



Accelerating the change

Endowments & Foundations

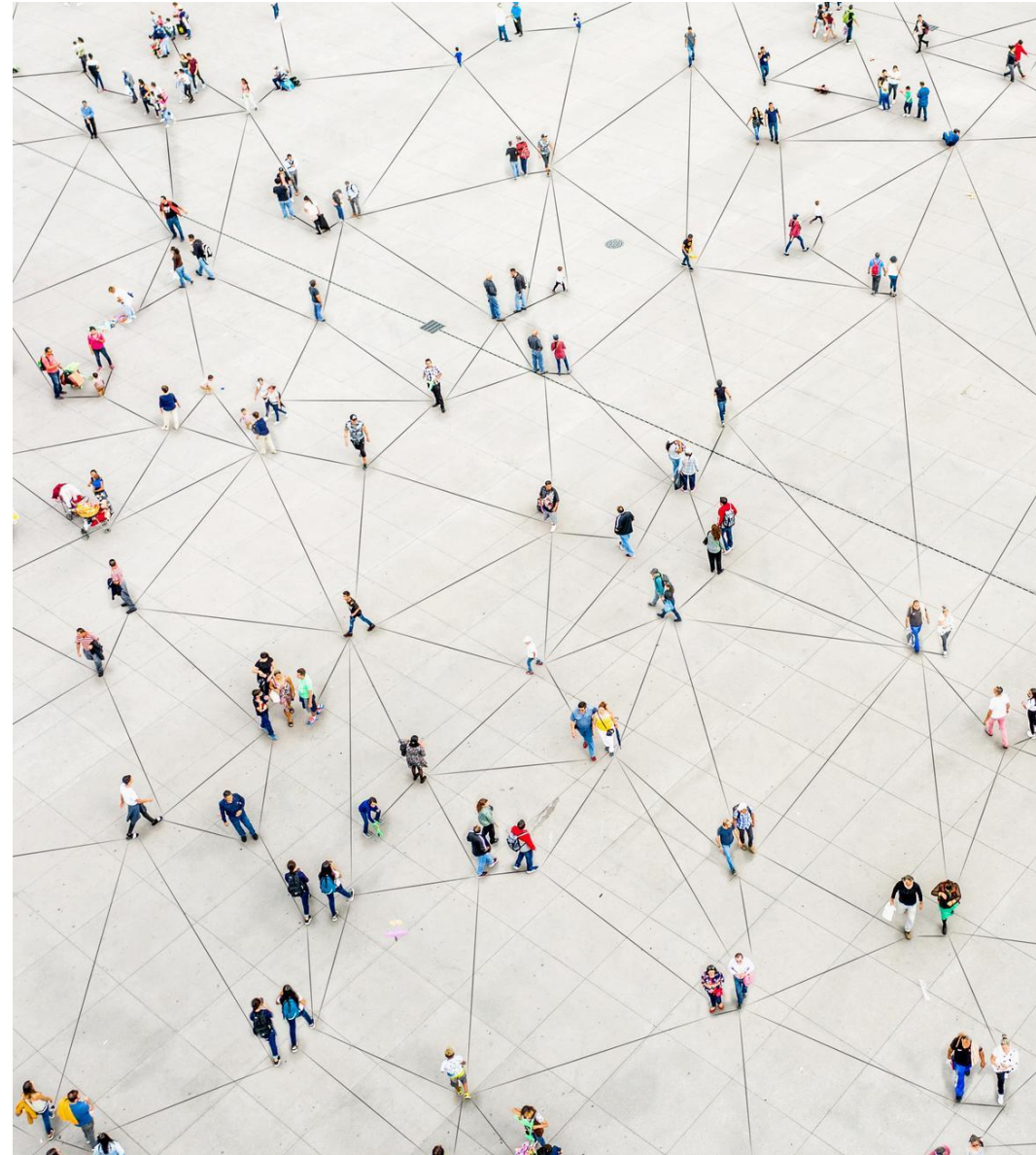
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welcome to brighter

Introduction

- There are many ways to consider how values of diversity, equity and inclusion can arise in endowment and foundation investment portfolios.
- Research suggests diversity enhances decision making.
- Providing access to opportunities for diverse individuals and firms is imperative to moving the industry forward.
- Mercer is committed to enhancing diversity, equity, and inclusion within the investment industry.
- Our expectation is that diversity data transparency will become “table stakes” for manager research due diligence and for inclusion in searches.



Diversity, equity and inclusion conversations heard in investment committee meetings

A photograph of a desk with a light blue background. On the left, there is a small potted plant with green leaves in a white pot with black polka dots. Next to it are several notebooks, some with spiral binding. On the right, there are various office supplies including a pair of black scissors, a white ceramic container, and some books or folders. The overall aesthetic is clean and professional.

Do we have exposure to any minority owned investment managers?

Do you monitor the DEI practices of our investment managers?

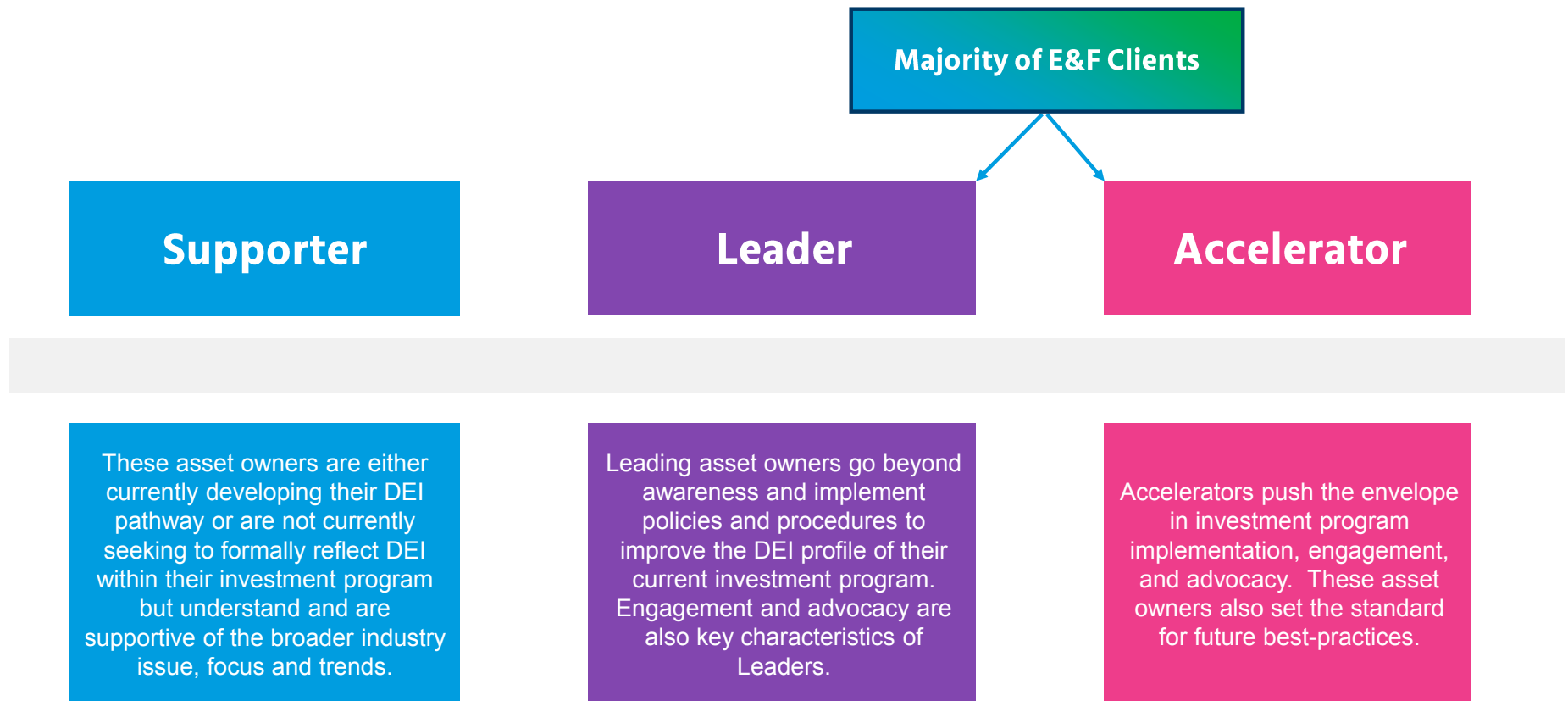
How can we more closely align our mission and investment portfolios?

How is DEI incorporated into the manager research process?

We'd like to consider incorporating DEI objectives into our IPS.

How could our organization encourage managers to increase diversity within their firms?

The DEI Continuum



Multiple dimensions of diversity embraced within investment programs

Diverse Owned:

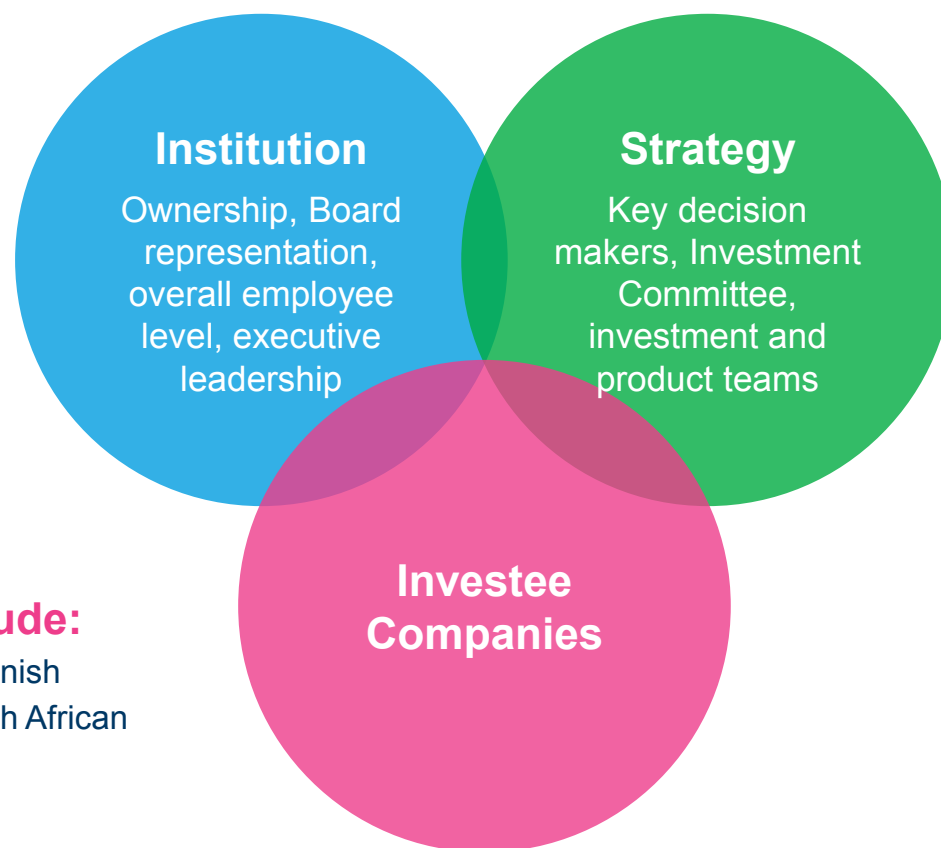
> 50% ownership by persons who identify with at least one under-represented group

Diverse Led or Substantially Owned:

>33% ownership by persons who identify with at least one under-represented group

Under-represented groups typically include:

Black	Latinx/Hispanic/Spanish
Asian	Middle Eastern/North African
Indigenous/Tribal People	Women
Disabled Persons	Veterans
LGBTQ+	



What are endowments and foundations doing to tackle their initiatives?



How E&Fs are using engagement to foster industry transformation

Multi-pronged approach




Engage with asset managers

- Assess and understand managers' DEI initiatives.
- Share best practices to help managers tackle their challenges.
- Partner to spread the word around key initiatives.

Become an advocate

- Become a speaker at industry events to promote the topic.
- Foster peer collaboration.
- Set goals, measure progress, and share transparently.
- Join industry associations.

Provide opportunity

- Mentor diverse managers.
 - Reviewing internal hiring practices for their investment team.
 - Proactive inclusion of diverse managers in searches.
 - Proactively introduce managers to fellow allocators.
- 

Why these questions are being asked



What clients would like to see



What clients often observe

**A diverse team with shared
values and goals is more likely
to outperform than a non-
diverse team.**



Mercer's manager research process

Four factor framework



Idea generation

- Philosophy
- Investment process
- Competitive advantage
- Resources



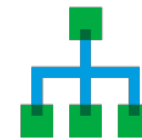
Portfolio construction

- Guidelines
- Style
- Risk
- Monitoring



Implementation

- Trading
- Turnover
- Capacity
- Fees



Business management

- Business structure
- Non-investment distraction
- Business environment/culture
- Remuneration
- Diversity and inclusion

Competitive edge in these three factors is necessary
and sufficient to beat the market

Maintain / enhance
competitive edge

Diversity, equity and inclusion

Data collection

Common diversity, equity and inclusion (DEI) questions are both qualitative and quantitative:

- Diversity policy
- Diversity metrics
- Diversity target
- Diversity target description
- Diversity target initiatives description
- Unconscious bias training description
- Hiring initiatives description
- Published gender pay gap
- Gender pay gap analysis
- Industry DEI initiatives or charters
- Awarded DEI related certification
- Minority owned

Diversity, equity and inclusion

Client expectations versus data being provided

There appears to be good alignment between what clients are asking for and the data that asset managers are providing

Most frequently asked questions by clients

- ❖ Does the asset manager have a philosophy that incorporates DEI?
- ❖ What is the gender and ethnic composition of the asset managers ownership, board, sr. management and investment team?
- ❖ Is diversity considered as part of the investment process?
- ❖ Is the asset manager involved in DEI initiatives?

Questions asset managers are more likely to answer

- ❖ Whether the asset manager has a diversity policy
- ❖ Whether the asset manager has diversity targets
- ❖ Asset manager's participation in DEI initiatives
- ❖ If diversity considered as part of the investment process
- ❖ Whether the asset manager publishes pay gap figures
- ❖ Any hiring initiatives and/or flexible working practices

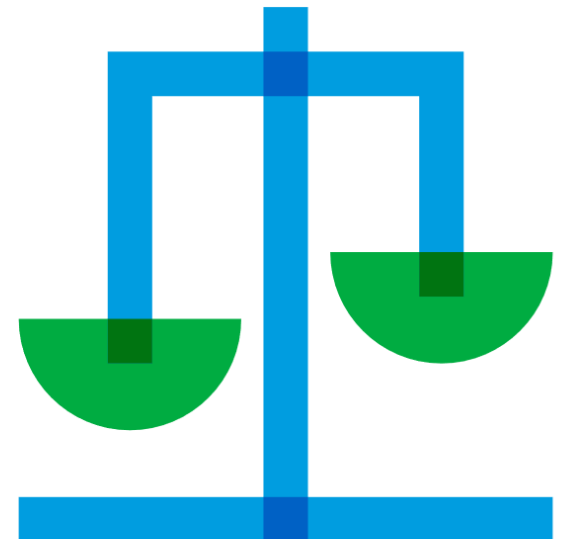
Diversity, equity and inclusion

But...it is not all good news

The pace that clients are asking for data is not being met by asset managers

This imbalance has led to:

1. Clients thinking twice before hiring an asset manager
2. Asset managers being overlooked as part of the search process
3. Added work being placed on asset managers who are be asked to respond to multiple ad hoc requests



Illustrative example: Community Foundation

Integration of Diversity, Equity & Inclusion considerations in Investment Program



CLIENT SITUATION

- Establishment of a new long-term strategic organizational plan which included a commitment to support DEI throughout the organization.
- Historically, the Foundation had not considered DEI within its investment program.



APPROACH

- Mercer's holistic DEI Investment Pathway which supports clients from ascertaining beliefs to portfolio implementation:
 - Education across multiple constituents.
 - Formalization of DEI investment belief statement and inclusion in the IPS to guide the management of the investment program.
 - Established DEI responsibilities for the IC, Investment Staff, and Consultant.
 - Annual assessment of DEI profiles and policies of each manager. The same details are required for any new mandate being considered.
- Developed a customized reporting template for the annual DEI assessment and manager searches.



OUTCOME

- **Established a DEI investment initiative:** Further align investment program with organizational beliefs and mission.
- **Engagement:** Together, the client and Mercer were able to engage with their asset managers to provide clear insight into the goals and objectives and provided feedback on their current DEI initiatives and areas of improvement based on best practices.
- **Provide opportunity:** Proactively included diverse managers in new search opportunities.
- **Transparency and accountability:** Annual assessment allowed for a honest and open conversation about the current holistic DEI profile of the investment program which included program improvements as well as new initiatives that were undertaken throughout the year.

Illustrative example #1: profile assessment / measuring progress

Portfolio diversity scorecard

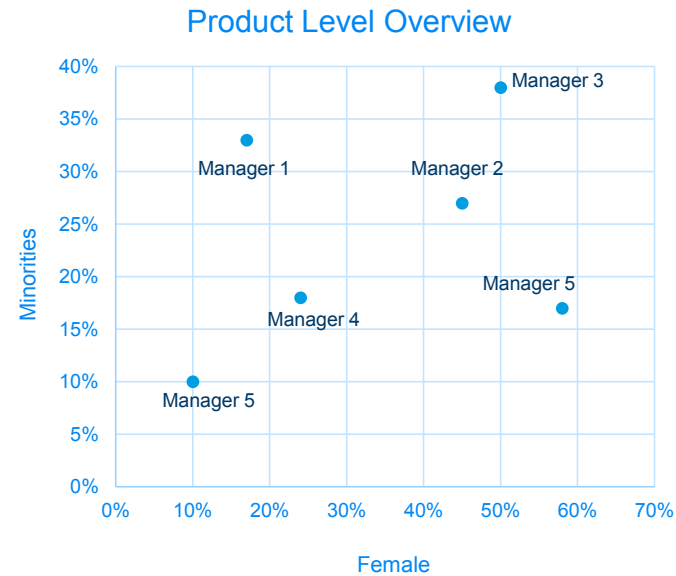
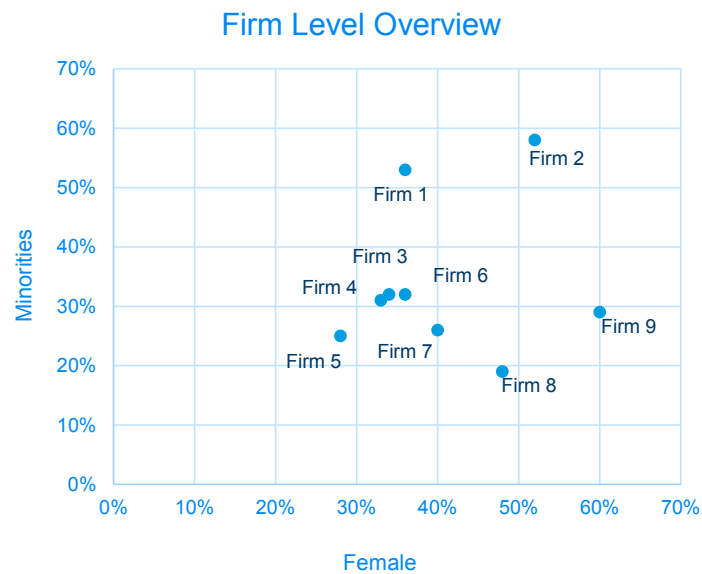
	Ownership				Firm Level				Product Level				
	Women		Minorities		Women		Minorities		Women		Minorities		Involvement in DEI Initiatives
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	
Manager A	--	25%	--	N/A	--	48%	--	N/A	--	33%	--	N/A	✓
Manager B	N/A	N/A	N/A	N/A	37%	28%	18%	25%	0%	10%	0%	10%	✓
Manager C	--	N/A	--	N/A	--	48%	--	19%	--	58%	--	17%	✓
Manager D	10%	10%	8%	8%	35%	33%	21%	31%	45%	45%	20%	27%	✓
Manager E	49%	54%	56%	30%	59%	60%	29%	29%	59%	50%	29%	38%	✓
Manager F	N/A	N/A	N/A	N/A	N/A	52%	N/A	58%	N/A	24%	N/A	18%	✓

Green indicates a greater than 2% YoY increase; red indicates a greater than 2% YoY decrease.

- Manager B, Manager C, and Manager F are either publicly owned or wholly-owned subsidiaries of public firms; therefore, ownership representation is unavailable (indicated by “N/A”)
- Manager A and Manager C were recent additions to the portfolio (indicated by “—” for Year 2019)

Illustrative example #2: profile assessment / measuring progress

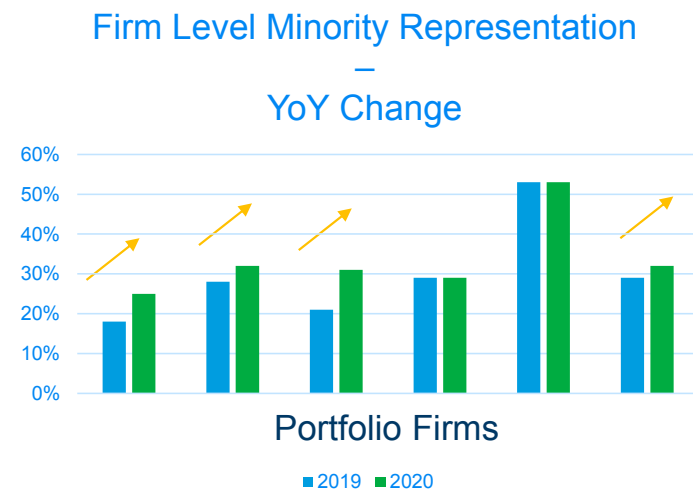
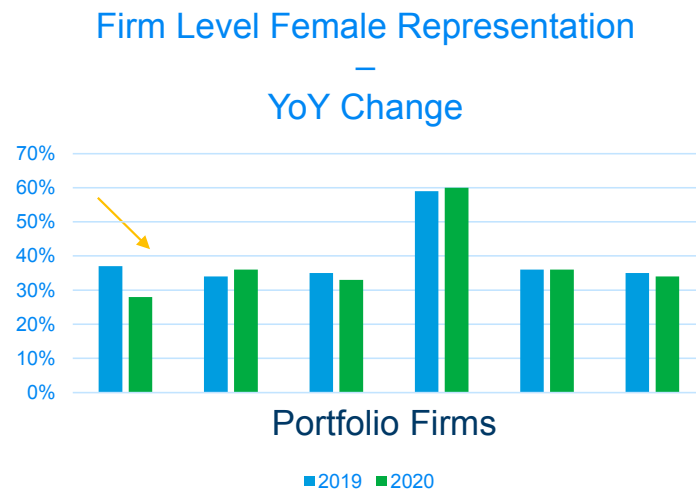
Portfolio diversity scorecard



- Among XYZ's managers, Firm 2 has the highest female representation at the firm level and is second to Manager 3 at the product level

Illustrative example #3: profile assessment / measuring progress

Portfolio diversity scorecard



- At the firm level, in aggregate, the average female representation remained approximately the same from last year (38% in 2020 vs 39% in 2019)
- **Average minority representation, at the firm level, increased (34% in 2020 vs 30% in 2019)**

Illustrative example #4: profile assessment / measuring progress

Portfolio diversity scorecard

Rating	Meaning	Client Portfolio
AAA	Leader	5%
AA	Leader	16%
A	Average	31%
BBB	Average	19%
BB	Average	11%
B	Laggard	3%
CCC	Laggard	1%

Based on MSCI ESG Rating Scale

- The table above demonstrates how securities are rated, the rating's meaning and the weight average of the Portfolio's rating.
- Overall we believe the Portfolio's exposure to positive DEI factors would be above average. Notably, the exposure to "Laggards" is very low.

How Mercer is driving change

Our goal is
to be an
industry
leader to
support
long-term,
measurable
change



Drive the creation of
relevant **intellectual capital**



Be an **advocate for change** through
industry speaking
engagements



Increase the opportunity set of
managers by **enhancing data**



Deliver client education sessions
to inform around **best practices**
and **opportunity set**



Host **diverse manager days**,
connecting clients
and managers



Deliver clients
solutions **focused**
on diverse managers

Cori Trautvetter, CAIA

Co-leader of Foundations



Partner

St. Louis, Missouri

20+ years of industry experience

Cori Trautvetter is a Partner and serves as co-leader for Mercer's Not-for-Profit Foundation segment. She is located in the St. Louis office and is part of the firm's Not-for-Profit Investment Committee as well as the Endowment & Foundation and Sustainable Investment Strategic Research Teams. She also leads the US Investments DEI Advisory Committee and is a member of the Global Investments Diversity Council.

Prior to its acquisition by Mercer in 2018, Cori was a Managing Director at Pavilion Advisory Group Inc. where she provided strategic investment advice to endowments, foundations, defined contribution plans, defined benefits plans, healthcare organizations, and Taft-Hartley funds along with heading up the firm's Endowment and Foundation Practice. Cori joined Pavilion Advisory Group Inc. in 2000.

Prior to joining Pavilion Advisory Group Inc., Cori served for five years as an Associate Banker at Illini Bank in Springfield, IL. At Illini Bank, her responsibilities included managing consumer loans for numerous clients.

Cori is a member of the Chartered Alternative Investment Analyst (CAIA®) Association. She earned a Bachelor of Science degree in Finance from Eastern Illinois University.

Sean Chatburn, CFA

Research specialist



Principal

Chicago, Illinois

20+ years of industry
experience

10+ years with Mercer

Sean Chatburn is a Principal in Mercer's Chicago office. He is responsible for all long-only equity research in North America. As a Principal and a senior member of the Manager Research Group in the Chicago office, he oversees primary research on numerous equity investment managers across various investment strategies.

Sean has more than 20 years of experience in the investment industry. Prior to joining Mercer in 2010, Sean worked as a buy-side equity research analyst at Neuberger Berman, LLC and spent over a decade performing fundamental research analysis. This includes equity research experience as a buy-side and sell-side analyst as well as serving as a senior associate in the high yield corporate finance group at Moody's Investor Service.

Sean holds a MBA from Villanova University and a BS in business administration from Bryant University. He is a CFA charterholder and a member of the CFA Society of Chicago and the CFA Institute.

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