AN INSIDE LOOK AT COLONIAL CONSULTING'S DIVERSITY AND INCLUSION JOURNEY

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"Why don't we have more investment manager diversity?" It was a simple inquiry from a longstanding client of Colonial Consulting, LLC. It was also the first open challenge to the nearly 40-year-old investment consulting firm to take a look at policies and practices to see if they could do better for their clients by capturing a wider range of investment manager talent.

The query forced Colonial's leadership to turn introspective – with some disappointing initial results. "The first reaction a lot of people just have is to say, 'well, of course we're doing a great job,' without any evidence to support that," says Michael Miller, Chief Investment Officer, Colonial Consulting. "Then we started taking a closer look. We realized we were really not looking."

After a period of self-analysis, Colonial began meeting with diverse managers, but the team's unfamiliarity with many of them and a prior tendency to recommend index funds had them somewhat skeptical. "I could see some of the problems we were having in terms of how diversity was affecting us, and how our team wasn't fully on board with this," recalls Miller. "They weren't quite sure. They wanted to be. It wasn't like they were racist and awful misogynists, but they were still at a level of discomfort sometimes."

The firm's leadership knew they needed to do better. So, the team put in place a series of policies and practices that would result in their clients gaining a much greater range of talent, proven investment strategies and high-performing diverse-owned firms. Because of their intentional commitment to this work, more diverse asset managers received larger capital commitments by way of Colonial. Here's how they did it:

LAYING THE GROUNDWORK

First, the Colonial team began to track the number of meetings held each year compared with the number of diverse managers in the firm's database, the number of managers recommended, and the number of managers hired. Shortly thereafter, Miller hired Angela Matheny to serve as head of diverse manager equity to attract, source and monitor the internal vetting process of diverse managers.

One of Matheny's first responsibilities was to raise Colonial's profile with diverse managers by appearing at conferences, taking one-on-one meetings, and conducting reviews of various pitch decks with Miller in the loop. This led to a substantial increase in meetings and calls, greater engagement from Colonial's research team, and eventually, buy-in. "All it really took was for a few great managers to walk in the door to have people learn," says Miller. "Our people got the chance to meet experienced investors who were not white men, hear their stories and say, 'wow, they're really good.'"

All of Colonial's consultants were asked to revisit their strategies to see why allocations to diverse managers were not occurring on a more regular basis. This would become an ongoing conversation at meetings to ensure follow-through. Recently, Colonial scheduled additional manager meetings for new and existing managers when all of the consultants were in the office. This would ensure that every consultant had the opportunity to receive updates firsthand, become better acquainted with managers in person, which could result in a deeper relationship. Overall, this resulted in another layer of diligence which consultants would often add to Colonial's reporting.

Matheny then began to provide managers with critical feedback – something that Colonial had not done before. She was given a budget to partner with various trade organizations and other institutions in support of diversity in finance which led to multiple networking opportunities and resources to locate managers. In wanting to publicize these efforts, Colonial began to write about its work/best practices – and both clients and managers took notice.

Additionally, a handful of Colonial clients assisted by sending inquiries from investment managers they met. External academic programs were supported to curate talent by investing in college students and offering summer internships and full-time opportunities upon graduation.

With the help of the SEO Alternative Investments program, Colonial created the SEO/Colonial Breakfast Connections event wherein for two hours each quarter, 4-5 managers would be invited to present to Colonial's CIO, CEO, and a few members of its research team and other LPs/allocators. Finally, the firm's internal strategic manager began to create exposure reports. This meant that if a diverse manager was approved, and was in the Colonial pipeline and accepting capital, Colonial would track them to learn whether or not capital was flowing to that manager.

A few other key steps were taken to ensure Colonial grew their stable of diverse managers:

- Matheny realized that some clients were in favor of separately managed accounts (SMAs) rather than commingled funds. In some cases, Colonial would ensure a certain level of capital commitment if a diverse-owned firm with an SMA would create a commingled fund to support the success of those managers.
- Colonial assisted clients to add diverse manager language into the Investment Policy Statement (IPS) as boards evolved and turned over, requiring this language for sustainability purposes.
- A watchlist of one-off managers was kept so that once a manager gains a track record or has proof of concept and outperformance from a previous fund, Colonial would re-underwrite them, which could lead to a larger allocation from its clients.
- Colonial would also anchor a manager that had no other institutional capital if leadership had a high level of conviction in the manager, convinced they were talented and could compete but were simply under-capitalized.
- Matheny now preps managers for meetings to ensure an effective pitch that demonstrates a clear vision of value proposition, unique strategy/investment edge while being as transparent as possible.

As a result of these efforts, Colonial now has roughly $2.2 billion currently allocated with diverse-owned firms, compared with $375 million when the firm first got the ball rolling in 2013. Of its 145 clients, 109 have exposure to diverse managers. The end result for Colonial is building better portfolios through diversity, top-quartile performance, and meaningful allocations from its clients to help diverse managers scale.

This impressive outcome illustrates that when a consulting firm has total buy-in from the top on a plan for inclusion and executes it properly, it leads to positive changes – and satisfied clients. "Our goal is to cross the $3 billion threshold by year-end. However, our CIO is dissatisfied as that will only be 10% of Colonial's AUM," says Matheny. "We are committed to democratizing capital to incorporate smart investing through diversity in the finance industry, so we will keep going."