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Testimony of Brenda Chia, Founding Board Member and Current Board Co-Chair of the Association of Asian American Investment Managers

“Diverse Asset Managers: Challenges, Solutions and Opportunities for Inclusion”

**Subcommittee on Diversity and Inclusion
Committee of Financial Services
United States House of Representatives**

Chairwoman Beatty and Members of the Committee, thank you for the opportunity to discuss the experience of Asian Americans and Pacific Islanders in the investment industry.

I am Brenda Chia, a founding Board member and current Board Co-Chair of the Association of Asian American Investment Managers (AAAIM). The organization was founded in 2006 as a national non-profit organization dedicated to the advancement of Asian Americans and Pacific Islanders (AAPIs) in the field of investment management. AAAIM provides a platform for professionals in the industry to meet, network and create business opportunities. We deliver value through educational events, face-to-face and online networking, and advocating for the AAPI community through opportunities such as this hearing. The current network comprises over 3,000 institutional investors and fund managers.

Observations

I would like to highlight a specific challenge faced by AAPIs, which is the model minority stereotype¹. It is broadly defined as the perception that AAPIs are successful and do not need help in any field. In the investment business, there are diversity programs and industry gatekeepers that, through their own policies, exclude AAPI managers. However, looking at the numbers, AAPIs are 5.6% of this country’s population. The 2017 Government Accountability Office reports that minority and women-owned firms manage less than 1% of all investment

¹ Harvard Business Review, “Asian Americans Are the Least Likely Group in the U.S. to Be Promoted to Management”, May 31, 2018

assets valued at \$70 trillion². This is across the asset classes of equities, fixed income, alternative assets such as private equity and hedge funds, and cash equivalents. Each percentage point is worth \$700B. Clearly the model minority stereotype does not hold here. It is not about enriching specific investment managers; it is about the impact on our community. Studies have shown that minority and women-led investment firms invest in more diverse entrepreneurs and businesses. We look “outside the box” for opportunities, often overlooked in urban and rural communities. This in turn enriches our communities and creates more jobs, without sacrificing the returns pension funds need to meet their funding obligations.

The investment business is one that thrives on scale. The start-up costs and fixed costs associated with smaller firms are such that they do not generate impact until they reach a threshold asset base which varies by asset class. For example, a \$1B public equity fund may generate \$5M in annual fees. It may sound significant but the costs of running a small fund are high due to the costs for compliance, salaries for qualified staff and client service. Therefore, to create impact on one’s community, total fund size needs to be an order of magnitude larger. However, there is a balance between fund size and performance. Without broader access to capital, minority and women-led funds continue to be marginalized because their assets under management will restrict the types of investments that can be made.

I wish to touch briefly on the performance of smaller and mid-sized funds. Multiple research sources such as Cambridge Associates³, Barings⁴ and Bella Private Markets⁵ point to the fact that small and mid-sized funds deliver at least parity performance compared to very large funds. There are some smaller funds that consistently outperform the very large funds. For example, in private equity, the very large funds with over \$10B have, over 12 years, delivered returns that are in line with market indices. There has been no premium return for illiquidity and risk. The question for institutional investors then, is how to balance allocation size while giving minority managers a chance to make a difference in their returns.

Diversifying the pool from which investment managers are able to compete and ultimately be selected makes good business sense for institutional investors. Several larger state pension plans have come to a conclusion that they need to create a farm system equivalent by which they can invest with smaller firms, many of which also happen to be ethnically and gender diverse. This creates an environment where the small firms today could, in the future, become the next

² GAO Report, “Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers”, September 2017

³ Wall Street Journal article, “Blackstone Sets Sights on Largest Private Fund”, June 19, 2019

⁴ Barings Viewpoints, “Don’t Judge a Private Equity fund by its Number”, January 2019

⁵ Bella Private Markets, “2018 Diverse Asset Management Firm Assessment”, January 2019

generation of successful firms with trillions of dollars under management. Taking this one step further, in order to achieve a level playing field, we propose that minority and women managers not be limited to 'set aside' allocations where we compete against each other for a small slice of the pie. We would like to compete for the whole pie.

Conclusion

AAAIM stands ready for AAPIs to have open and fair access to institutional capital.

A critical role that Congress can play is to create the opportunities for access to capital. While one cannot legislate quotas or mandate criteria selection, Congress can create opportunity. The federal government has trillions of dollars of pension funds and other capital under management, none of which minority and women-led funds have access to bid or be considered as fund managers. Congress could mandate that funds under federal management be subject to regular and periodic open competition. Congress could also recommend that federal agencies ensure that qualified minority and women-led funds are considered as part of the RFP evaluation process. We urge Congress to consider adopting something similar to the Rooney Rule – a rule used in the NFL to ensure that diverse coaches and managers are recruited for consideration for senior positions. By creating opportunities, Congress can take some small steps toward ensuring a more diverse pool of fund managers for consideration. It would be a meaningful step toward opening doors and creating greater transparency.