



INCLUSIVE CAPITALISM:

SEVEN STRATEGIES FOR SPECIFIC ACTION IN ASSET MANAGEMENT

EXECUTIVE SUMMARY

Inclusive Capitalism: Seven Strategies for Specific Action in Asset Management builds upon the industry findings and learnings from an earlier report, *The Path to Inclusive Capitalism: An Asset Owner Guide for Investment Portfolios*, to establish actions that the asset management industry can directly execute to capture unrealized value and mitigate long-term risks for the industry. These strategic steps address the 1.4 percent representation of women and Black, Indigenous, and people of color (BIPOC) in an \$86 trillion industry. Each step will target either the human capital side or the allocation and governance side of the equation.

This second report builds on the four pillars in the first report and serves as a guidebook for specific actions that we encourage the asset management industry to execute to enhance efficiency and value-creation opportunities. We collaborated with our Inclusive Capitalism Executive Council—an assembly of industry leaders in asset allocation, asset management, and top trade organizations pushing the envelope in the asset management industry—and incorporated feedback from these bold industry professionals to elevate the best industry solutions that can be easily implemented.

Our commitment to this work is impact-focused but has always been backed by data. Less diverse capital markets are less efficient and leave money on the table for asset owners, managers, entrepreneurs, and customers. If we are to achieve the goals of capitalism, efficiently allocating resources to the most efficient performers, inclusion must be at the center.



ACTION STEPS

1. Redirect Data and Metrics

Our work must continue to be grounded in evidence that diversity is an element of fulfilling our fiduciary responsibility to optimize returns for our investors. Aggregating the data points of the last three years will provide directional guidance to accelerate other action steps.

2. Expand the Talent Pipeline

Companies can expand their recruitment efforts beyond traditional target schools to include Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and other educational entities serving students from diverse backgrounds as key resources to attract top-performing talent to their applicant pools.

3. Mentor and Track Talent

Asset management is an apprentice-based business that relies on strong relationships and significant work opportunities to gain additional responsibility and promotional pathways. A long-term mentorship program with an intentional tracking mechanism will increase employee retention and improve company culture.

4. Standardize a Governance Diversity Pledge

Together with the Inclusive Capitalism Executive Council, the Milken Institute proposes that asset management firms make efforts to include diverse persons as board members on open-ended funds within their fund complexes and on portfolio company boards within their private equity funds. Asset managers will advance the interests of their management companies and investors by strengthening the network of diverse people in the industry.

5. Expand Access to Diverse Managers

Calling for funds to adjust their policy statements to include first- and second-time funds can bring in more diverse-owned fund managers, lowering the barriers to building a track record and efficiently managing investments.

6. Standardize a Scorecard Focused on Inclusive Capitalism

Transparency to and disclosure of data and business practices are critical for measuring the financial services industry's commitment to progressing diversity, equity, and inclusion. Standardizing an index that measures firms' inclusive efforts will provide a common baseline for an industry-wide monitoring and evaluation method.

7. Convene Intentionally

The Milken Institute is uniquely positioned as both a thought leader and connection point for the financial sector. By gathering asset allocators and emerging managers, the Institute can facilitate a unique networking structure that connects asset allocators with leading emerging managers in the industry.