

# Looking for Change?

## Why Simply Hiring Diversity Managers is *Not* the Answer

*“Our marketing partner, also a woman majority owned firm, sent us a newly released industry publication that discussed the increased interest in diversity. She was very excited that all the “smoke” in the press might finally mean that there was “fire” in the form of investors. We immediately felt a wave of exhaustion. This push for diverse investment managers seems to be our own personal Groundhog Day. It happens again and again, and while some small progress is discernable each time, it is neither significant nor sustainable. Yet, despite these challenges, it is never an option to give up.”*

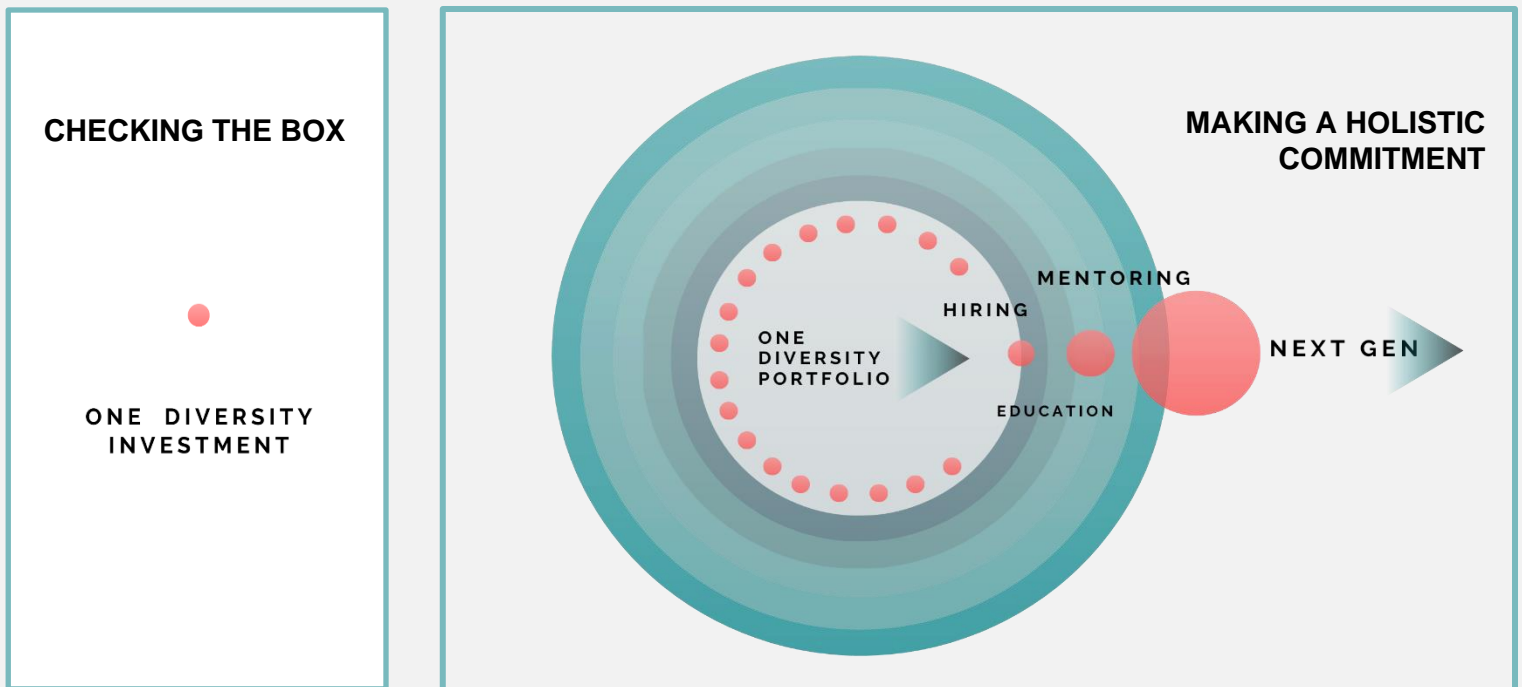
*Kelly Chesney Co-Founder, Pluscios Management*

### THE DRIVE TOWARDS DIVERSITY

What is driving your desire to invest in diverse managers? What is the end goal? Good returns? Of course. Diversification of your risk? Indeed. Helping to eliminate or at least improve gender/diversity disparities in the investment management industry? Perhaps for today. While investing in a few or even several diverse managers today can be good for your portfolio, and it helps the particular managers you invest in, it won't solve the bigger problem --a continued lack of diversity in investment management. We need investment en mass, not one allocation at a time. Moving the needle means investing for growth—diversified growth, industry wide growth, firm wide growth. This is about the next generation.

Pluscios, a WBENC enterprise, has been working on behalf of emerging, diverse and women-led organizations, including our own, for more than two decades. We have experienced, observed and tried to help solve this entrenched problem since our inception and even prior, during our time at JP Morgan and its predecessor bank entities. Pluscios has been providing mentoring and participating on education panels since 2007. In 2009, Pluscios was a co-sponsor of a project by the National Council for Research on Women (now ICRW) titled Women in Fund Management: A Road Map for Achieving Critical Mass – and Why it Matters.

### TOGETHER, WE CAN ACCELERATE CHANGE.



### STRUCTURAL CHANGE IS CRITICAL

Ultimately, Pluscios believes that there are structural challenges that hold back progress, supply and demand. Yes, the current interest in investing in diverse managers represents demand. However, that demand needs to not only turn into action through actual and broad-based investments, but the demand also needs to grow to make a sustainable difference. We need to expand the pool of allocators/asset owners that not only can and should invest in diverse owned firms. Many organizations say they do, and often can provide statistics that make it look like they do, but the reality is the allocations are too limited and too narrow to materially change an industry steeped in a tradition that not only failed to embrace diversity, it actively sought to impede it.

## WHAT ABOUT SUPPLY?

Before diversity in investment management can reach an effective scale, the development of a supply of diverse managers--and from them diverse candidates and career tracks—is necessary. To affect this degree of change, awareness and education is critical at an early age. A series of organizations including ICRW, Rock the Street and Wall Street have sought to set this important building block in motion. Another element of great import to the outcome is the availability of role models for girls as they consider careers in investment management. This often overlooked element of development was one of the goals of Meredith Jones in her book “Women of the Street: Why Female Money Managers Generate Higher Returns (and how you can too)”. Meredith interviewed 11 female fund managers to capture their stories; how their careers developed, who inspired and mentored them, and what they have learned along the way. When Meredith approached Pluscios, a women majority owned and operated firm ourselves to participate in the book, we immediately understood the need for the conversation. Finding mentors, and a network of women in investment management was impossible in 2006. While there are now certainly women in finance, we are far from where we need to be to engage young women and minorities to ensure a bright and diversified future.

## HERE IS A SOLUTION

We believe the ideal partnership would involve a holistic approach to solving these issues. Pluscios, a WBENC enterprise ourselves, has created an framework to encourage, engage and grow diverse firms through the establishment of diversity-led investment portfolios. Not just checking the box with a diversity manager or two or even three—but the ENTIRE portfolio. We believe that from a “mission” perspective it is important to build “supply generation” capabilities, and these diversified portfolios accomplish that task, along with significant mentoring, partnership, support and engagement. It is, actually, the role Pluscios has sought to play all along through mentoring and internships, speaking at educational events and most importantly allocating to women and diversity-led firms, including them in 100% of our searches and ensuring full consideration, regardless of size, of each firm seeking assets to manage with a good story (and performance) to tell.

### THE DIVERSITY DATA

Women % of Finance Degrees*	Women % of US Fund Managers*	Change in % of US Women Fund Managers Over Last 20 Years*	Global Assets Managed By Women Or Minorities*
39%	11%	-3%	1%

\* Sources: Glassdoor, Morningstar Women and Investing Special Report March 2020, World Economic Forum 2020

## DIVERSITY IS NOT A PRODUCT

For Pluscios, diversity isn't just a product, it's a passion and a practice. Like ESG as a whole, aren't we all better off ensuring our dollars are going to organizations that are positively advancing society, while they also meet our clients well defined requirements for risk and reward? Much like parents sneaking kale into their kid's smoothie, we have been including emerging and diverse managers in our portfolios since before it was a social goal. Does this analogy cause you pause? Is it hard to hear that we had to 'sneak' in these managers -presenting them fully but minimizing the focus on assets under management and the diversity of the firm in order to avoid the obvious (and all too often bias) push back to 'just go with the known firm', often large and run by a limited cohort from a diversity perspective. Why were we so committed to this endeavor? First and foremost because we found the most important factor of all-- that these diverse, and often smaller, managers added value to our portfolios in real numbers. Fortunately, the market does not have to take Pluscios' word for it. Studies have shown that smaller managers focus on more idiosyncratic, off the run opportunities that generate alpha, and that cultural diversity in the form of women-led and diversity-led managers take risk differently, making portfolios more resilient.\* After launching Pluscios as a woman owned firm, having left a large, global bank, we became even more aware of the struggles that smaller, diverse firms go through. Not only were we motivated on behalf of the value-added, we were motivated to bring these managers to light, to help them gain funding and grow, to help them compete and ultimately to help the industry grow so that more women and diversity candidates would present themselves into the field of Finance.

## AREN'T LARGE ORGANIZATIONS ALREADY ADDRESSING THIS?

Sitting through countless pension plan hearings on diversity and seeing major institutional allocators struggle with success in their diversity programs, we observed some structural issues that are critical to highlight for those seeking systemic change. A few of these are:

1. Diversity owned is not necessarily diversity managed; we seek to engage firms that have women and minorities in positions of authority in relation to the investment management decisions.
2. One is not done; while this is true for all asset classes, it is particularly critical with respect to hedge funds-nuanced by nature investing in one or only a few managers is not diversified, and therefore it is unlikely to provide effective long-term risk/reward results. In short, we believe creating a full portfolio (8-15 partnerships across multiple strategies) of diverse managers is more resilient from an investment perspective and in supporting the growth of diversity managers as a whole.

## WHY MENTORING MATTERS

Mentoring ranges from sharing stories of our own journey in creating Pluscios, and others we have watched seeking growth as a women and/or diversity-led firm, to engaging around marketing presentations and critiquing pitches, to discussing ownership structures and incentives, and advising on operational issues and service providers. Mentoring is the value-added that we can give back to these managers, and the value-added the industry needs to create sustainable growth. Here are some recent mentoring stories that we believe demonstrate the 'how', beyond the obvious 'why' of diversity allocations:

### INCOMING

We were introduced to a minority looking to start a hedge fund. The first meeting was focused on his background, how he thinks about/finds trades and what his goals were. We also talked with him extensively, then and overtime, about all he would have to do to start a fund, including considerations around seed capital, self funding or starting as part of a family office, with particular context around the implications of his minority status. While we do not provide legal or accounting advice, we talked through all of these critical considerations. We then introduced him to service providers including marketing firms and other entities that could help his entity get off the ground. We provided him with samples of presentation content/positioning highlighting what allocators, in our experience, would find important and informative. We marked up several drafts of the presentation he created. We have completed due diligence visits and provided advice for creating an institutional quality small firm. We mentored around improving the in-person presentation.

### OUTGOING

We identified a municipal bond investment opportunity that had the potential for significant upside but was complex, local, and actively targeted by the press as a 'challenged' municipality. We sought to hire an investment manager that we could engage around this market opportunity. While we interviewed several established hedge funds that had lots of credit experience, all had little prior contact or involvement with the municipality. Seeking the right local knowledge, edge and risk management profile, we began an in depth discussion with a minority manager we had previously met in the municipality that was small but nimble. We asked the team to start a dedicated fund, however they feared, based on their own experience, that they would not gain sufficient interest due to their size. Pluscios took the role of mentor and partner, managing the infrastructure (operations and marketing) and the team doing what they do best, executing on the strategy.

### STEPPING IN

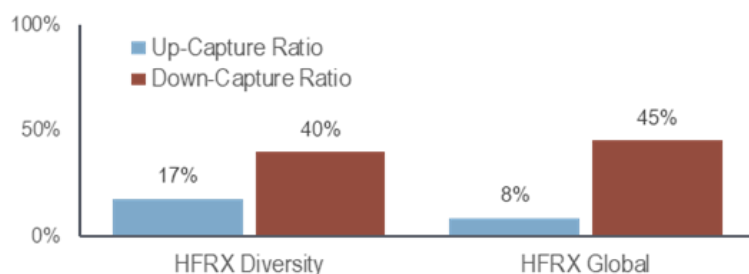
It is a fact that it is more difficult for women and minorities to raise money. Whether it's the lack of a network or a lack of interest, launching and scaling is tough. Another way we have supported firms is by being first money in a fund. This provides an institutional stamp of approval that these managers can leverage in their fundraising efforts to pursue broader pools of capital, and provides the support they need to ensure robust operations to meet institutional standards.

### Since Inception Annualized Statistics (Diversity vs Non-Diversity HFs)

Jan 2012 – Sep 2020	Compound Return	Standard Deviation	Sharp Ratio 5%
HFRX Diversity	6.8%	5.2%	0.3
HFRX Global	2.0%	4.3%	-0.7

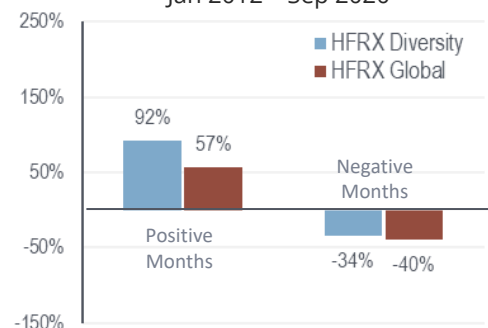
### Up and Down Capture Ratios Relative to S&P 500

Jan 2012 – Sep 2020



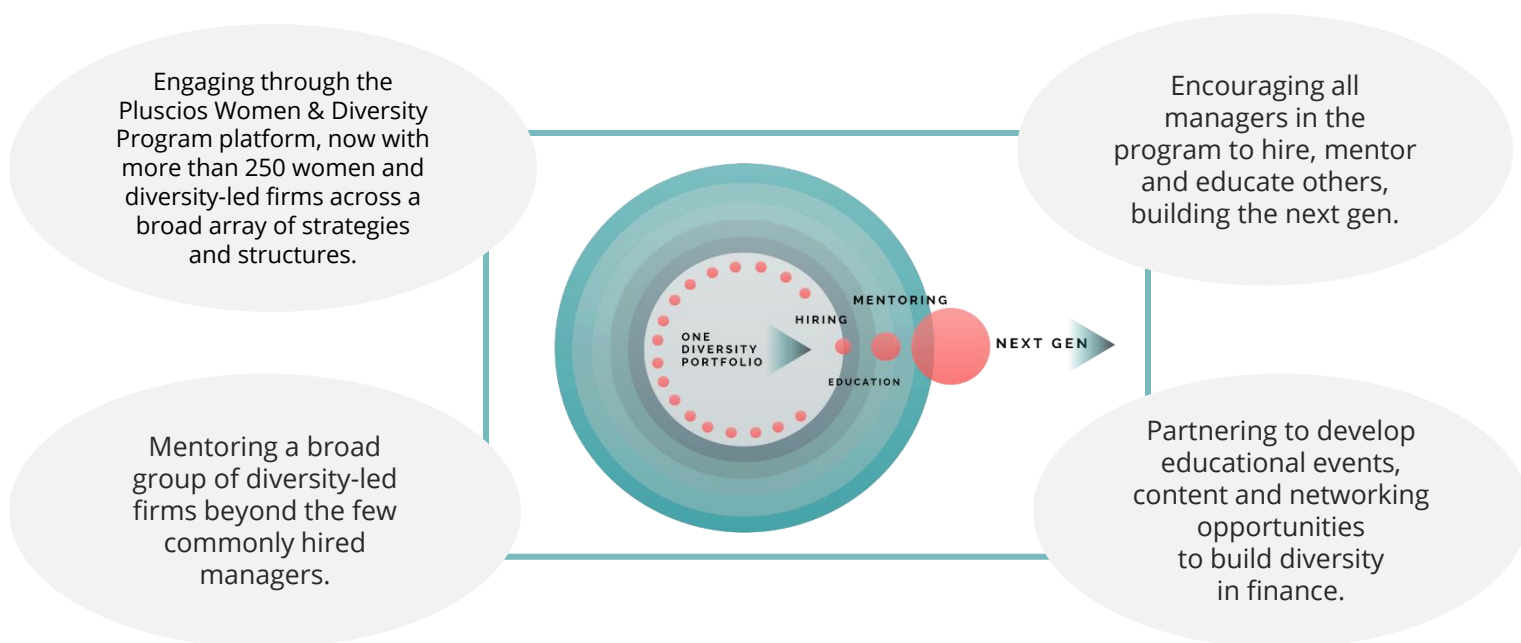
### Positive/Negative Months

Jan 2012 – Sep 2020



## LET'S CREATE SUSTAINABLE CHANGE, TOGETHER

While we have been investing approximately 1/3 of all Pluscios run capital with women and diversity-led firms since the beginning of our track record, as a largely institutional firm it is in the customization of client designed portfolios that we believe drives change the most. To this end, Pluscios began separately tracking, monitoring and creating a paper portfolio of diverse managers in 2012. We've sought market interest and have had many conversations, but generally firms want to invest in one or just a few diversity managers on a direct basis. Perhaps a bias view, we believe this typical approach lacks the sustainable growth that is possible through active allocation to dedicated portfolios that are run by, and overseen by, women and diversity-led organizations. Why? Because a broad allocation, managed by a women-led firm, creates sustainable growth across a large contingency of firms, small and large, across styles and strategies. The result is sustainable change as such broad-based allocations impact hiring, culture, education, mentoring and the expansion of diversity candidates in Finance in a broad and meaningful way. In particular, institutional partners will allow Pluscios to create momentum that includes:



## IS 'THIS TIME' DIFFERENT?

Recently, with the intense focus on, impact, ESG, diversity and SRI investing, Pluscios once again began having conversations around the broad-based funding of diversity-led firms. Our marketing partner, also a woman majority owned entity, sent us an industry publication that talked about the increased interest in diversity. She was very excited that all the “smoke” in the press meant that there may actually—finally—be a “fire” in the form of investors seeking to allocate. We immediately felt a wave of exhaustion. This push for diverse investment managers seems to be our own personal Groundhog Day. It happens again and again, and while some small progress is discernable each time, it is neither significant nor sustainable. But it is not an option to give up. We do hope this time is different. We hope the market takes note and we hope the allocations are not simply checking a box and moving on, but rather a ground swell towards systematic and sustainable change in an industry that is far behind at a critical time in our world's history.

## ABOUT PLUSCIOS

Founded by Kelly Chesney (pictured left) and Constance Teska (pictured right), Pluscios seeks to combine the best qualities of a diversity-led, boutique, customer-focused organization with large institutional experience and processes. We work with our clients on a wide variety of mandates such as custom diversity solutions, manager due diligence, diversified hedge fund of funds allocations and advisory services. Many of our institutional clients are advisors themselves, seeking a private label partner to ensure efficiency and depth in their diversity allocations.

