



**KNIGHT
FOUNDATION**

DIVERSIFYING INVESTMENTS

A study of ownership diversity in the
asset management industry

MAY 2017





CONTENTS

SUMMARY	3
METHODOLOGY	6
FINDINGS	8
CONCLUSION	13



SUMMARY

Introduction

Research across a multitude of fields and industries has identified the potential economic and social benefits of diversity. Yet, the asset management industry continues to face challenges with a lack of diversity. Research studies and articles have consistently documented the low level of representation by women and racial/ethnic minorities among asset managers. Analyzing and exploring diversity in the asset management industry is vital given its sheer enormity and the wealth it generates ([\\$71.4 trillion in assets under management and \\$100 billion in profits in 2015](#)).

This report captures insights from a new study about the state of diversity in the U.S. asset management industry. Professor Josh Lerner (Harvard Business School) and Bella Research Group led the research. Whereas numerous studies have documented the lack of diversity among asset managers and asset management firm employees, this study contributes a new perspective by analyzing the diversity of ownership of asset management firms.

The research was commissioned by the John S. and James L. Knight Foundation, a private grantmaking foundation. Beginning in 2010, Knight Foundation embarked on an effort to diversify its endowment holdings and now invests \$472 million with diverse-owned firms (representing 22.5 percent of endowment holdings). Knight supported this study to inform the larger discussion unfolding about diversity in the asset management industry.

For the full report and set of findings, [click here](#).



SUMMARY

Research

The research addressed the following key questions:

- What is the number of women-owned and minority-owned firms and funds as well as the amount of assets under management (AUM)?
- How have diverse-owned firms and funds performed compared with all firms?
- How has diverse ownership trended?
- How have different types of investors engaged with diverse-owned firms?

Addressing these questions required developing a suitable methodology for gathering and analyzing data. This report utilized several robust databases capturing information about asset management firms, and then ran a series of “stress tests” on the data to assess the impact of various gaps. Yet, there are clear limitations to the data that should be noted. Firstly, there is no single database across asset classes with authoritative or complete data on diverse ownership. Compounding this, the databases use different criteria for “ownership.” Thus, several firms will have invariably been left out of this analysis or their degree of diverse ownership may be imperfectly defined in the analysis.

For more information about the methodology and limitations, [click here](#).



SUMMARY

Key Findings

- **COMPOSITION:** Firms with female or minority ownership make up a low percentage of all firms in the asset management industry. These diverse-owned firms represent an even smaller fraction of the total number of funds and total AUM across all asset classes.
- **PERFORMANCE:** Diverse-owned funds perform at a level comparable to that of their non-diverse peers. Within conventional statistical confidence levels, funds managed by diverse-owned firms typically perform as well as non-diverse funds after controlling for relevant characteristics (such as firm size, fund size, geography and investment focus).
- **TRENDS:** Representation of diverse-owned firms has increased modestly in recent years among hedge funds, private equity and real estate. However, AUM with diverse-owned firms has fluctuated significantly year-to-year.
- **DATA:** The biggest barrier to research on diverse ownership or management is the lack of data, as most data providers for the asset management industry do not track diversity in a systematic way. The report relies on the most comprehensive data sources available, but to encourage further research on this topic, improved data on the composition of firm ownership and management is required.



METHODOLOGY

Data Sources

This research encompasses four asset classes: (1) mutual funds, (2) hedge funds, (3) private equity and (4) real estate. While prior research has examined diversity in each of these asset classes at the level of fund managers, this research takes a different look at diversity at the level of firm ownership.

To examine diversity in the industry, a “universe” of asset management firms was assembled using several databases, each specializing in a separate asset class. Mutual funds and hedge funds were identified from the eVestment and Hedge Fund Research databases, respectively. These commercial databases included information on firm ownership that enabled firms to be classified as women- or minority-owned. Unfortunately, there were no known databases for private equity and real estate that track diverse ownership in a comprehensive and systematic way. Instead, a novel data set of diverse-owned private equity and real estate firms was assembled using public and proprietary sources. Data on firm ownership were merged with the Preqin database of private equity and real estate firms.

There are a couple of limitations to consider. First, the databases used for this research have relatively strong but not perfect coverage of each asset class and may contain biases in the types of firms that report information to these databases. Second, the approach used to identify diverse-owned private equity and real estate firms is not exhaustive (particularly in the real estate space). The process may introduce some biases including a bias toward larger, better-known firms.



METHODOLOGY

Data Analysis

Women- and minority-owned firms were identified among the universe of asset management firms, though the definition for diverse ownership varies slightly across the data sources. Firms are commonly considered women-owned or minority-owned if at least 25 percent of firm ownership is held by female or minority individuals. While the report uses this definition, it also distinguishes between substantial diverse ownership (25 to 49 percent) and majority diverse ownership (50 percent and higher) where the data permits.

The research then quantified the level of female and minority ownership within each asset class. Note that the hedge fund database did not include data on investors to permit an analysis of investor types. In addition, the research did not include an analysis of real estate performance or investor type because of limitations with the real estate data.

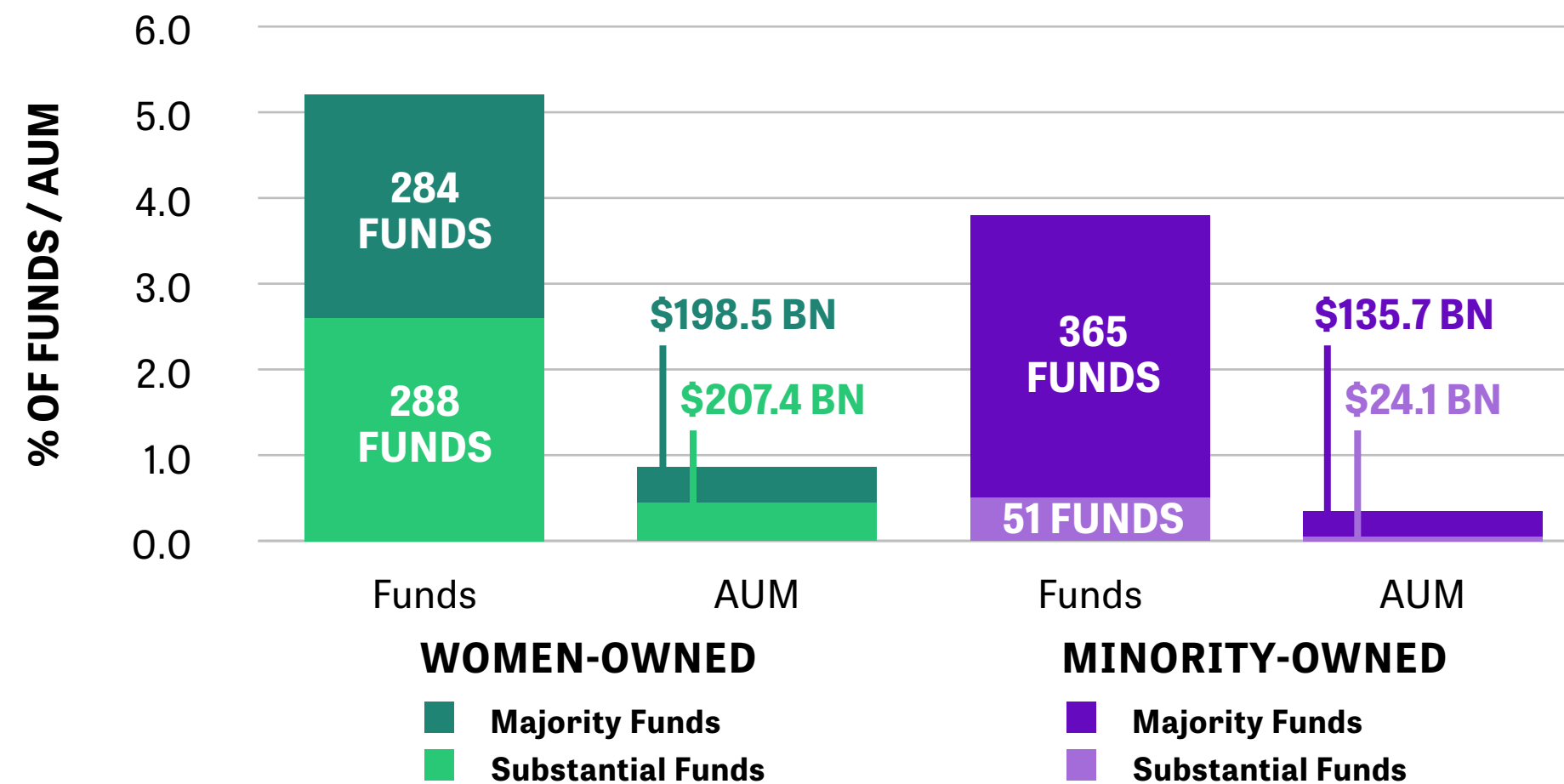
Readers are encouraged to learn more about the methodology, data sources and limitations [here](#) and in the [full report](#).



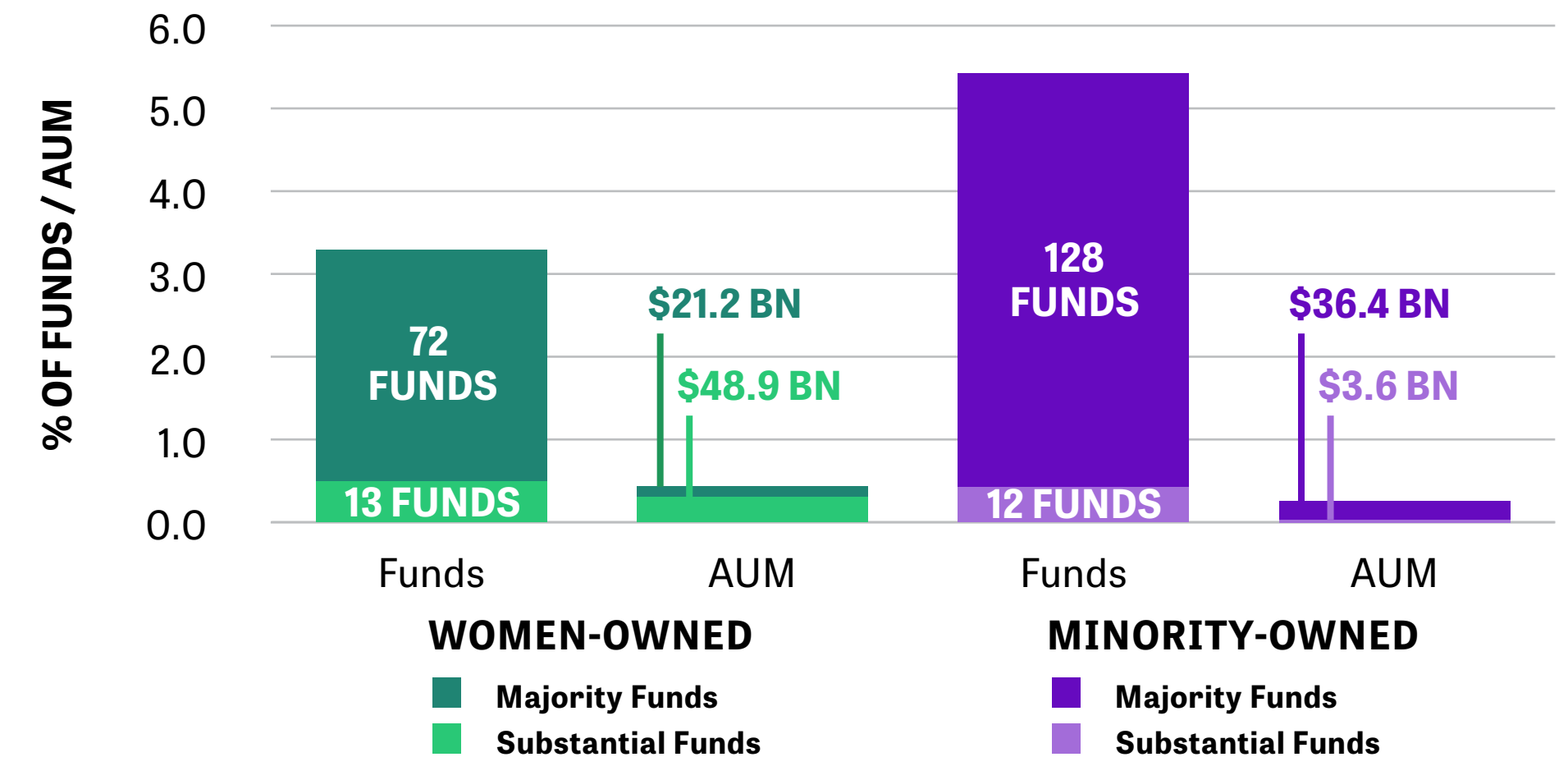
FINDINGS

State of Diverse Ownership (as of Q2 2016)

DIVERSE MUTUAL FUNDS



DIVERSE HEDGE FUNDS



- Women- and minority-owned mutual funds represent just 5.2 percent and 3.8 percent of all mutual funds, respectively.
- The level of diverse ownership is even lower when measured by AUM; women-owned mutual funds manage 0.9 percent of the total industry AUM, and minority-owned mutual funds manage only 0.3 percent

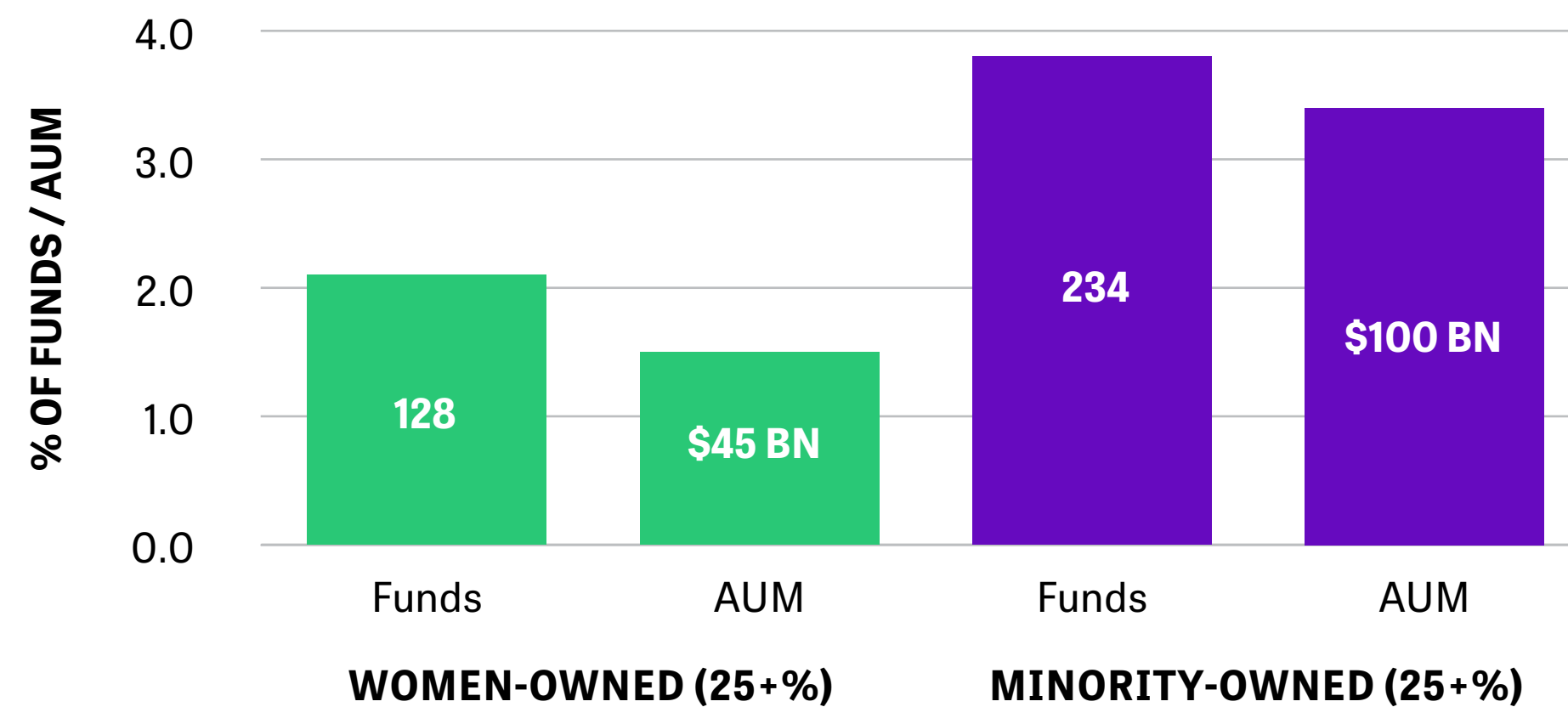
- Hedge funds managed by diverse-owned firms represent about 3.3 percent and 5.5 percent of all hedge funds, respectively.
- Women- and minority-owned hedge funds control less than 1 percent of the total industry AUM.



FINDINGS

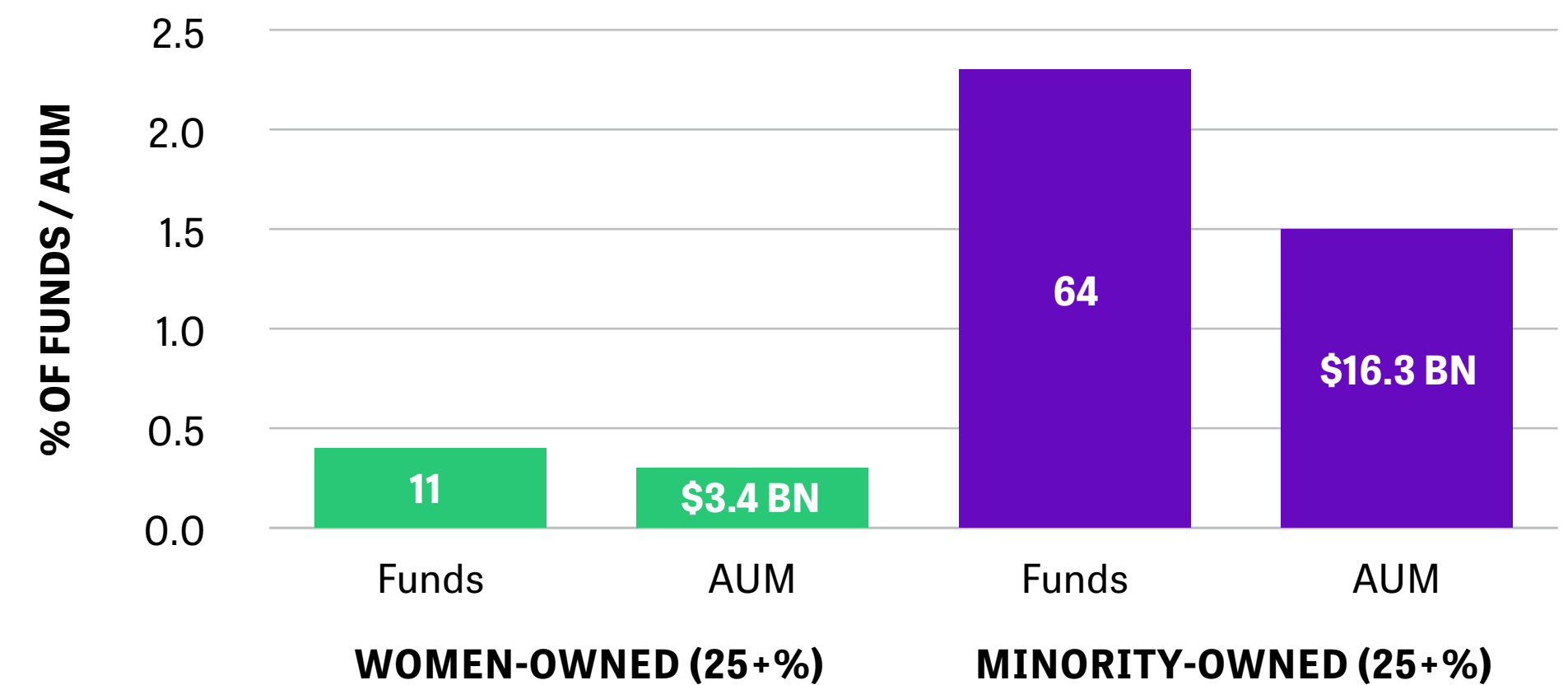
State of Diverse Ownership (as of Q2 2016)

DIVERSE PRIVATE EQUITY FUNDS



- Among all active private equity funds (established since 2004), 2.1 percent of funds are managed by women-owned firms and 3.8 percent of funds are managed by minority-owned firms.
- Together, women- and minority-owned firms represent less than 5 percent of AUM in the PE industry.

DIVERSE REAL ESTATE FUNDS



- Research identified 11 women-owned funds and 64 minority-owned funds in the real estate asset class.
- Together, they represent less than 3 percent of all real estate funds. Representation by AUM is even lower, with women and minorities representing approximately 0.3 percent and 1.5 percent of the industry totals, respectively.



FINDINGS

Performance

Within conventional statistical confidence levels, funds managed by diverse-owned firms typically perform as well as non-diverse funds, after controlling for relevant firm- and fund-level characteristics (firm size, fund size, geography, investment focus, etc.).

The research used several regression models to test performance, and the vast majority of regression coefficients for female and minority ownership are insignificant (that is, there is no discernible difference between the performance of diverse and non-diverse funds). In a few select cases, diverse-owned firms either outperformed or underperformed non-diverse firms.

The research also analyzed the distribution of performance and the extent to which diverse-owned firms comprise the top performance quartile across asset classes (i.e., what percentage of women- and minority-owned funds performed in the top 25 percent?). Among mutual funds and hedge funds, about a quarter or slightly more of minority-owned funds are represented in the top quartile of performance.

In private equity, women-owned firms are overrepresented among top quartile performers while minority-owned firms are underrepresented among top performers.

TOP QUARTILE PERFORMERS

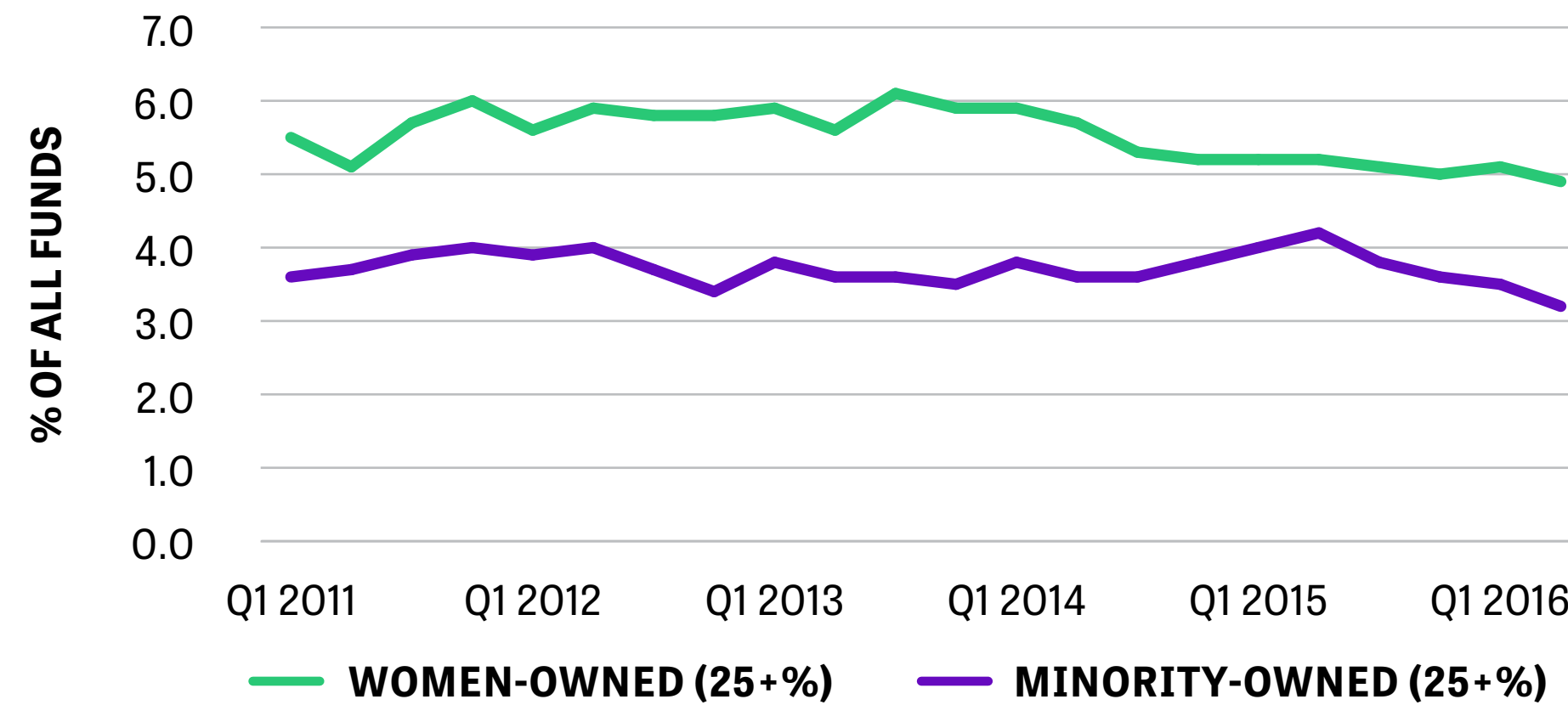
ASSET CLASS	Women-Owned	Minority-Owned
Mutual Funds	25.2 %	28.4 %
Hedge Funds	24.4 %	27.8 %
Private Equity	33.3 %	19.8 %



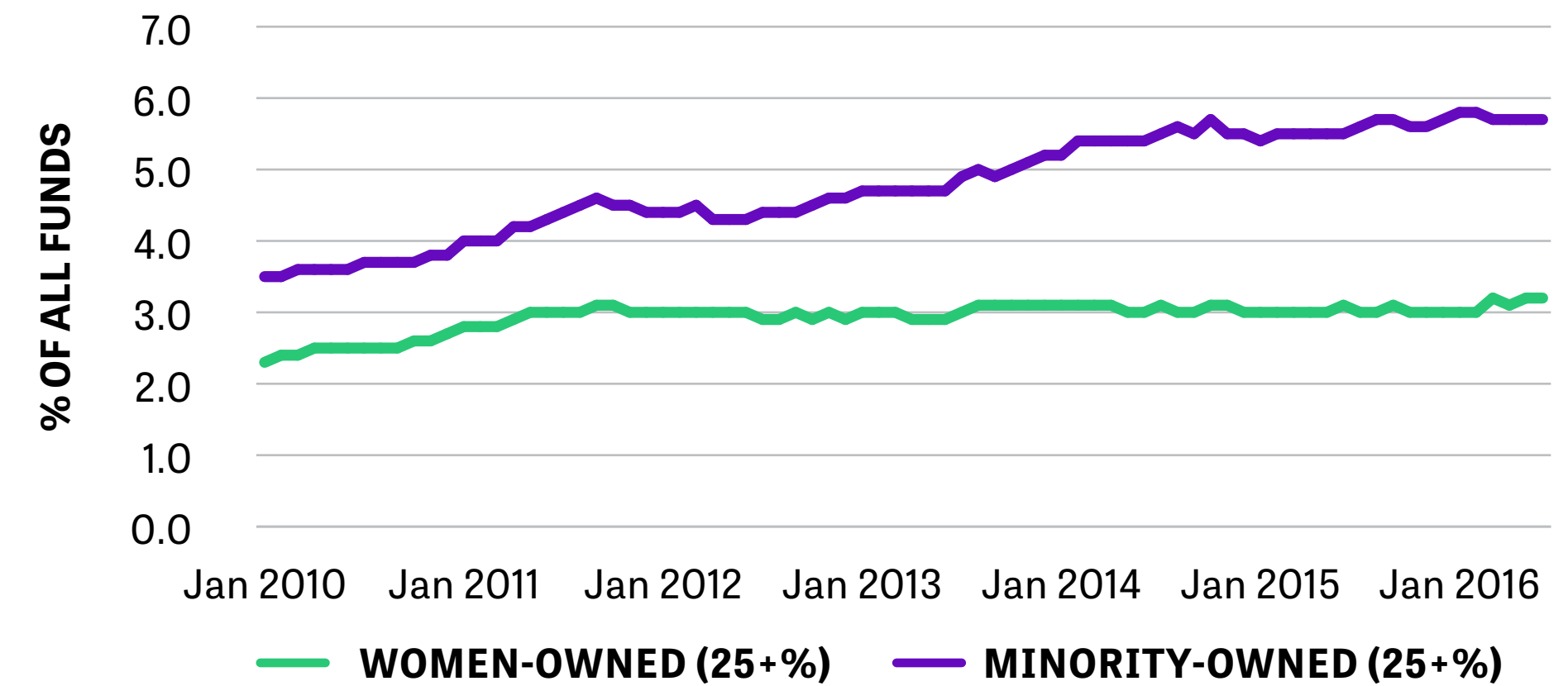
FINDINGS

Diverse Ownership Trends

MUTUAL FUNDS



HEDGE FUNDS



- Representation of diverse ownership has generally increased in recent years, in terms of the number of diverse firms and funds as well as the amount of AUM.
- Since 2010, women- and minority-owned hedge funds have gained representation, but these diverse hedge funds represent a tiny fraction of the industry.
- For mutual funds, however, the net change between Q1 2011 and Q2 2016 shows a slight decrease in diverse ownership (5.5 percent to 4.9 percent for women-owned funds; 3.6 percent to 3.2 percent for minority-owned funds).



FINDINGS

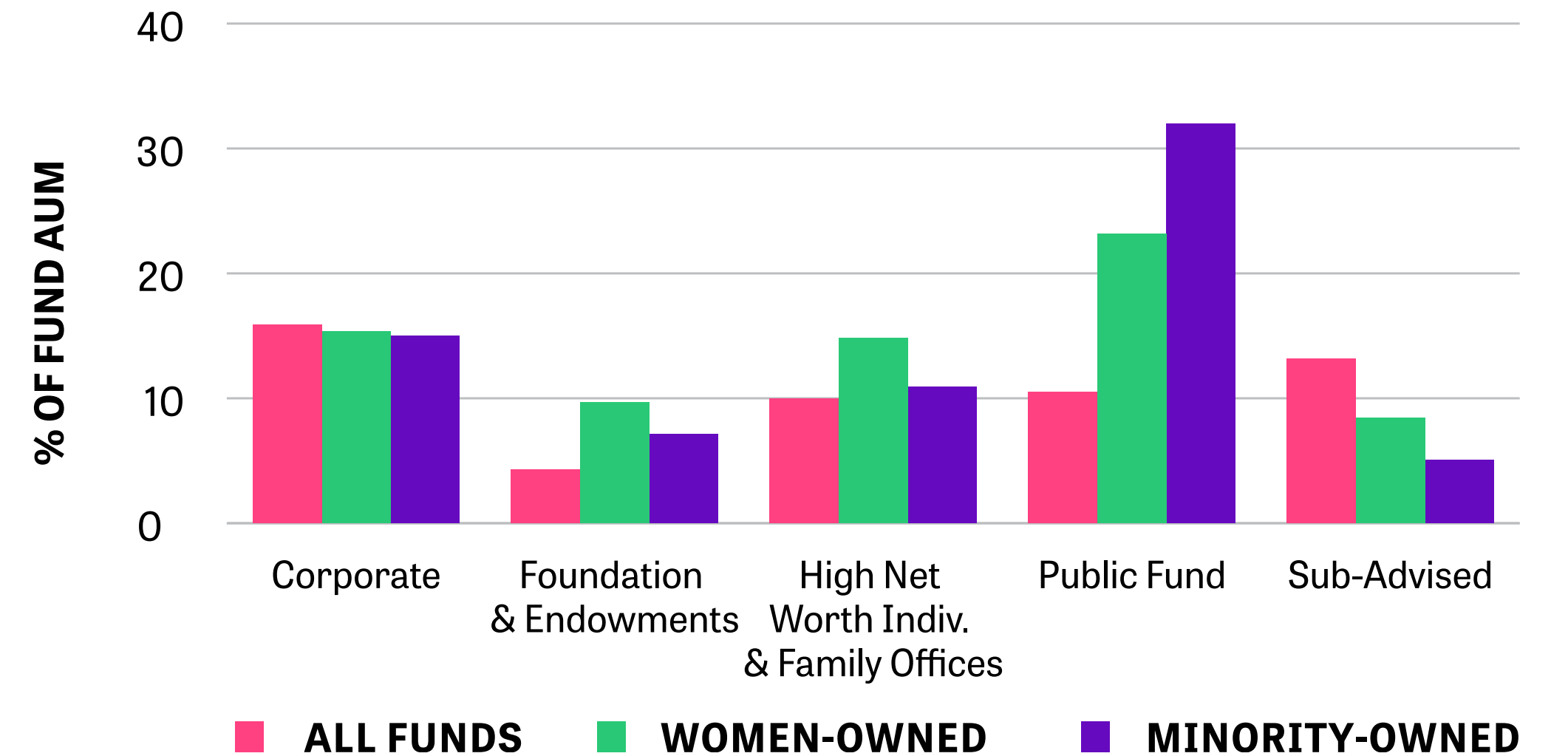
Investor Types

MUTUAL FUNDS

The average women- or minority-owned fund has proportionally more AUM invested by public funds, foundations, endowments, high net worth individuals and family offices (compared with non-diverse funds).

Corporate clients and sub-advised funds have proportionally fewer investments in diverse-owned funds.

MUTUAL FUND AUM BY INVESTOR TYPE





CONCLUSION

The study sheds light into just how little diversity there is in ownership of asset management firms. Aggregating across all four asset classes examined in this report, diverse-owned firms represent just 1.1 percent of industry AUM. While diverse-owned firms have grown in representation in recent years, the growth has been moderate and has not uniformly occurred across all asset classes.

An important finding of the research is that there is no statistical difference in performance between diverse-owned firms and their peers. A common refrain has stated that poor performance among diverse-owned firms has precluded their receipt of greater investment; the findings of this study cast doubt on this assertion.

Quantifying the performance of diverse funds and the current level of diverse ownership is an initial step to understanding and encouraging diversity in asset management. We hope to increase awareness and knowledge of this important topic and encourage enhanced data reporting in the future.

The report is intended to serve as a foundation for future inquiry and more robust data collection about diversity in the asset management industry. Creating a public, nonproprietary database with this information should be a top priority for the institutional investment community. Gathering, analyzing and discussing better information about diversity in the asset management industry is critical to advancing progress.

The study was commissioned by the John S. and James L. Knight Foundation and led by Josh Lerner, Chair of the Entrepreneurial Management Unit and the Jacob H. Schiff Professor at Harvard Business School, and the Bella Research Group.



JOHN S. AND JAMES L. KNIGHT FOUNDATION

Suite 3300

200 S. Biscayne Blvd.

Miami, FL 33131-2349

Telephone: (305) 908-2600