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Representation of AAPIs in Asset Management: **Analysis and Strategic Response**

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In Summer 2020, the Association of Asian American Investment Managers ("**AAAIM**") commissioned a study to answer two questions: the representation of Asian Americans and Pacific Islanders (AAPIs) in the asset management industry and the related issue of their performance against industry benchmarks. This effort (the "**AAAIM Study**") was undertaken by Professor Josh Lerner (Harvard Business School) and Bella Private Markets ("**Bella**").

The AAAIM Study is the first in the market to quantify AAPIs' representation, AUM, and performance. The results uncover a disturbingly low representation of AAPI ownership compared to the community's population in the U.S. and other relevant benchmarks. In addition, the returns delivered by AAPI-sponsored investment vehicles meet or exceed industry benchmarks across asset classes. These findings echo earlier studies, which found that Diverse-owned funds collectively accounted for 1.3% of total asset management AUM, despite performance in line with industry benchmarks.[1]

Using information from commercial datasets, the AAAIM Study determined the proportion of asset management firms and funds owned by AAPIs, their AUM, and the level of returns compared to the overall market. We examine firms with at least 50% AAPI ownership levels,[2] and analyze the four main asset classes: private equity, hedge funds, public equities, and real estate. The private equity and real estate funds are from vintage years 2008 – 2020. For hedge funds, the Study's representation analysis uses all active funds as of 2020, while the performance analysis considers data from 2008 to 2020 for all funds (active and inactive).[3]

Despite being the fastest growing minority population in the U.S. between 2000 and 2015,[4] AAPI managers have tended to find themselves excluded from the public

[1] Lerner, Josh et al. "Executive Report: Diversifying Investments." Bella Private Markets and Knight Foundation. January 2019. https://kf-site-production.s3.amazonaws.com/media_elements/files/000/000/281/original/ 2019_KF_ DIVERSITY_ REPORT-FINAL.pdf. P. 5. In the Knight Foundation study, diverse-owned vehicles were defined as those owned by minorities and/or women. In this study, we call such funds "Diverse Managers" for simplicity. Furthermore, results from the AAAIM Study should not be compared to those of the Knight Foundation report due to different time periods.

[2] We used the U.S. Census definition of "AAPI" as persons deriving from any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent. United States Census Bureau, April 21, 2020. ***********.census.gov/topics/population/race /about.html. Accessed September 2, 2020.

[3] Using active and inactive funds for the performance analysis avoids "survivorship" bias, which would artificially boost returns by excluding funds that were terminated.

[4] Per U.S. Census data, the U.S. Asian population (using the AAPI definition in the AAAIM study) grew 72% between 2000 and 2015, from 11.9 million to 20.4 million. The second-fastest growing group, Hispanics, increased 60% during that period. Lopez, Gustavo, Neil G. Ruiz, and Eileen Patten. "Key

discourse about participation in Emerging Manager programs and Diversity & Inclusion initiatives. This oversight seems to stem from two dynamics. First, the 'model minority' stereotype perpetuates the perception that the AAPI community is doing well and is over-indexed on various metrics related to the investment industry. Second, the AAPI community originates from a variety of countries ranging from India and China to Indonesia and Singapore, which complicates broad classifications and generalizations. As a result, the AAPI community finds itself at a disadvantage with respect to equal access and opportunity.

Breaking down barriers for the AAPI community is not about enriching specific investment managers; rather, it is about creating equal opportunities for all underserved and under-represented populations. Studies[5] have shown that minority and women-led investment firms invest in more diverse entrepreneurs and businesses. These diverse managers think "outside the box" for opportunities that are often overlooked. This broader perspective in turn enriches all communities and creates more jobs without sacrificing the returns that limited partners need to meet their funding obligations.

The purpose of this Study is to offer facts and data on the AAPI community's representation, AUM, and performance across key asset classes to highlight gaps and opportunities in hiring AAPI investment firms.

Ownership – AAPI firms are under-represented

AAPIs account for 5.6% of the total U.S. population, a share that is expected to grow faster than any other racial group in the coming decade.[6] However, within the overall

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Facts about Asian Americans, a Diverse and Growing Population." *Pew Research Organization, FacTank*. Sept. 8, 2017. https://www.pewresearch.org/fact-tank/2017/09/08/key-facts-about-asian-americans.

[5] Gompers, Paul, and Silpa Kovvali. "The Other Diversity Dividend." *Harvard Business Review*. August 2018; Paglia, John and David T. Robinson. "Measuring the Representation of Women and Minorities in the SBIC Program." Federal Research Division of the Library of Congress.2016. ***********.sba.gov/sites/default/files/files/SBIC-Diversity-Report_0.pdf.

[6] Analysis from the Pew Research Center based on U.S. Census data. "Modern Immigration Wave Brings 59 Million to U.S., Driving Population Growth and Change Through 2065." *Pew Research Center*, Sept.

asset management industry in the U.S., AAPIs own just 3.5% of firms and 2.9% of funds, and hold only 0.7% of AUM.

Among the funds owned by AAPIs, the highest proportion is in hedge funds at 4.3% of the industry total, while real estate is lowest at 0.2%. AUM amounts demonstrate AAPI under-representation even more starkly, ranging from 2.0% in private equity to 0.2% each in public equities and real estate. All of these figures are substantially lower than the AAPI community's proportion of the U.S. population.

Substantial Under-representation of AAPI Ownership Across Asset Classes

ASSET CLASS	% OF FIRMS *That are AAPI-owned*	% OF FUNDS *That are AAPI-owned*	% OF AUM *Held by AAPI-owned funds*
Private Equity	**3.1%**	**3.4%**	**2.0%**
Real Estate	**0.3%**	**0.2%**	**0.2%**
Hedge Funds	**6.8%**	**4.3%**	**1.6%**
Public Equity	**4.5%**	**1.8%**	**0.2%**
Total	**3.5%**	**2.9%**	**0.7%**

Source: Bella Research Group

Examining the results more closely, we see an anomaly that nonetheless proves the point. Hedge funds are over-represented, with 6.8% of total firms—but manage only 1.6% of AUM. This dichotomy indicates a large number of small firms that lack efficient scale.

The low AUM numbers overall suggest that AAPI-sponsored funds are typically quite small. Indeed, on average, they hold less than $500 million in AUM, which hampers their ability to achieve economies of scale for fund operations. The costs of running a small fund are high due to relatively fixed costs for back office staff, compliance, and other business essentials. For a small fund, such expenses consume 70% of fees, as compared to less than 40% for larger funds.[7] Without greater access to capital, AAPI-owned funds will continue to be marginalized because their higher operating costs create a competitive disadvantage relative to other firms.

28, 2015. https://www.pewresearch.org/hispanic/2015/09/28/modern-immigration-wave-brings-59-million-to-u-s-driving-population-growth-and-change-through-2065/.

[7] AAAIM estimates.

There is a wide chasm between the amount of capital raised by AAPI-owned firms and that raised by the rest of the industry. In private equity, which here includes venture capital, AAPI-owned firms raised 2.0% of total capital versus 98% for the rest of the industry. The amount of capital raised plummets for the other asset classes, with 1.6% going to AAPI-owned hedge funds and 0.2% for AAPI-owned real estate funds and public equity funds.

Such a miniscule share of funds going to AAPI-owned firms would make sense if these groups performed poorly. Our next section, however, shows that the performance of these managers is the same as—or better than—that of the overall industry.

Performance – some good news

The AAAIM Study presents evidence that AAPI-owned private equity and hedge funds show slight outperformance against industry benchmarks, while public equity performance matches them. Furthermore, AAPI-owned private equity funds are over-represented in the top quartile when compared to funds of the same vintage and strategy. Due to the limited sample size, the performance of real estate funds could not be measured in a statistically significant manner.

Evidence that AAPI-owned Funds Outperform the Industry

ASSET CLASS	YEARS	METRIC (CAPITAL WEIGHTED)	AAPI-owned	STATISTICALLY SIGNIFICANT? [8]
Private Equity	2008-2017	TVPI	**+0.25**	**Yes** [9]
Private Equity	2008-2017	IRR	**+2.91**	**No**
Hedge Funds	2008-2020	Adjusted annualized returns [10]	**+1.52%** [11]	**Yes** [12]
Public Equity	2008-2020	Adjusted monthly returns	**-0.06**	**No**

Source: Bella Private Markets

The AAAIM Study's analysis of private equity returns between 2008 and 2017, using the widely recognized TVPI metric[13], show that AAPI-owned funds exceed that of non-AAPI-owned funds by 0.25. In the current market environment of low interest rates, high stock market volatility, and challenges facing many public pension funds, the strong performance of AAPI-sponsored funds suggests actionable options for limited partners to meet their goals. The Internal Rate of Return (IRR) results match those of the broader industry.

[8] When a result is not statistically significant, any performance gap is likely due to chance, not systematic differences.
[9] Regression analysis indicates p-value of less than 0.1.
[10] For hedge funds and public equities, adjusted returns are calculated using the Fama-French model.
[11] Annualized value calculated using results from a model that used monthly returns data.
[12] Regression analysis indicates p-value of less than 0.05.
[13] The total value to paid-in capital (TVPI) metric measures the value in a portfolio including distributions and the residual value of holdings.

In hedge funds, risk-adjusted monthly returns also show statistically significant outperformance. Using the Fama-French model and regression analysis to account for fund size and strategy, AAPI-owned funds outperformed by 1.52% on an annualized basis.

For public equities, the performance of AAPI-owned funds matches market benchmarks. The analysis applied the Fama-French model while also controlling for strategy, fund size, and correlation to the market. It should be noted that these results occurred during a period when all active management strategies faced challenges. In every year since 2010, active managers have failed to keep pace with the S&P 500, lagging by 2.1% a year, on average.[14]

Based solely on performance, therefore, AAPI-owned firms should be growing in number and AUM at a rapid pace; however, this is not happening. Below, we present AAAIM's recommendations to improve open and fair access to capital for the AAPI community.

[14] Panchekha, Alexey. "The Active Manager Paradox: High-Conviction Overweight Positions." *Enterprising Investor*. Oct. 3, 2019. https://blogs.cfainstitute.org/investor/2019/10/03/the-active-manager-paradox-high-conviction-overweight-positions/.

Next Steps for AAAIM

AAAIM is committed to creating a fair, open, and inclusive asset management industry. To provide the data and market research critical for shaping the important public discourse on diversity, AAAIM plans to commission further studies and white papers. Additionally, our work to expand opportunities for all communities is guided by a focus on the three areas of change: regulations, structures, and culture.

Creating regulatory transparency

AAAIM is actively engaged with regulatory bodies that are working on tracking and increasing the number of Diverse Managers, as well as promoting the growth of Diverse Manager-sponsored funds. AAAIM actively participates in discussions with the SEC's Asset Management Advisory Committee (AMAC) to formulate concrete recommendations to improve the AUM and visibility of such funds. Representatives of AAAIM have appeared before the U.S. House Financial Services Committee and will continue to be a voice for the AAPI community with regulators to develop an equal playing field. For instance, the SEC and other policy makers have called on the investment industry to create more opportunities for Diverse Managers; however, it is difficult to precisely measure industry participation in the effort due to a lack of transparent and consistent reporting. The SEC has produced a Diversity Assessment Report which is designed to: (1) help guide a regulated entity's self-assessment of its diversity policies and practices; and (2) provide the regulated entity with a template for submitting diversity assessment information. Unfortunately, participation has been low in this voluntary self-assessment. AAAIM is seeking to encourage higher reporting participation and create more transparency around diversity and inclusion efforts among investment firms.

Expanding access to Emerging Manager and other programs

The AAAIM Study points out that the performance of AAPI-owned firms is the same or better than the industry overall. Yet Diverse Managers are under-represented in both number and AUM. AAAIM will continue to work tirelessly with limited partners, their consultants, and our constituents to present the case for AAPI-owned firms to participate in all Emerging Manager programs. Beyond these programs, AAAIM is building partnerships with a broad set of limited partners that are interested in accessing a talented, high performing pool of Diverse Managers. With each successful partnership, the AAAIM platform expands opportunities for both AAPI- and Diverse-owned firms, further demonstrating the benefits of working with these managers.

Culture, Mobility, and Entrepreneurship

AAPIs account for 14% of students attending top 25 U.S. business schools[15] and 15.6% of financial analysts in the United States.[16] Despite this representation, AAPIs continue to face upward mobility challenges within the investment industry. This scarcity of growth opportunities is a catalyst for AAPIs to start their own firms.

AAPIs face a unique cultural context when taking the leap to become fund entrepreneurs. Starting an investment firm can be an expensive and uncertain proposition, especially without a wide network across the industry. Coming from a largely immigrant community, many AAPIs lack this broad exposure to potential investors. Therefore, AAAIM created the Emerging Leaders Initiative (ELI) 10 years ago. ELI will expand its offerings in the coming year to assist a cohort class of young professionals with their professional and personal growth. Through training and mentoring with industry veterans, these young AAPIs will expand their networks and accelerate their career trajectories to become successful fund entrepreneurs.

AAAIM plans to publish future white papers that present detailed research into specific asset classes, gender underrepresentation in the industry, and career mobility challenges unique to AAPIs. We welcome you to join us on this journey!

[15] Ethier, Marc. "Minorities at the top 25 U.S. MBA programs." *Poets & Quants*. April 6, 2020. https://poetsandquants.com/2020/04/06/minorities-at-the-top-25-u-s-mba-programs/2/. Calculated as the average Asian representation at each top 25 school that reported data.
[16] Data USA, a joint project by Deloitte, Datawheel, and Professor Cesar Hidalgo of MIT; https://datausa.io/ profile/soc/financial-managers#demographics.

About AAAIM

The Association of Asian American Investment Managers (AAAIM), founded in 2006, is a national non-profit organization dedicated to increasing diversity and inclusion in the investment management industry, serving as a powerful voice for the Asian American and Pacific Islander (AAPI) community. Our goal is to elevate underrepresented groups through education, networking, and empowerment.

AAAIM is a 501c(3) where activities are funded by individuals and companies. We thank the sponsors of this report, Sit Investment Associates and Sycamore Tree Capital Partners.

About Sit Investment Associates

Sit Investment Associates was founded in 1981 and is an employee-owned institutional investment manager that provides investment management expertise in domestic and international growth equities and taxable and municipal fixed income assets. Senior, experienced investment professionals actively manage approximately $14.0 billion of assets across three channels: Separately Managed Accounts, Private Investment Funds, and the Sit Mutual Funds (a family of 14 no-load mutual funds). Sit Investment's clients include public and private pension plans, foundations, endowments, high net worth individuals, and retail investors. The firm provides very competitive risk-adjusted investment results for client portfolios over extended periods utilizing a disciplined, fundamental research-driven process.

Sit Investment takes pride in serving as a true extension of the clients' investment operations and providing highly individualized service in an increasingly challenging economic and financial environment. The firm's success is built on long-term client relationships, which in turn are built on a foundation of trust, commitment, understanding, and expertise.

About Sycamore Tree Capital Partners

Sycamore Tree Capital Partners is a value-oriented, durable-alpha investment firm specializing in alternative credit. Founded by industry veterans Mark Okada, Trey Parker and Jack Yang, the firm has deep experience across economic and market cycles. Headquartered in Dallas, TX with an office in New York City, the firm's investment expertise includes bank loans, high yield bonds, structured credit, and special situations. For additional information, please visit our website at www.sycamorelp.com.