United States Senate
WASHINGTON, DC 20510

July 24, 2014

The Honorable Jacob Lew
U.S. Department of Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20210

The Honorable Thomas Perez
U.S. Department of Labor
200 Constitution Ave., NW
Washington, D.C. 20220

The Honorable Penny Pritzker
U.S. Department of Commerce
1401 Constitution Ave., NW
Washington, D.C. 20230

Dear Secretaries Lew, Perez, and Pritzker:

We write to raise a concern with the severe underrepresentation of diverse and emerging managers among the investment managers to which the Pension Benefit Guaranty Corporation (PBGC) allocates funds. As members of PBGC's Board of Directors, we urge you to work with your fellow board members and the PBGC to assess the obstacles that might impede increasing allocations to diverse and emerging managers and to create a strategic plan to address any barriers that could prevent PBGC from broadening the set of managers managing its funds.

While the definition of an emerging manager can vary, one standard from the State of Illinois defines an "emerging investment manager" as an investment adviser that manages an investment portfolio of at least $10 million but less than $10 billion, and that is also a minority-owned business, female-owned business, or business owned by a person with a disability. Currently, the PBGC does not allocate to any diverse and emerging managers. However, emerging managers have proven over time to outperform some of the largest equity managers. According to a study by Barclays Capital, women- and minority-owned funds outperformed the broader firm universe over a five-year period ending in 2011. Specifically, over the same five year period, the Barclays study showed a fund-weighted index of single manager women- and minority-owned funds generated a cumulative return of 82%, while an index of non-diverse single manager firms returned just 51%. A paper from FIS Group reinforces this point, finding that "entrepreneurial" managers with less than $2 billion in assets outperformed established managers over the five years ending December 31, 2010, without increasing risk.

We understand that in protecting pension benefits in private-sector defined benefit plans, PBGC must consider the investment policy set by the Board of Directors, its fiduciary standard to pensioners determined by the Employee Retirement Income Security Act of 1974 (ERISA), and the procurement process set by the Federal Acquisition Regulation (FAR). These various policies for procuring investment firms have resulted in the PBGC choosing many of the largest investment managers. However, we believe there is an opportunity for the PBGC to responsibly diversify the existing pool of investment managers while protecting financial performance and without adding risk for pensioners and workers.

A guide for how the PBGC might achieve the end goal of opening the door to diverse and emerging investors can be found at the state level. Many states, including California, Connecticut, Illinois, Indiana, Maryland, Michigan, New York, Ohio, Pennsylvania, and Texas, have ensured that their plans allocate assets to diverse and emerging managers. The emerging manager programs in these states may provide a roadmap for the PBGC and its fellow board members, including data on the performance of the diverse and emerging investors in each program. For example, the diverse and emerging manager programs implemented by New York City Retirement Systems, which manage $151 billion in assets, have a long history utilizing emerging manager programs and have recently launched an effort to increase the Systems' allocation to emerging managers to $12.9 billion, or approximately 8.5% of the Systems' assets.

We ask that your response include an assessment of how PBGC could similarly create a program for diverse and emerging investors. In this assessment, please include an analysis of what obstacles could potentially be faced and a strategic plan for how PBGC and its Board of Directors might work in concert to overcome these obstacles.

A lack of representation of diverse and emerging investors in PBGC allocations is compounded by persistent issues around the lack of diversity in the financial services industry and the scarcity of capital in communities of color. We have a clear opportunity here to position the federal government to effect change at the PBGC and across similar federal funds.

Sincerely,

Ben Cardin

Dick Durbin

Kirsten Gillibrand

Robert Menendez

Elizabeth Warren

Charles Schumer

Mazie K Hirono

Richard Blumenthal

Cc: Josh Gotbaum, Director, Pension Benefit Guaranty Corporation
John Greenberg, Chief Investment Officer, Pension Benefit Guaranty Corporation
Alice Maroni, Chief Management Officer, Pension Benefit Guaranty Corporation