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Study Reveals Allocator Bias Against Black Fund Managers

When evaluating top-performing managers, institutional investors favored teams led by white men, according to new research from Illumen Capital and Stanford SPARQ.

By Amy Whyte August 13, 2019



Illustration by II

Top-performing black fund managers face more scrutiny from institutional investors than their white peers, according to a new [study](#) conducted by a private investment funds-of-funds firm and a Stanford University “do-tank.”

The study, published Monday by Illumen Capital and Stanford SPARQ, found that asset allocators rated high-performing funds led by white managing partners more favorably compared with equally high-performing funds led by black managing partners with identical credentials.

“I’ve observed investors leaving money on the table because they underestimate the value of funds managed by people of color and women,” Illumen Capital founder Daryn Dodson said in a [statement](#). “But many of these investors did not seem to harbor conscious prejudices or even notice their biased behavior.”

The findings were derived from an experiment in which real asset allocators were asked to evaluate venture capital fund managers based on one-page summaries of performance history and other qualifications. These allocators were not told that the study was on racial bias; instead the researchers told participants that they were testing [whether an algorithm could choose fund managers better](#) than human investors.

“Our data indicate that top-performing managers of color may be most harmed by racial bias,” the report stated. “Even when funds led by people of color possess identical, strong credentials as white-male-led funds, they are judged more harshly.”

Ariel Investments founder John Rogers, an advocate for minority-owned businesses who recently testified before Congress on diversity and inclusion, said the study’s findings were “not a surprise.”

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“There have been several studies that have been done recently that have shown that minority-owned asset managers have not been given a fair shake,” he said. “There’s a false premise that the talent isn’t there. There are long-standing talented firms that out there. Extraordinary managers aren’t being given a fair shot.”

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The researchers said that it was “unlikely” that the differences in how black and white fund managers were viewed was the result of conscious bias. Instead, they suggested that allocators are “unable to gauge the relationship between competence and performance for person-of-color-led funds, who appear seldomly in this space.”

In fact, the study found that that allocators were better able to distinguish between stronger and weaker teams when they were led by white men. When it came to fund managers with weaker track records, the allocators who participated in the study viewed funds led by black men more favorably than those led by white men.

“White-male-led teams, who are stereotyped as competent, might be penalized more for underperforming in a domain where they typically succeed,” the report stated. “A second possibility is that asset allocators feel compelled to give black-male-led teams the benefit of the doubt and felt morally credentialed by charitably rating the lower-performing black-male-team strongly, thereby relieving themselves of any sense of obligation to express serious intentions to invest.”

Study co-author Ashby Monk, the executive director of Stanford’s Global Projects Center and a member of the SPARQ team, said in a statement that he hoped the paper would “raise awareness of the types of biases that remain.”

“Racial bias is still alive and well in our country and its system of capitalism, and the investment community needs to do more to counter it in order to live up to their fiduciary obligations,” he

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