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OP-ED: DIVERSITY PAYS

ARTICLE

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WOMEN- AND MINORITY-OWNED COMPANIES MANAGE MORE THAN A THIRD OF THE KNIGHT FOUNDATION'S ENDOWMENT. IT'S PAYING OFF.

Several years ago, the John S. and James L. Knight Foundation decided to start investing portions of our multi-billion-dollar endowment with firms owned and managed by women and people of color. For our president, Alberto Ibarguen, and the board of trustees, it was morally the right thing

to do, and we were confident we could execute it in a financially prudent and responsible way. We didn't realize it would be seen as a bold action by many of our peers. The fact that most foundations, universities and other institutional investors still don't demand diversity in their asset managers reveals the sway misinformation holds on the field.

When I speak at investment conferences about the diversity of our investment managers, I hear much commentary about the way we manage money. While some laud our decision, others argue that it is only made possible by the Knight Foundation's nonprofit status. Knight, they claim, does not have the same financial pressures as for-profits. As a result, we can tolerate limited, or even poor, financial outcomes. This is untrue.

Arguments like this are built on the premise that diverse-owned firms deliver subpar returns. A recent report produced by Professor Josh Lerner of Harvard Business School and Bella Research Group shows that there is no statistically significant difference between the performance of diverse-owned firms and nondiverse-owned firms, even controlling for risk. Knight's experience supports this. We shifted 35% of our \$2.2 billion endowment to management by women and diverse-owned firms between 2010 and 2018, with no compromise on performance.

Even so, I still hear resistance and new excuses. Some argue that if diverse-owned firms merely match market performance, the effort of finding them isn't justified. Not only does that reflect a double standard, it's a missed opportunity. The Bella research found that funds managed by diverse-owned firms were overrepresented in the top-performing quartile of funds investing in marketable securities, hedge funds, private equity and real estate, while those managers typically manage less money than their nondiverse peers. Finding investment managers who can deliver outperformance is challenging, but it is no more so when you prioritize diversity.

Yet even financial advisors who do invest with diverse-owned firms sometimes succumb to unfounded concerns. A different study that looks at the ways people respond to the returns of their asset managers finds that underperformance leads to a larger drop in the likelihood that a diverse-owned manager will raise a new fund when compared with their nondiverse peers. One explanation: Investors may be more likely to pull investments from a diverse-owned firm after poor performance than they are from a firm that is not diverse-owned. This would be a mistake.

There are certainly a host of reasons for investors to change course on an investment manager. Bad management, sudden staffing shifts, poor planning and other issues can justify undertaking a new approach no matter who is managing the funds. But pulling money from a diverse firm after a bump in the road is no better than pulling money after a small, cyclical market dip. It's another lost opportunity.

The best financial advisors see opportunities where others see risk, especially when it's supported by data. They must let go of some of the anxiety that accompanies doing something others aren't, because that's where great investments can reside. Embracing change is hard, but we must be intentional about the choices we make and aggressive about finding new opportunities and pursuing them. We must steel ourselves so that we can react to the new data and to the returns we see, not with behavioral concerns, not with bias, but solely with the goal of delivering the best results.

When we do this, we'll see success across the board.

Juan Martinez is VP/Chief Financial Officer and Treasurer at Knight Foundation. Follow him on Twitter at [@kfjuan](#).

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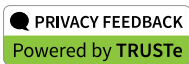
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