



# Diversity, Equity, & Inclusion in Manager Due Diligence

**“As intentional investors, we want to be very thoughtful and deliberate about incorporating diversity, equity, & inclusion (DEI) into our manager research and due diligence,”** notes Bryan Shipley, CFA, CAIA, Co-CEO and Chief Investment Officer of Arnerich Massena. **“These are important factors to take into consideration when evaluating how our managers operate and understanding their alignment with our clients’ values and objectives. We’re really pleased to be at the forefront of the industry in terms of recognizing the importance of DEI as a key component of investment selection, and crafting practices to incorporate it into our research.”**

## INCORPORATING DEI INTO RESEARCH

Arnerich Massena is known for the company’s robust, thorough, and disciplined manager search and due diligence process. The firm’s Research & Analytics team has identified a set of key criteria that can lead to manager outperformance, and uses a proprietary evaluation system that looks at both quantitative and qualitative factors to assess those criteria and ultimately select investment managers who we believe will provide long-term outperformance for our clients. Even as we demonstrate remarkable success with this process over time, we are continually evaluating and evolving it, to refine and improve manager selection and due diligence. Incorporating diversity, equity, & inclusion into the process has become an important focus, and we wanted to share how we’ve made it a core part of our research.

## WHY DEI AS PART OF MANAGER RESEARCH?

The Arnerich Massena Research Team recognizes diversity as an important component of good governance; the firm has learned from its impact investing research about numerous studies which show that diverse teams offer advantages in terms of breadth of experience, different perspectives, and improved decision-making. So including DEI in manager research can be a helpful indicator of the overall strength of a manager’s team and leadership.



Another important consideration is the growing demand from investors to invest with companies that are cognizant of DEI issues. “We have always asked prospective managers about their ownership,” says research analyst Ben Larsen. “We want to be able to deliver managers who are aligned with our clients’ interests, both in how they invest and also how they structure their internal teams and leadership.” Over time, answering the demand with thoughtfully applied DEI criteria in manager research will hopefully play a role in furthering diversity, equity, and inclusion throughout the investment and financial services industry. “Everything that brings awareness to the disparities in the industry can be part of helping to correct them,” remarks analyst Melissa Liu.



# ANALYTICS UPDATE: Diversity, Equity, & Inclusion in Manager Research



## HOW DO WE RESEARCH DEI?

Arnerich Massena brings DEI into the manager research process from the very beginning. The firm's Due Diligence Questionnaire (DDQ) is a comprehensive questionnaire the Research & Analytics team uses as a foundation and starting point for its selection and due diligence process; prospective managers complete the questionnaire before the team begins interviewing them. The group has added a substantial section to the questionnaire specific to DEI issues. You can see samples of questions we include on our DDQ to the right.

## AHEAD OF THE CURVE

"We know that other financial organizations are just beginning to initiate their journey of awareness in understanding DEI issues," says analyst Melissa Liu. "It's still pretty new to the industry, and we are just starting to see those ideas become reality as financial services companies begin formulating processes and methodologies for incorporating that awareness." The Research & Analytics team is proud to be out at the forefront of this movement, well ahead of most other industry players. Ben Larsen explains that "managers are starting to be asked about these issues by clients, which is prompting them to take action. And we are starting to see DEI reflected in ranking and reporting methodologies. We hope to see that continue to evolve."

## DIVERSITY, EQUITY, AND INCLUSION ON OUR TEAM

Our research team is skilled and knowledgeable in seeking out good governance practices among our investment managers and investment companies, and so we understand how important those practices are to the long-term success of a company. We employ best practices internally with our own team as well. Arnerich Massena launched a Diversity & Inclusion Committee in 2017 to review firm policies and practices, to recommend resources, and to provide staff training. All staff and leadership are asked to abide by the company's **Diversity and Inclusion Manifesto**, which you can read [here](#).

We recognize in particular how unconscious bias can play a role in the manager selection process. The firm has been making a concerted effort to provide training around unconscious bias, providing staff with the resources and awareness that can begin to help mitigate the ways in which we might apply stereotypes or discriminatory thinking throughout our research process.

## DDQ SAMPLE DEI QUESTIONS

The questionnaire is designed to accommodate and be inclusive of teams of varying sizes, so that we can evaluate managers of both large and small size, whether they have a huge infrastructure behind them or are just a small, focused team. Sample questions include:

- Does the firm define goals for creating more diverse and inclusive teams at the senior level? Please provide details.
- What policies or practices are in place to ensure that women and minority candidates are equally considered at all levels during the recruitment process for the investment team and non-investment team?
- What policies or practices are in place to ensure that the Firm provides an inclusive working environment for all employees?
- What percent of the Firm's equity is owned by women, by racial/ethnic minorities, and by other minority groups?
- If the Firm is publicly listed, what percent of the Board of Directors is comprised of women, of racial/ethnic minorities, and of other minority groups?
- Are you doing anything specific to address diversity & inclusion in the companies in which you invest? Explain.

In addition to a lengthy series of questions that include the above, the DDQ asks firms to provide complete diversity statistics for their teams, and to include any narrative information they wish in support of their DEI story.

## WHAT WOULD YOU LIKE TO SEE?

"We welcome feedback from our clients about how we can better align their investments with their values," Bryan Shipley asserts. "It's a critical part of what we want to make possible for our clients, and we understand that when it comes to DEI, listening and learning are the first steps." We look forward to continuing to report on the evolution of our process as we seek to connect our clients with investments that are helping to bring forth a more inclusive and equitable world.

