



**MILKEN  
INSTITUTE**  
CENTER FOR  
FINANCIAL MARKETS

# INCLUSIVE CAPITALISM: SEVEN STRATEGIES FOR SPECIFIC ACTION IN ASSET MANAGEMENT

## EXECUTIVE SUMMARY

In late 2022, the Milken Institute published [\*The Path to Inclusive Capitalism: An Asset Owner Guide for Investment Portfolios\*](#). The report clearly laid out four core components for inclusive capitalism: incorporating diversity, equity, and inclusion (DEI) into governance; sourcing diverse talent; underwriting equitably; and committing to equitable monitoring and engagement.

In an upcoming companion piece, *Inclusive Capitalism: Seven Strategies for Specific Action in Asset Management*, the Milken Institute's DEI in Asset Management Executive Council Subcommittees (Talent Sourcing, Research, and Allocation and Governance) will build upon the industry findings and learnings from the first report to establish a set of seven action steps the asset management industry can execute. These activities will directly address the 1.4 percent representation of women and Black, Indigenous, and people of color in an \$86 trillion-dollar industry. Each step will target either the human capital side or the allocation and governance side of the equation:

### **1) Standardize a Governance Diversity Pledge**

Asset management firms will publicly pledge 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 persons—future leaders and mentors—in the industry.

### **2) Accommodate Early-Stage Funds**

More than 6 percent of US fund managers across asset classes are diverse-owned but receive about 0.7 percent of US dollars under management, impeding growth and the ability to create a successful track record. Calling for funds to adjust their policy statements to include first- and

second-time funds can include a larger number of diverse-owned fund managers, lowering the barriers to building a track record and efficiently managing investments.

### **3) Create a Scorecard for Impact Investing**

Transparency and disclosure of data and business practices are critical for measuring the financial services industry's commitment to progressing DEI. Standardizing an index that measures firms' DEI efforts will provide a common baseline for an industry-wide monitoring and evaluation method. A neutral expert in this area, such as the Milken Institute, should lead in this step.

### **4) Reconsider the Talent Pipeline**

Companies will adjust their recruitment efforts to include historically Black colleges and universities (HBCUs) and Hispanic-serving institutions as key resources for their company's top-performing diverse talent in the financial sector. More than 100 HBCUs across the United States enroll more than 228,000 students and produce almost 20 percent of all African American graduates. Hiring strong candidates from these institutions is a tangible pathway to increasing DEI in the asset management space and achieves geographic diversity.

### **5) Mentor and Track**

Institutions will establish or strengthen a long-term mentorship tracking program where the employee is mentored on a multiyear basis, through promotion. Guidance focuses on professional development with a social perspective and performance goals to ensure a comprehensive approach to support and growth within the company. Engagement and governance through the DEI Executive Council will differentiate this approach from similar efforts established by trade associations and other organizations in the industry.

### **6) Redirect Data and Metrics To Give Researchers Specific Guidance**

A global investment firm with access to rigorous data and expert analysis can help institutions redirect metrics to determine what data points and directional guidance can help push DEI research efforts in the asset management space. For example, many in the industry need to avoid recycling existing research and leverage more data points to make a definitive case for increased DEI efforts. This action step involves giving researchers specific guidance on what they should do next.

### **7) Convene Diverse Networks Intentionally**

The Milken Institute is uniquely positioned as both a thought leader and a connection point for the financial sector. Leveraging the expansive Institute network, the Inclusive Capitalism (ICAP) Program team will facilitate a unique networking structure and establish an annual event that brings together general partners, limited partners, and diverse, emerging fund managers.

Visit [www.milkeninstitute.org](http://www.milkeninstitute.org) to read the full report in summer 2023.

## **ABOUT THE MILKEN INSTITUTE**

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

## **ABOUT MI FINANCE: INCLUSIVE CAPITALISM PROGRAM**

The MI Finance: ICAP Program aims to create a business environment that produces long-term value that benefits all stakeholders, including businesses, investors, employees, customers, governments, and communities.