 59% of this universe, showing a higher contact rate among diverse owned managers. From 2018 to 2020, Wilshire’s reach in the diverse owned community has increased materially (see **Exhibit 5**). The compounded annual growth rate in total meetings was 28%, while the number of firms with whom we met grew by 48%. Our “Welcome to Wilshire” events are a key part of improving both the quantity and quality of interactions with diverse owned managers. These educational seminars, last conducted in 2019, include presentations from Wilshire’s senior management and Manager Research team plus one-on-one time with our consultants. In 2019, 42 people from 25 diverse owned investment management firms attended four events at Wilshire’s offices in Santa Monica, Denver, Chicago, and Pittsburgh. Wilshire knows that navigating consulting firms is sometimes challenging and our goal is to use these events to become more transparent and accessible to diverse owned firms. We look forward to resuming these events as pandemic conditions improve.

Exhibit 5

Outreach to the diverse owned manager community is a key part of Wilshire’s diverse owned manager initiative. We view quality interactions with diverse owned firms as so critical to success that it has been integrated as one of the criteria for each senior consultant’s discretionary compensation. In spite of pandemic-curtailed in-person meetings, Wilshire consultants continued their networking momentum by conducting 95 meetings with 85 diverse owned firms in 2020. Given 144 diverse owned firms, Wilshire Consulting met with 59% of the cohort in 2020 indicating very strong access for diverse owned firms given that, by comparison, Manager Research meets with only approximately one-third of the manager database per year. The compounded annual growth rate in total meetings was 28%, while the number of firms with whom we met grew by 48%. As pandemic conditions improve, we look forward to reinstating our in-office “Welcome to Wilshire” (W2W) networking events for diverse owned firms.



Lessons Learned Through Our Experiences with the Initiative To Date

- **Annual research and reporting versus a baseline provides accountability and identifies what’s working.** Given that the program was reconstituted and enhanced in 2018, we now have a baseline from which we can make year-over-year comparisons to determine where efforts are having a direct impact and where additional work is needed.
- **Manager rating transparency provides a critical feedback loop to highlight strengths and areas for improvement.** For the managers, feedback is critical. Wilshire is committed to a transparent process where managers can access their evaluations and be clear on how their strengths and weaknesses are viewed by Manager Research. This feedback is an essential element of reinforcing strengths and remedying weaknesses of diverse owned managers.
- **Commitment to high impact connection opportunities, whether in person or through video, ensures access.** In spite of a global pandemic that paused the possibility for in person meetings and structured events, our ability to adapt proactive programming quickly to videoconference and achieve positive results for the year demonstrates that the commitment to meaningful engagement is a vital aspect of the initiative.
- **Aligning staff through incentive programs shows a direct impact on results.** We view quality interactions with diverse owned firms as so critical to success that it has been integrated as one of the criteria for each senior consultant’s discretionary compensation.

Conclusion

As we go forward, we pledge to continue to raise the profile of diverse owned managers among our clients and consultants and proactively engage with the diverse owned manager community. Broadening the investment manager opportunity set is not only beneficial in principle. Diversity maximizes the talent pool and increases the likelihood of capitalizing on investment opportunities in an increasingly global and diverse world. As such, Wilshire remains committed to doing our part to be inclusive of diverse owned managers.

Important Information

Wilshire is a global financial services firm providing diverse services to various types of investors and intermediaries. Wilshire's products, services, investment approach and advice may differ between clients and all of Wilshire's products and services may not be available to all clients. For more information regarding Wilshire's services, please see Wilshire's ADV Part 2 available at www.wilshire.com/ADV.

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