

GAO@100 Highlights

Highlights of [GAO-22-105588](#), a testimony before the Subcommittee on Diversity and Inclusion, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Asset management firms manage trillions of dollars in the U.S. for a variety of clients, including institutional investors. Federal entities also use asset managers. But MWO asset managers face challenges when competing for investment management opportunities. For example, institutional investors often prefer to contract with large asset managers with brand recognition and with whom they are familiar.

This statement discusses (1) key practices institutional investors can use to increase opportunities for MWO asset managers and (2) how selected federal entities have used these practices.

This statement is based on a 2017 GAO report ([GAO-17-726](#)) and also describes actions taken to implement the report's recommendations.

For the 2017 report, GAO identified key practices by examining practices nonfederal retirement plans and foundations used, reviewing industry reports, and validating the practices with input from 10 industry stakeholders and experts. GAO also reviewed investment policies of eight entities that manage or sponsor federal retirement plans, an endowment, and an insurance program.

View [GAO-22-105588](#). For more information, contact Michael E. Clements at (202) 512-8678 or clementsm@gao.gov.

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INVESTMENT MANAGEMENT

Key Practices Can Provide More Opportunities for Minority- and Women-Owned Asset Managers

What GAO Found

GAO identified four key practices institutional investors, such as retirement plans, can use to increase opportunities for minority- and women-owned (MWO) asset managers. These practices are consistent with federal interests in increasing opportunities for MWO businesses.

- **Top leadership commitment.** Demonstrate commitment to increasing opportunities for MWO asset managers.
- **Remove potential barriers.** Review investment policies and practices to remove barriers that limit the participation of smaller, newer firms.
- **Outreach.** Conduct outreach to inform MWO asset managers about investment opportunities and selection processes.
- **Communicate priorities and expectations.** Explicitly communicate priorities and expectations about inclusive practices to investment staff and consultants and ensure those expectations are met.

The key practices are closely related; improvements or shortfalls in one may contribute to improvements or shortfalls in another. The practices do not require investors to develop targets or allocations for MWO asset management firms or change performance standards.

In 2017, the federal entities (retirement plans, an endowment, and an insurance program) GAO reviewed varied in their use of the practices. GAO recommended that four entities that made partial or no use of the practices take steps to more fully apply them. Since 2017, the four entities have addressed these recommendations by taking actions to implement key practices in their asset manager selection processes. Specifically,

- The Navy Exchange and Command Service and the Army and Air Force Exchange Service issued letters asking their retirement plan consultants to include MWO firms in their databases and when searching for investment managers.
- The Tennessee Valley Authority Retirement System documented its commitment to equal opportunity for MWO firms in its service provider evaluation policy.
- The Federal Retirement Thrift Investment Board awarded a new contract in which Thrift Savings Plan participants will have access to a mutual fund window with over 5,000 mutual funds. A tool will allow participants to screen for funds managed by MWO firms.

Implementing the key practices allows institutional investors to widen candidate pools in their asset manager searches and help ensure they find the most qualified firms meeting their needs. The practices also could eliminate some of the barriers MWO firms face and increase opportunities for these firms.