CALSTRS

ATTITUDES TO DIVERSITY IN THE INVESTMENT MANAGEMENT INDUSTRY

DIVERSITY

SUMMER 2006 SURVEY

ACKNOWLEDGEMENTS

CalSTRS respectfully acknowledges the work and dedication of Mr. Kevin Granger from Phocas Financial Corporation, LLC, and Mr. Clayton C. Jue from Leading Edge Investment Advisors, LLC, in promoting the advancement and appreciation of diversity and the understanding of the issues regarding diversity in the investment management industry. Understanding is the first step in the ongoing management of achieving sustainable superior investment results that include the consideration of the investment performance of all managers on a level playing field. Without Mr. Granger and Mr. Jue's interest, energy and commitment, this survey would not have been possible.

Table of Contents

Introduction

In early 2005, California State Teachers' Retirement System ("CalSTRS") defined and embraced a challenge to the use of diversity in the management of investment portfolios by major public pension plans. Could diversity initiatives – typically understood to be efforts to aid non-white men as well as women of any race – and an awareness of diversity, be used to find ways to improve investment performance consistently? On one hand, there is confidence that diversity may be used to bolster investment returns consistently. On the other hand, relevant curiosity can be expressed in several ways, including:

i) Is it measurably true that diversity makes sense in all investment areas?
ii) Are there investment areas in which diversity makes more sense than others?
iii) Is it possible to quantify or otherwise describe the effects of non-diversity?

Most importantly, there was a recurrent question that also animated the performance of the 2005 edition of this Survey of the Attitudes to Diversity in the Investment Industry. That question was: "Do diversity considerations help, or harm, pension plan <u>members</u>?"

As Christopher J. Ailman, the Chief Investment Officer of CalSTRS, puts it, the task, the fiduciary duty, is constantly to select the best investment professional for any given investment mandate regardless of nationality, ethnicity or gender, but it also means selecting qualified pros beyond New York. Sometimes that means selecting qualified women or minorities, at other times it means choosing investment professionals who are from New York or London and sometimes, even someone from Denver or Omaha. The key point is that the institutional investor for a pension fund must always be mindful of the overall mission to achieve maximum returns on total plan assets. The basic point, hopefully never overlooked, is that pension plan viability is paramount. That is, investment decisions and policies must ensure that pension assets are available to meet pension liabilities on an ongoing basis. Those decisions and policies must maintain stability that protects the long-term viability of the system and its ability to continue to meet its economic pension obligations.

Selecting people who can help institutional investors to achieve their investment goals is often a difficult process, and successful selection depends on investment performance – not necessarily race or gender.

[1] In this document, "non-minorities" refers to a perception of the investment management industry, to wit, that white men are believed to be a majority of the professional population. The term "women and minorities" refers to non-white men and women of any race, in other words, all participants except white men.

Yet ethnicity and gender do appear to play a role. At some level, the question of when, and whether, non-investment criteria mute economic investment requirements seems omnipresent. The overriding fiduciary query, though, must always be "How does [it] help plan members?"

Then there is a matter of law. Article 1 of the California Constitution includes the language indented below. It seems to speak clearly enough for itself.

> The State shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting.

Also, by the same token that the survey's 2006 results suggest that race and gender may assist manager selection for some asset classes, they also suggest that across-the-board decisions based on race and gender as primary factors may also harm overall investment performance.

Over three months during the summer of 2006, we asked members of the investment management industry to participate in the second of a series of five surveys to tell us how they feel about diversity. Through this survey process, we aim to deepen understanding of the importance of diversity to our industry, its clients, and its professionals.

In the 2006 survey we begin to seek to isolate "hard" investment factors and their correlations with diversity matters, in order to broaden and intelligently inform the dialogue about diversity in our industry. In a thrust that will likely deepen in future versions, this year a module seeking specific performance data was added for qualified respondents. This is the beginning of a push to characterize respondents in terms of investment performance, investment peer data, asset classes, and assets under management, and to correlate those factors to attitudes to, and experiences of, diversity matters.

The 2005 survey did not pose the investment-related questions described above, but certainly laid the groundwork for more definitive work. The project should also shed light on how these sentiments coexist with behaviors of investment management professionals and organizations. The end of this five-year project should see us usefully closer to measuring the breadth of sentiments about diversity, in ways that are useful to improving investment returns.

How We Did It

In 2005, we composed a sequence of thirty-one simple multiple-choice questions, and utilized the Internet to ensure that the survey was anonymous, far-reaching and convenient for participants. The survey was hosted on an Internet site where respondents could participate anonymously and see up-to-date results after they had completed the survey.

For 2006, intending to maintain the survey at a size that was not burdensome for participants – i.e., at which the survey would take less than three minutes to complete – we condensed last year's thirty-one questions into twenty-four questions, and added the new investment-centric module consisting of thirteen questions. The investment-centric module was only visible to qualified participants, to wit, portfolio or fund managers.

As with the 2005 version, respondents were solicited via electronic mail, and notified of the survey through industry and association media and newspaper articles. In total, the survey was available to participants around the clock for some eight weeks. To address the risk of repeat participation, the survey was configured so that specific computers could only be used to complete the survey once.

Who Participated

For the 2006 survey, more than one thousand and twenty (1,020) people visited the survey site, compared with more than five hundred (500) people in 2005. More than three hundred and forty (340) persons actually participated this year, compared with more than two hundred (200) last year. Although the actual sample size has increased, we believe that it is still room to capture a more robust sample size.

In a variety of respects, the survey takers were also a diverse group this year. Forty percent (40%) of participants were women, and thirty-four percent (34%) were minorities. Last year, nearly half, forty-six percent (46%) of participants were women, and a similar proportion, forty-four percent (44%), were minorities.

As a group, the 2006 density of academic and professional achievement was nearly the same, with forty-seven percent (47%) of participants reporting that they had earned MBAs, compared with forty-five percent (45%) of last year's participating population.

In a noticeable shift, however, eighteen percent (18%) of the 2006 survey participants were CFAs, versus twenty-three percent (23%) last year.

In coming years, we plan to implement changes that will more clearly embrace input and support from large, established portfolio management companies that are also interested in exploring diversity as a way to facilitate the location of portfolio managers who outperform their peers.

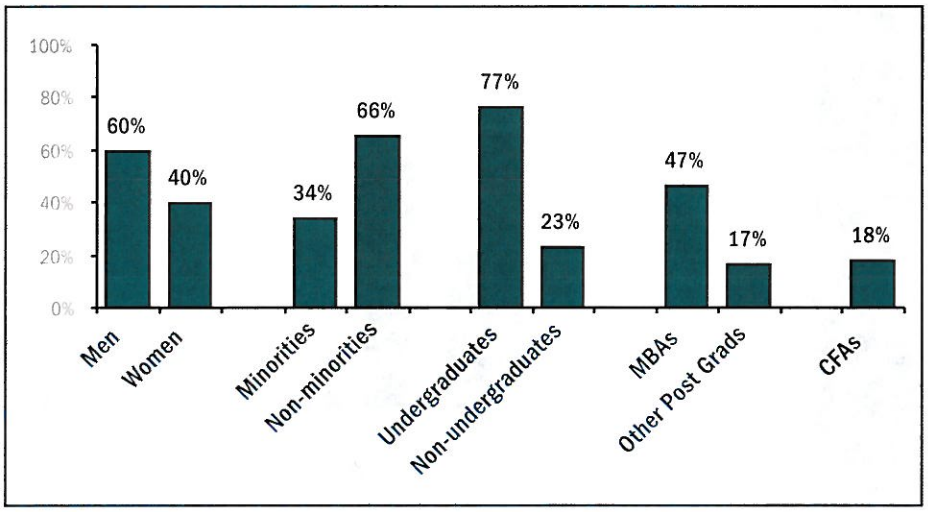

Figure 1 - Diverse, Credentialed Participants in 2006

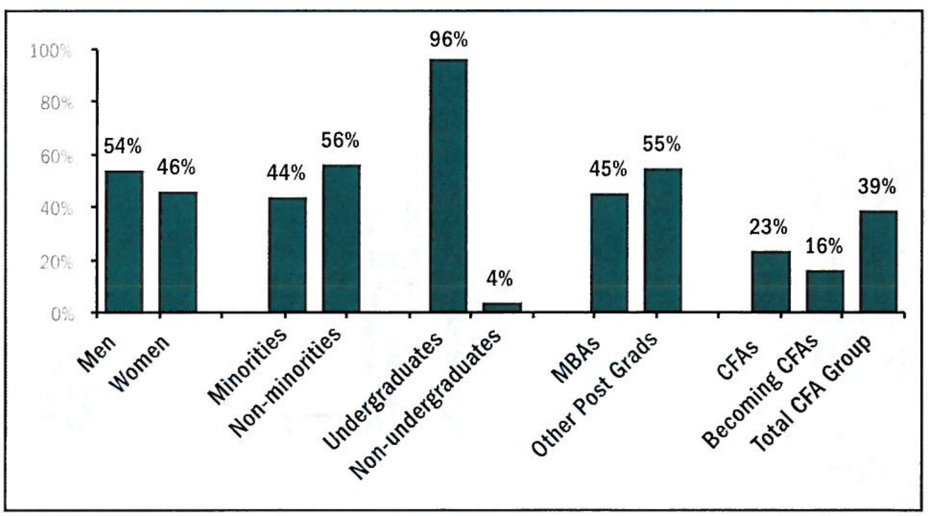

Figure 2 - Diverse, Credentialed Participants in 2005

In the 2006 survey, there were marked shift in the industry experience of participants. Most notably, sixty-nine percent (69%) of the participants this year had between ten and thirty years of experience. By contrast, that number in 2005 was fifty-five percent (55%). Though not overly so in either respect, survey respondents were predominantly older, and also more experienced in our industry. That characteristic was relatively stable, with an increase to sixty-three percent (63%) from last year's sixty percent (60%) of respondents who were in the over-forty crowd.

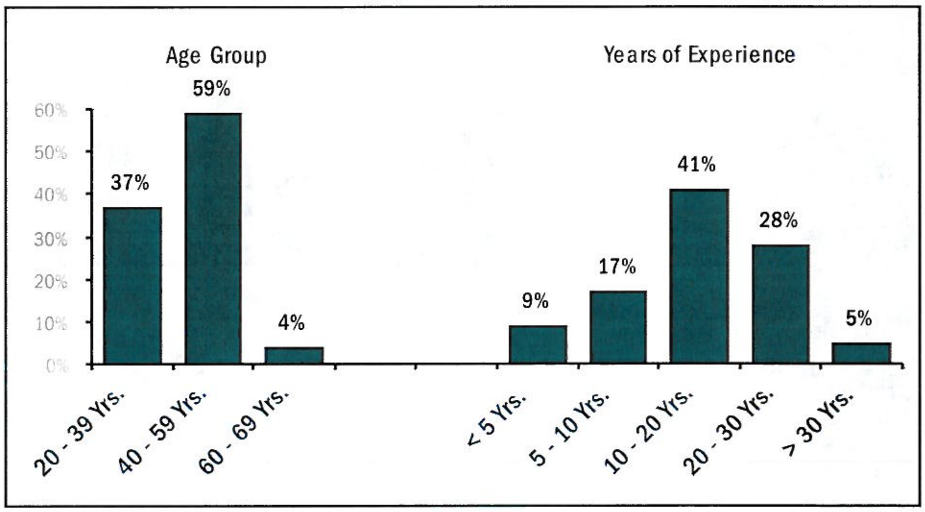

Figure 3 – Still Diverse, Experienced Participants in 2006

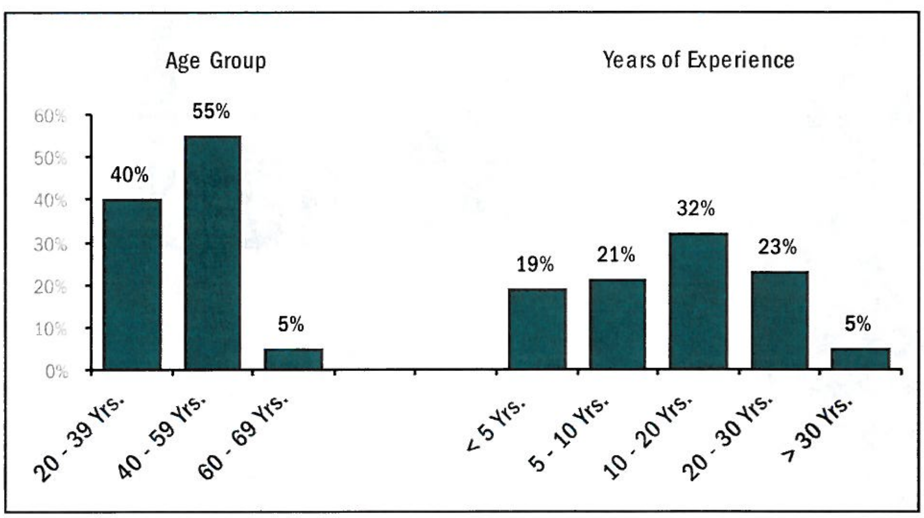

Figure 4 - Diverse, Experienced Participants in 2005

Who They Work For

The types of organizations at which participants worked continued to be well distributed. Here too there were some notable shifts among respondents. The proportions of participants from hedge funds, private equity funds and venture capital funds, as well as managers of managers in those categories all roughly doubled. This in itself is remarkable given perceptions by some that those areas are not characterized either by diverse populations or a concern for diversity. On the other hand, a steep decline in the proportion of participants who worked at state or municipal pension plans was noticeable. In 2006, three percent (3%) of survey participants were from state or municipal pension plans. The 2005 proportion was thirty-five percent (35%).

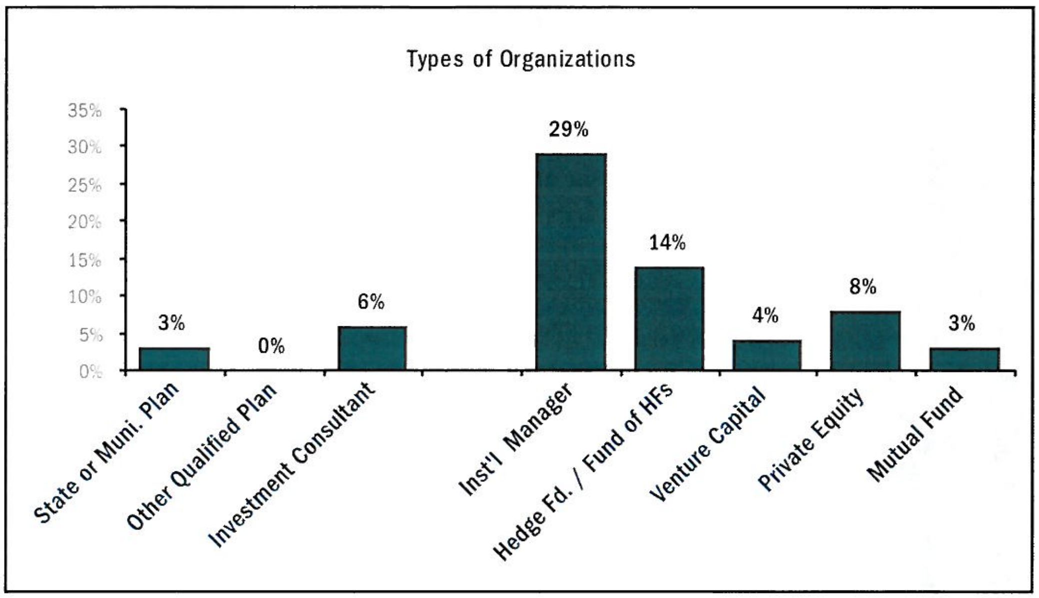

Figure 5 - More Hedge Funds, VCs, and Private Equity Investors Participated in 2006

Who They Work For (cont.)

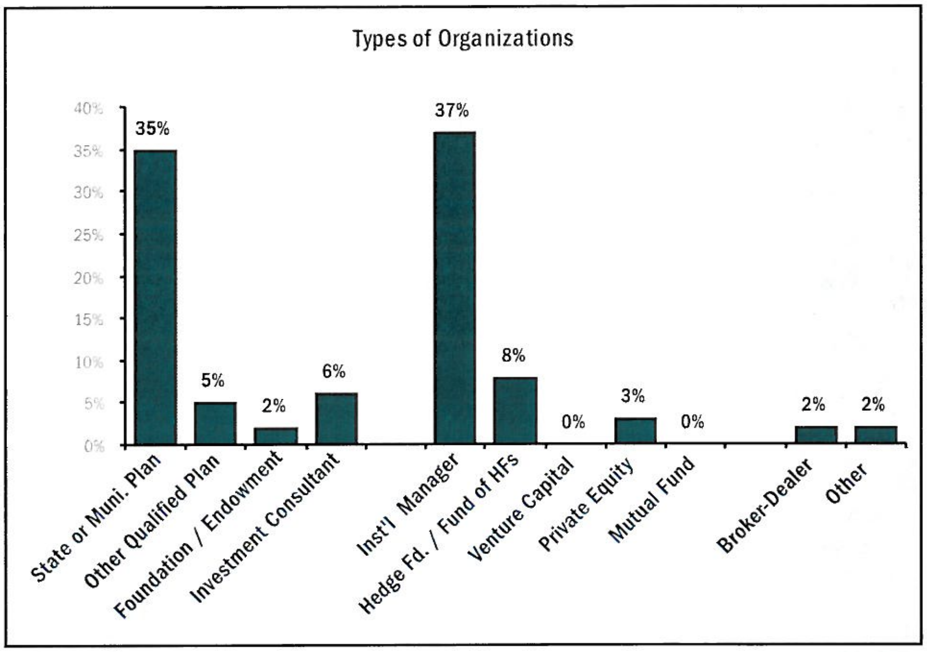

Figure 6 - Clients and Investment Managers Participated in 2005

In another noticeable shift in 2006, the proportions of respondents working at firms more than a year but less than ten years old shot up from 2005 levels at the expense of firms more than ten years old.

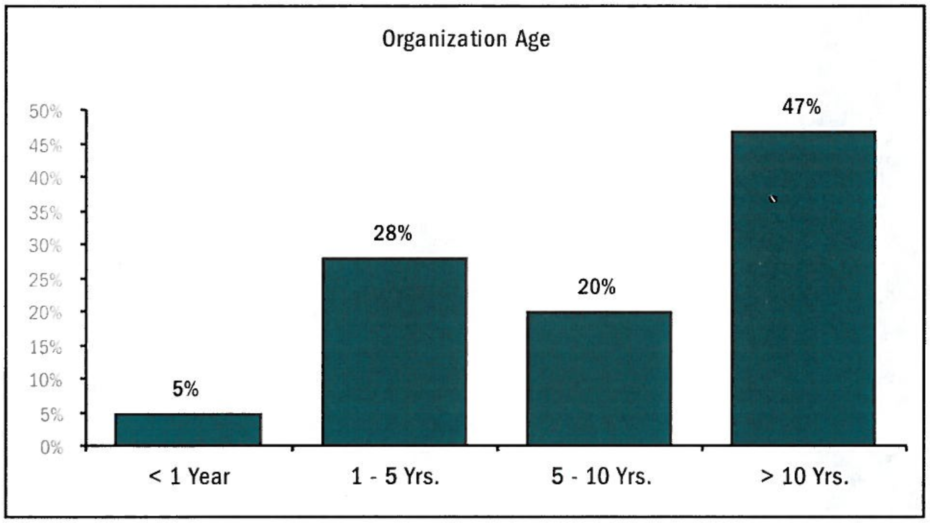

Figure 7 – More Employees of Middle-Aged Firms Responded in 2006

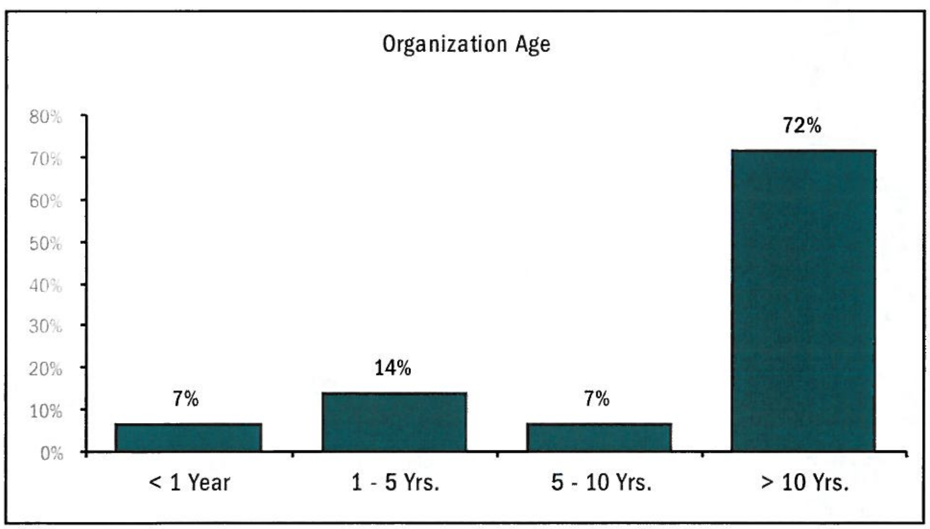

Figure 8 - Employees of Older Firms Responded in 2005

Regarding assets under management, another clear shift was visible in 2006. Participation by employees at firms with up to five hundred million dollars ($500 million) nearly doubled – fifty-seven percent (57%) of 2006 participants, versus 2005's thirty percent (30%).

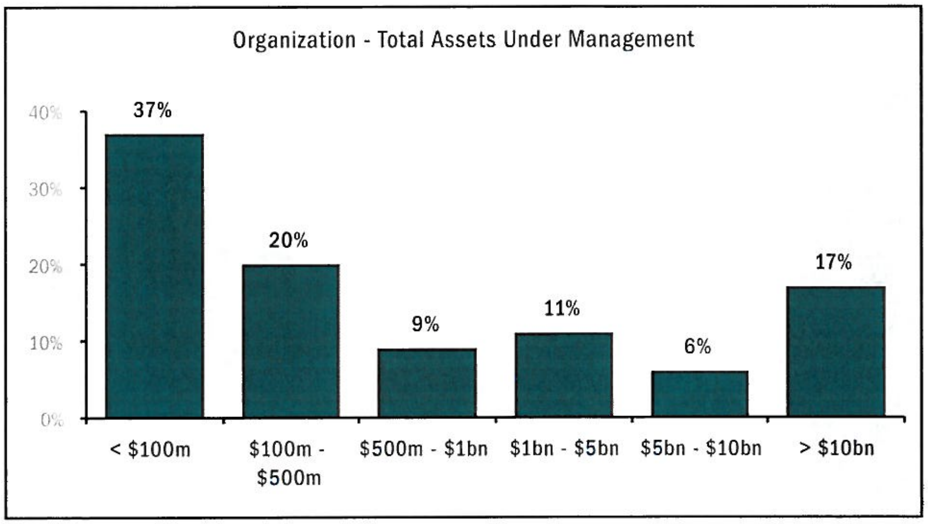

Figure 9 - Employees of Smaller Firms Responded in 2006

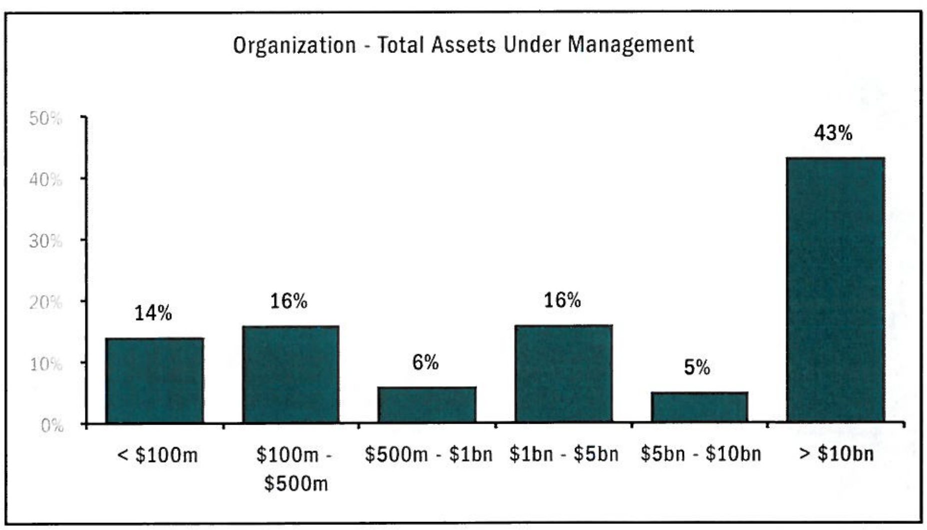

Figure 10 - Employees of Larger Firms Responded in 2005

[2] Connecticut, Maine, Massachusetts, New Jersey, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont.

[3] Alaska, California, Hawaii, Oregon, and Washington.

[4] Alabama, Kentucky, Mississippi, and Tennessee.

Where They Work

In 2006, there were sizeable increases in the proportions of survey participants from the Northeast – nearly doubling to thirty-four percent (34%) from eighteen percent (18%). The biggest decline in participation was among those from the Pacific region, dropping to twenty-seven percent (27%) from forty-five percent (45%) in 2005. Again, the East South Central region was trounced by the levels of participation from Asia and Europe, with one percent (1%) from East South Central U.S. versus three percent (3%) and two percent (2%), respectively.

In total, splitting the U.S. into the coasts and the center, forty-four percent (44%) of 2006 respondents were from the East Coast versus twenty-five percent (25%) in 2005; twenty-four percent (24%) were from the Central and Mountain regions versus 2005's twenty-seven percent (27%); and twenty-seven percent (27%) were from the West Coast and Hawaii, compared with forty-five percent (45%) in 2005. In short there was a big upswing in participation by those from the Northeast, and that came at the expense of those from the West Coast.

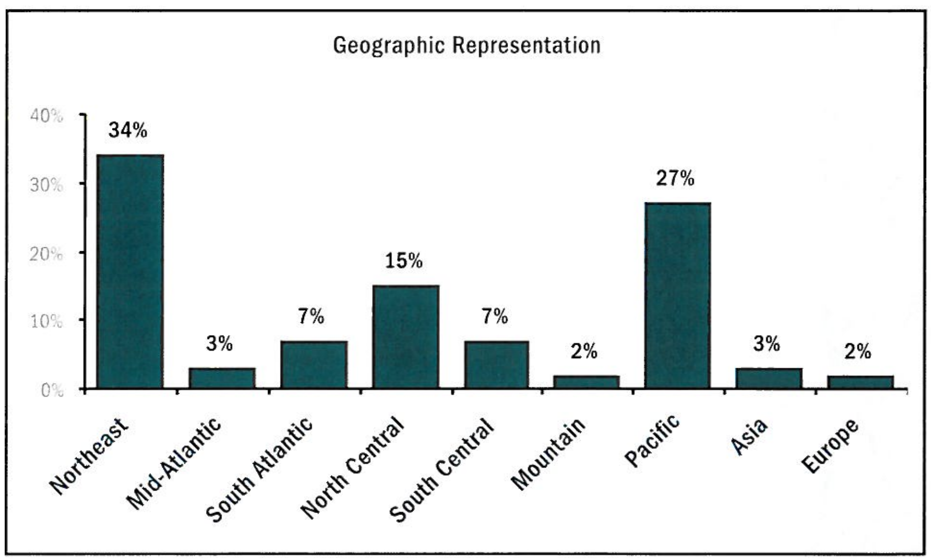

Figure 11 – Northeasterners Showed Up in 2006

Where They Work (cont.)

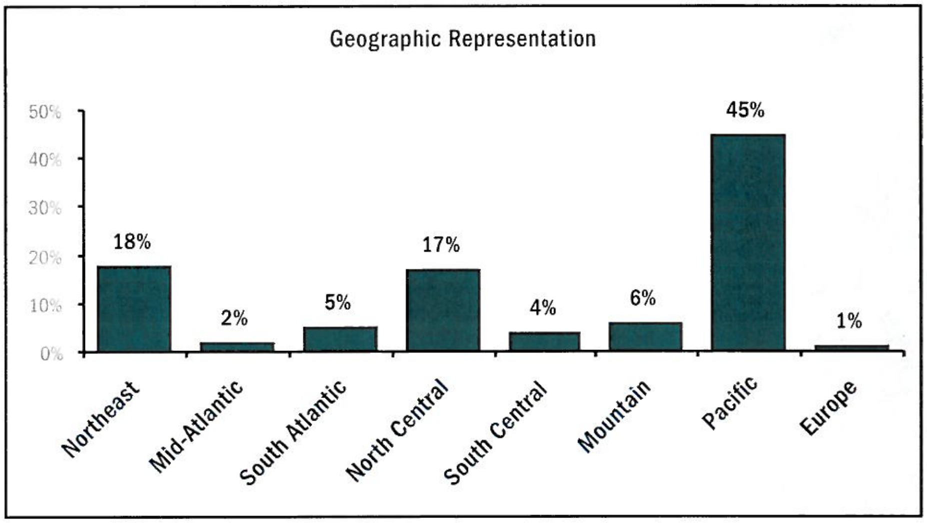

Figure 12 - West Coast Employees Responded More in 2005

So, summing the previous data, survey participants were roughly evenly split in terms of race and gender, and whether they worked for plan sponsors or investment managers. They were also somewhat evenly split in terms of age and industry experience. Respondents, however, tended to be well educated and credentialed.

In 2005, the types of organizations at which people felt hurt by their gender or race did not seem confined to the "private sector" as represented by institutional or other investment managers. In 2006, however, because of a lack of useful participation by public pension plan employees, the divide was instead visible between institutional money managers and hedge funds, private equity funds, venture capital funds and funds of funds in those groups.

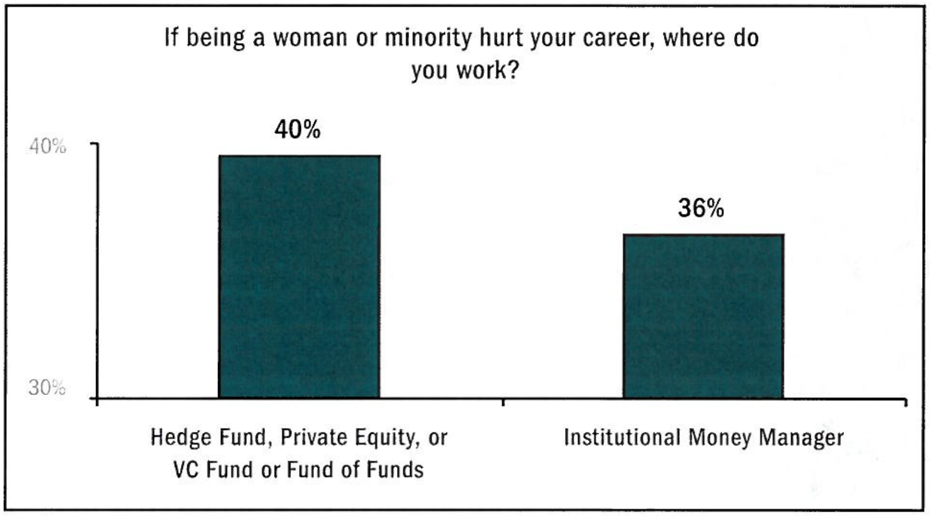

Figure 13 - Institutional Money Managers Paying Attention in '06?

By comparison in 2005, of those who believed their careers were harmed because of their race or gender, thirty-one percent (31%) worked for state or municipal pension plans. A similar proportion, thirty-five percent (35%), were employed by institutional money management firms or mutual funds.

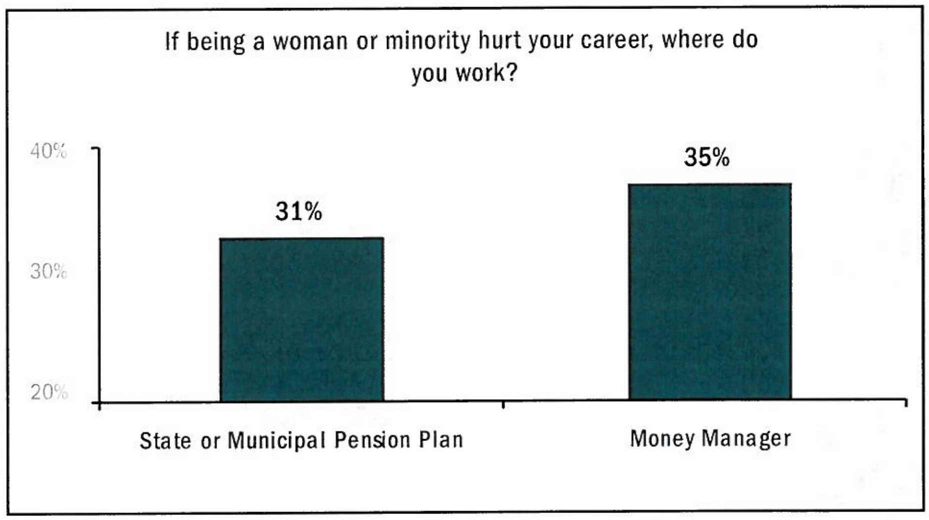

Figure 14 - Organization Type Seemed Not to Matter in '05

Hurt or Helped By Their Status?

Only some one in ten respondents felt that being a woman or minority helped their careers. By contrast, more than half of respondents believed that their careers had been hurt by their sex or race. For the 2006 survey, in response to comments about the 2005 survey, we added a "No Effect" response, and a little more than one-third of respondents used it. Still, with roughly two out of three female or minority respondents believing that their race or gender affected their careers, negatively or positively, diversity issues obviously still matter to a majority of women or minorities in our industry.

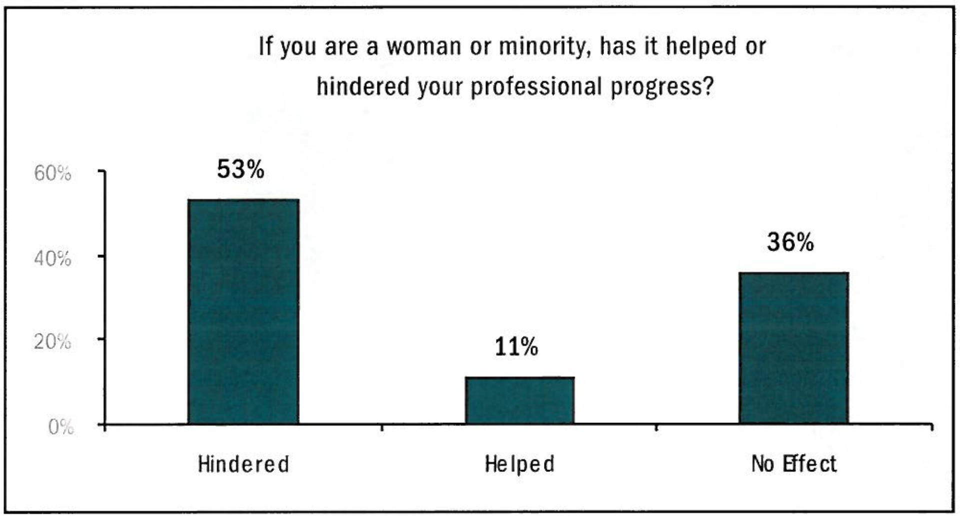

Figure 15 - In '06 Two Out of Three Women or Minorities Said Race or Gender Mattered

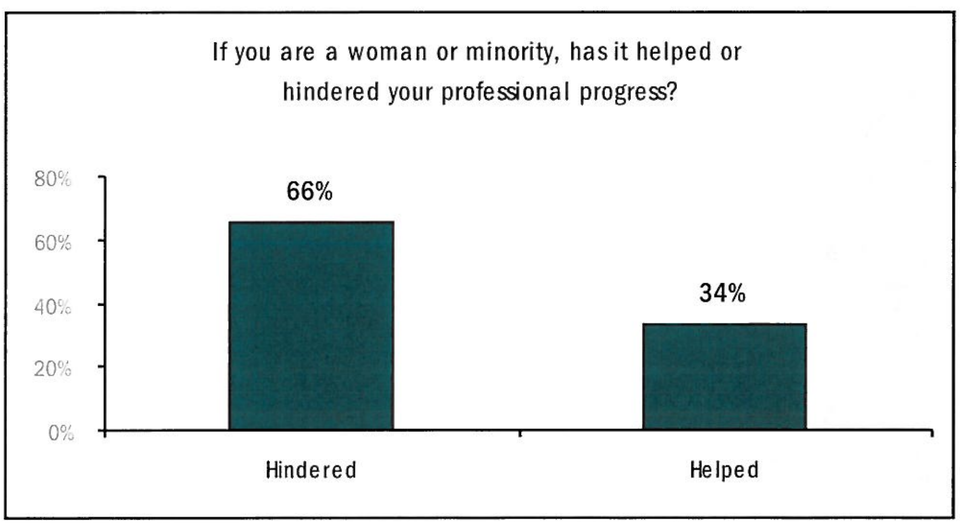

Figure 16 - Felt in '05 that Being a Woman or Minority Hurt Their Careers

We did not try to isolate separate perceived sexism from perceived racism. In both 2006 and 2005, more women than men believed their careers had been hampered by their sex or race. Some might observe that another reason for which more women would report harm is because women may face unequal treatment based both on their sex and their race, while men may typically only have to countenance discrimination based on race.

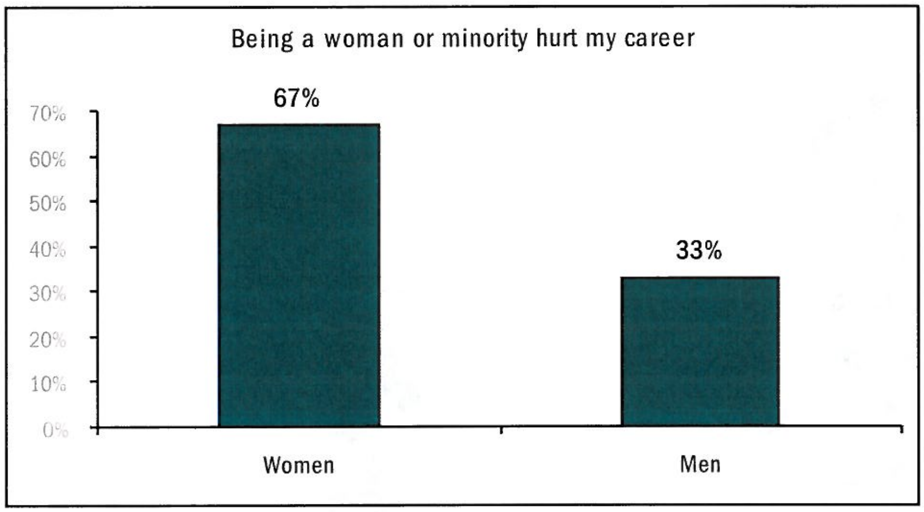

Figure 17 - Felt in '06 that Being a Woman or Minority Hurt Their Careers

Something else noticeable in the 2006 results is the increase in the proportion of women who report harm. This may be attributable to the increase in the number of respondents. If so, that could suggest that the sixty-seven percent (67%) proportion in Figure 17 immediately below is more robust than the comparable 2005 number, fifty-eight percent (58%), in Figure 18.

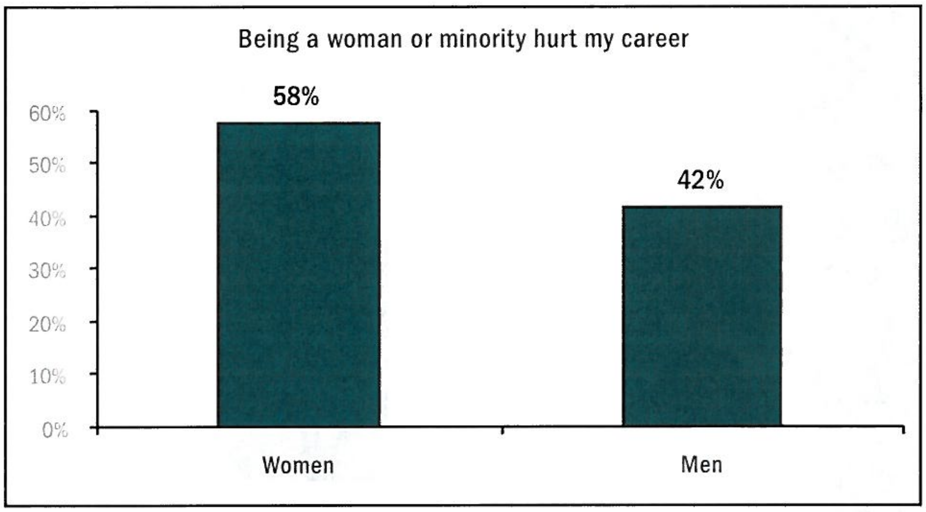

Figure 18 - Felt in '05 that Being a Woman or Minority Hurt Their Careers

Also in terms of those who felt harmed, looking at age and investment management experience, the perception of harm due to gender or race seems to be similar between the age and experience factors. As depicted below, the sense of harm seems to span age groups, eighty-seven percent (87%), and experience levels, eighty-one percent (81%). This suggests that the perception and experience of bias are not only old, but that they persist today.

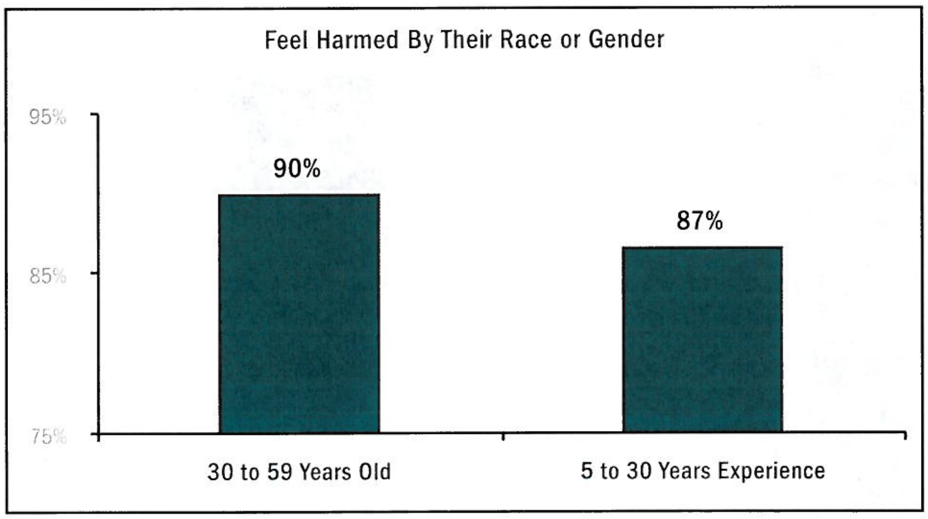

Figure 19 - Feeling It Through the Ages and the Stages, in '06

In terms of age and experience, Figures 19 and 20 seem relatively consistent with the 2005 results. On the age front, in 2006, forty-two percent (42%) of those who felt harmed were in their forties; that proportion in 2005 was thirty-six percent (36%). In the 2006 survey, those who felt that their race or gender hurt them were "clustered" in the five- to thirty-year work experience bracket, relatively equally in ten-year increments. In 2005, the clustering was sixty percent (60%) of those who felt harmed were nearly equally distributed in the five- to twenty-year work experience bracket.

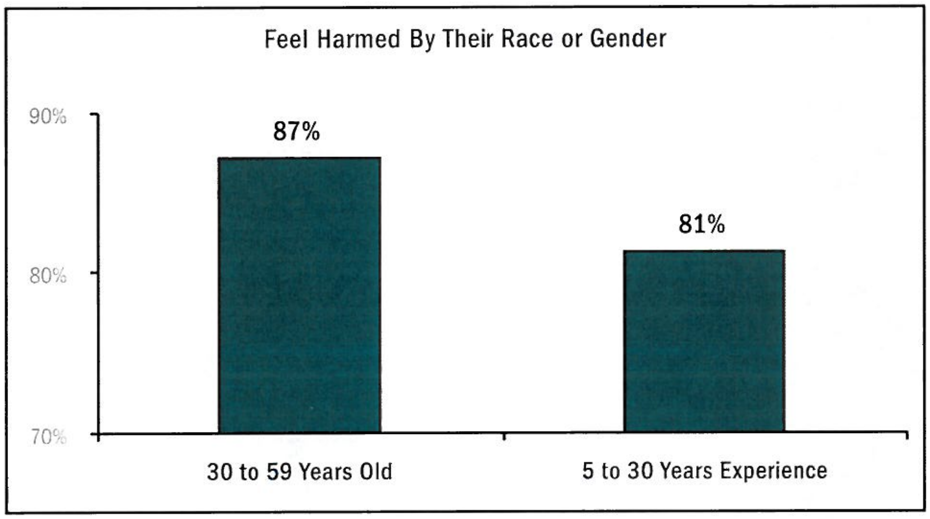

Figure 20 - Feeling It Through the Ages and the Stages, in '05

Can Women and Minorities Perform?

The 2005 survey did not attempt to isolate data about actual investment performance of women and minorities, but we were able to identify expressions regarding beliefs about whether women and minorities can perform in our industry. In the 2006 survey, we also have the benefit of the module in which specific investment characteristics and conditions were self-reported by survey respondents. We discuss the results of that investment specific module later. Regarding perceptions of women and minorities, though, data available from the 2006 survey approximate those from the 2005 survey.

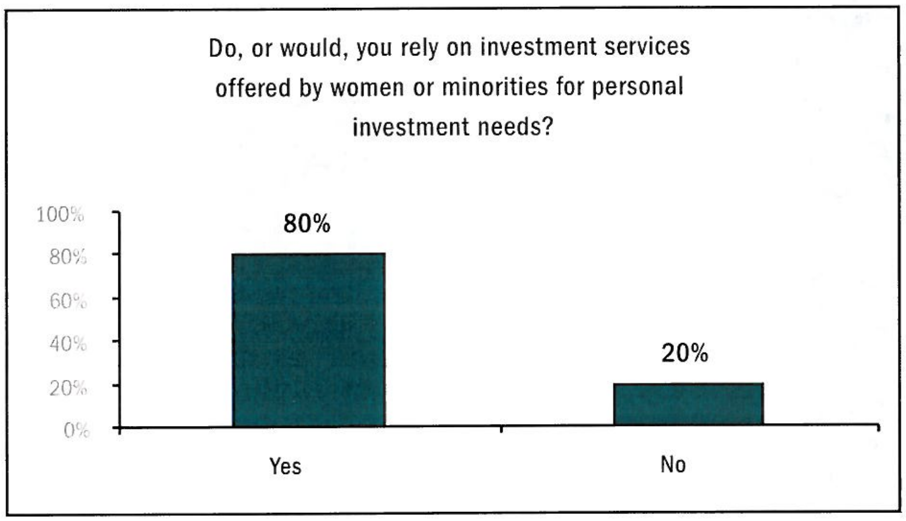

Figure 21 - In '06, Most Still Did, or Would, Rely on Women or Minorities

Can Women and Minorities Perform? (cont.)

In 2006, eighty percent (80%) of participants said that they did, or would, rely on investment services offered by women or minorities for their personal investment needs; that compares with the 2005 number of eighty-nine percent (89%).

Also, eighty-one percent (81%) of 2006 respondents relied on women or minorities at least as much as they do for work as they do for their personal investment needs – that proportion exactly matched the 2005 results. So, still, roughly eight in ten 2006 survey respondents, and nine in ten 2005 respondents, believed women and minorities qualified enough to handle their personal finances, and roughly eight in ten respondents used women and minorities at least as much for work as for personal investments.

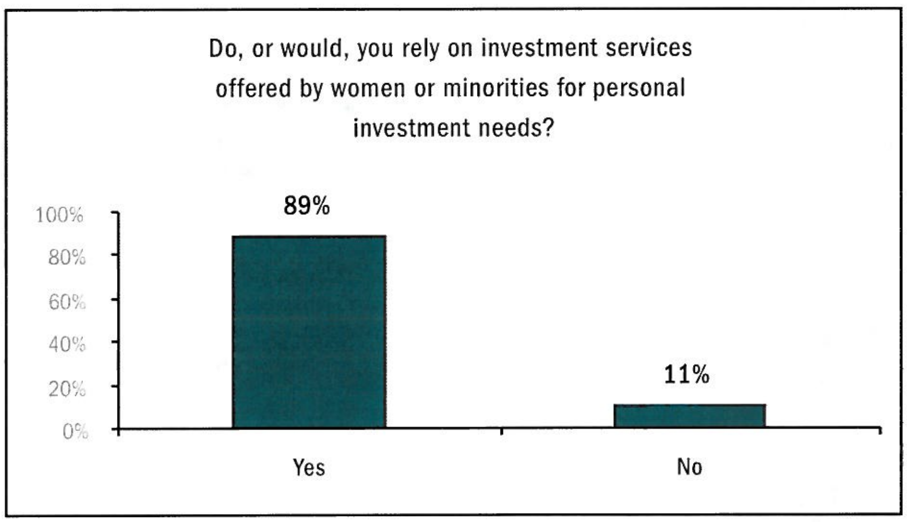

Figure 22 – In '05, Most Did, or Would, Rely on Women or Minorities

Continuing a reflection of open-mindedness, another large proportion, seventy-four percent (74%) of 2006 respondents believed that women and minorities offer better investment related services than men or non-minorities, did not believe that that better quality depended on the gender or race of the providers – that is less than 2005's eighty-three percent (83%), but is still a strong majority.

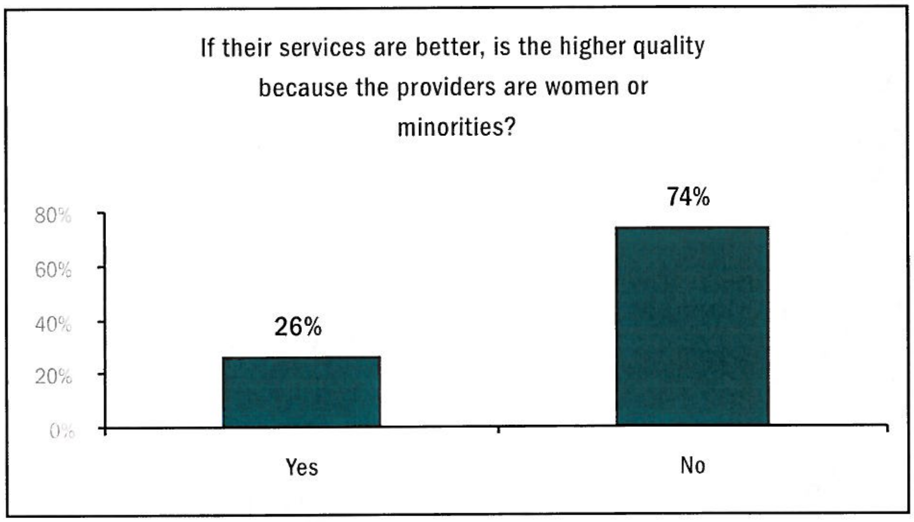

Figure 23 - In 2006, If Better, Not So Because of Race or Gender

Also consistent with the results from 2005, of those who thought investment services provided by women or minorities are competitively better, the race or gender of a specific vendor or professional was not seen to be a factor. This suggested that for those perceptibly better women and minorities are seen simply as better professionals, and race and gender did not animate bias in their favor.

In other words, those women and minorities believed to be competitively better appear to have secured places on a "flat playing field" where what mattered was their respective investment capabilities, not their race or gender. This may suggest something many investment professionals believe intuitively: the investment management industry is definitely one profession in which merit, as expressed via investment performance, matters, and should matter, more than any other factor.

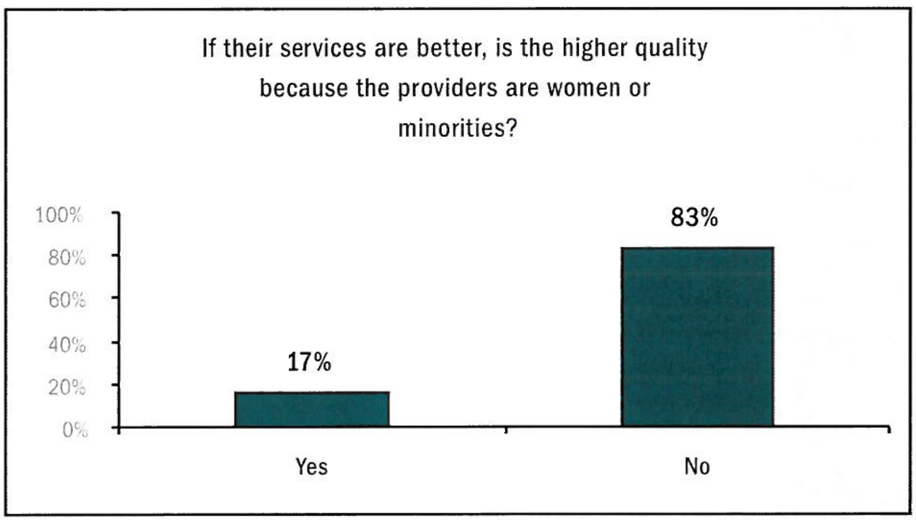

Figure 24 - If Better, Not So Because of Race or Gender in 2005

Among 2006 participants, eighty-two percent (82%) of responding non-minorities, and seventy-six percent (76%) of participating minorities, would, or already work with, women or minorities.

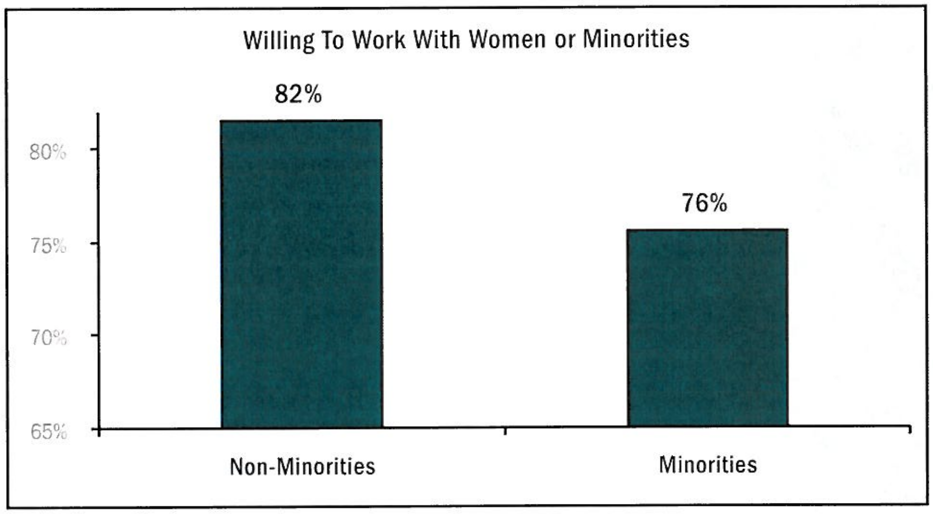

Figure 25 - A Majority Wants to Work With Women or Minorities in '06

Similarly, deconstructing the 2005 survey's participants, ninety percent (90%) of responding non-minorities and eighty-eight percent (88%) of the minorities, would, or already work with women or minorities.

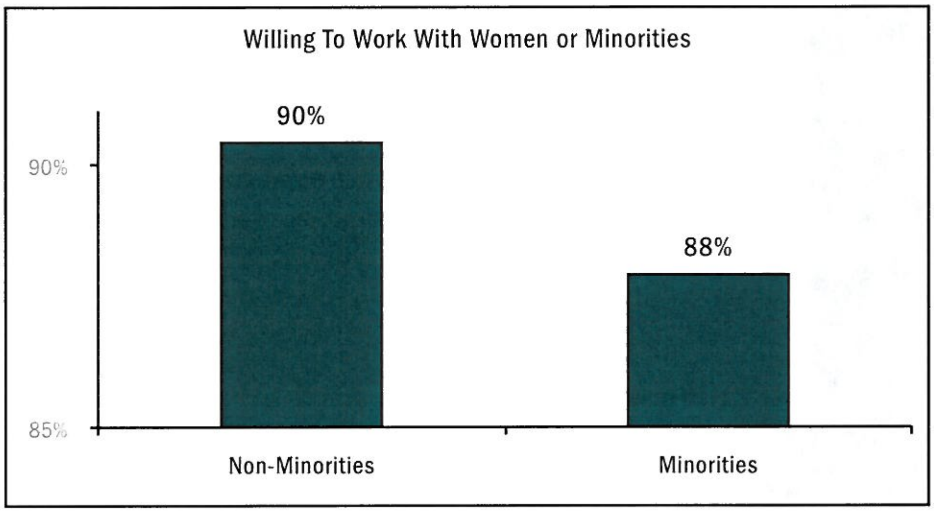

Figure 26 - A Majority Wanted to Work With Women or Minorities in '05

... But Bias Persists in 2006

A cautionary observation is that bias still exists, both for, and against, women and minorities.

Regarding "bias against", perhaps disturbingly, the proportion of respondents who fit that category may fall into a reverse of the "80/20" rule, depending on one's preference. Figure 27 below speaks for itself, but again, respondents from hedge funds, private equity funds, venture capital funds, and funds of funds in those categories outnumber respondents with similar attitudes at institutional investment managers. Noticeably, the compensation structures in those asset classes are usually characterized by the inclusion of performance-based pay, compared with typical institutional investment managers in which performance-based compensation is only implicit. This data may well highlight the potentially urgent usefulness of work to answer the question "How do women and minorities perform?" This is precisely one of the major undertakings of this survey project.

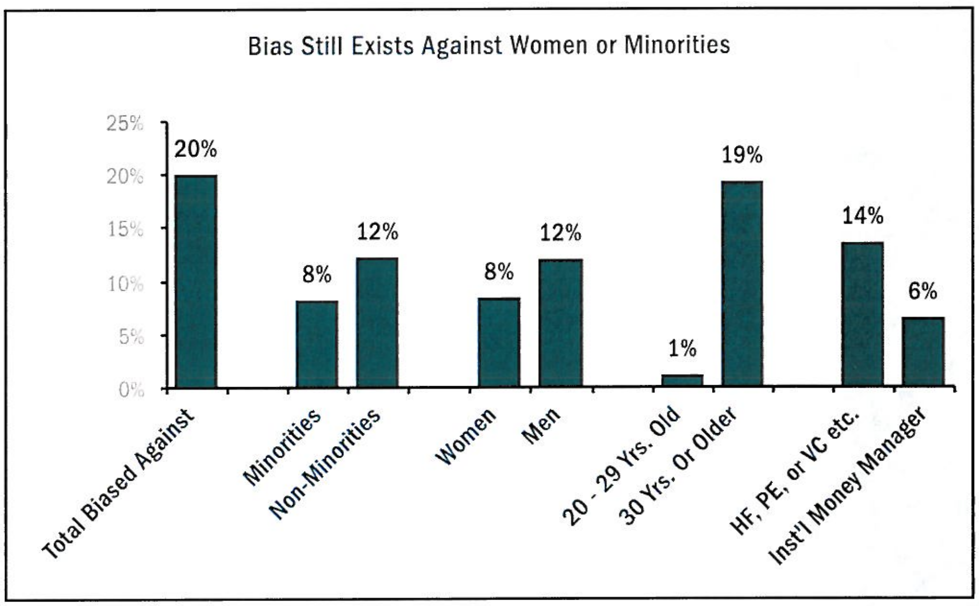

Figure 27 - Respondents Biased Against in 2006

Comparatively in 2005, eleven percent (11%) of respondents said that they did not, or would not, rely on women or minorities. This "biased against" group was split evenly between minorities and non-minorities. Of the eleven percent (11%), seven percent (7%) were women, and four percent (4%) were men. Ten percent (10%) of the eleven percent (11%) who constituted that group were at least thirty years old. In terms of where they worked, roughly four percent (4%) of all the survey's respondents said that they worked at state or municipal pension plans, and did not and would not work with women or minorities. Also in terms of employment, that was the largest single group of people who were biased against women or minorities.

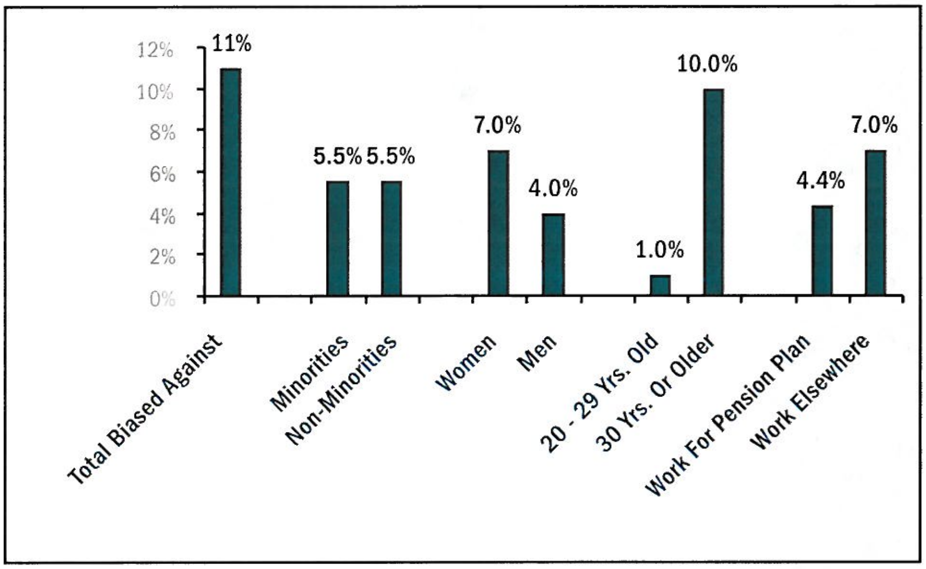

Figure 28 - Respondents Biased Against in 2005

On the other hand, perhaps just as surprisingly to some, persisting from the 2005 results, nearly eight percent (8%) in 2006, and little more than nine percent (9%) of 2005 respondents, said that they would use women and minorities for investment services even if those services were "of relatively poorer quality and/or relatively greater cost."

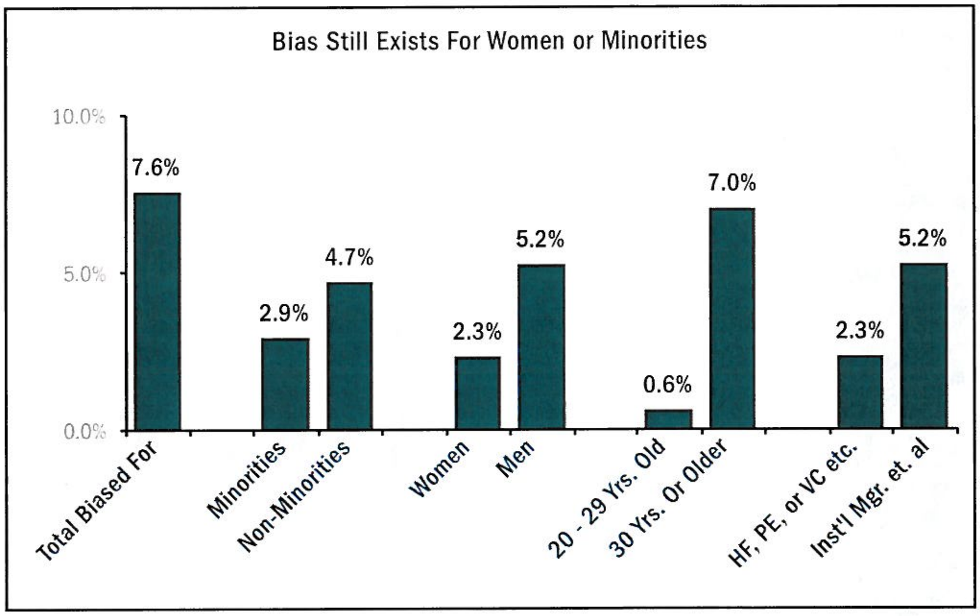

Figure 29 - Respondents Biased For in 2006

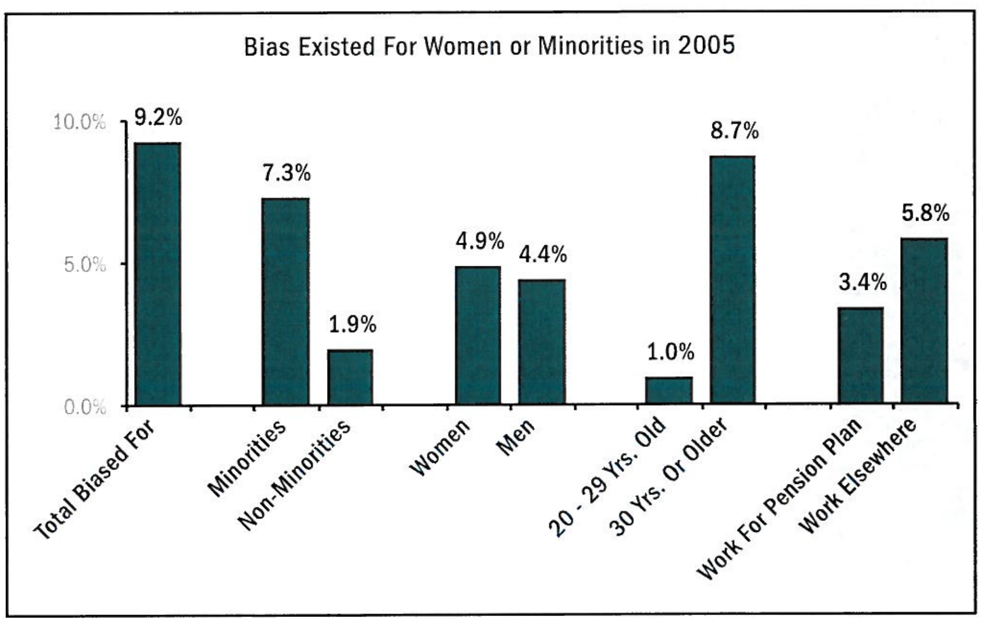

Figure 30 - Respondents Biased For in 2005

Does Performance Justify Perception?

As with the rest of this survey, all responses are self reported, and as such may merely indicate areas where more objective data may be worth gathering. Nearly forty percent of the 2006 respondents said they were portfolio or fund managers at firms with aggregate client assets of at least $100 million.
Of those respondents, most were non-minority, most were male, most were thirty to forty-nine years old, and most had ten to thirty years of experience in our industry.

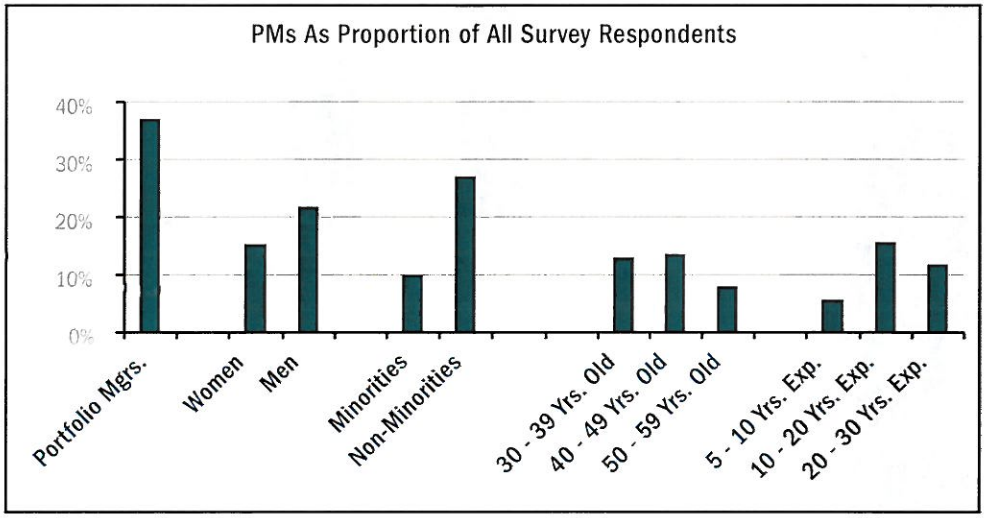

Figure 31 – What do Portfolio Managers Who Participated in '06 Look Like?

Of interest is a portrait of portfolio managers reporting first quartile performance ... we describe them further below.

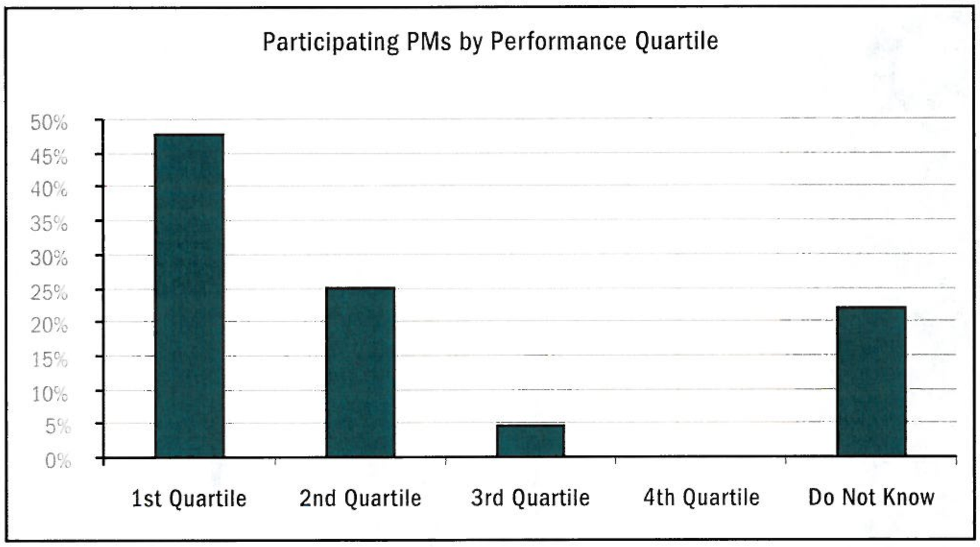

Figure 32 – How do Portfolio Managers Responding in '06 Perform?

As depicted immediately above, among qualified respondents, i.e., portfolio or fund managers at firms with more than $100 million of aggregate client assets, forty-eight percent (48%) reported first quartile performance. No responding managers reported fourth quartile performance, but twenty-two percent (22%) did not know into which quartile their performance fell. The benign interpretation of this latter datum is of portfolio management styles in which reliable peer data is difficult to obtain, i.e., in "alternative" investment asset classes.

Among first quartile performers, however, women and minorities comprised sixty-one percent (61%) of the population.

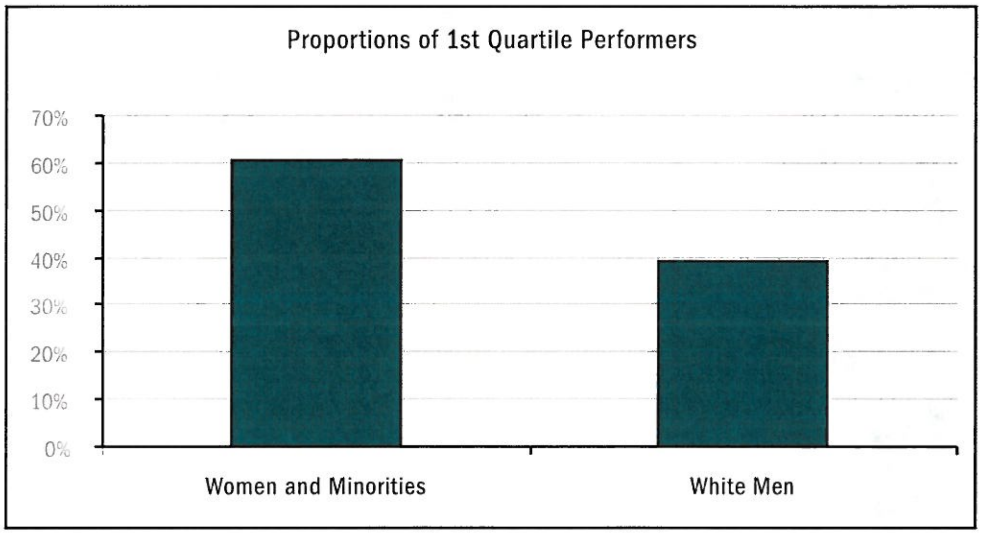

Figure 33 – First Quartile Performers More Likely to be Diverse

In this survey we plotted data based on stated performance and focused on first quartile performers. It is critical to note, the performance ranking was self-selected and since the survey is anonymous the provided ranking could not be verified; thus, caution should be exercised before inferring sound, logical conclusions.

More About First Quartile Performers

As the chart below shows, portfolio managers with first quartile performance are more likely to be U.S. equity managers. The next largest concentration of those reporting first quartile performance was of private equity managers.

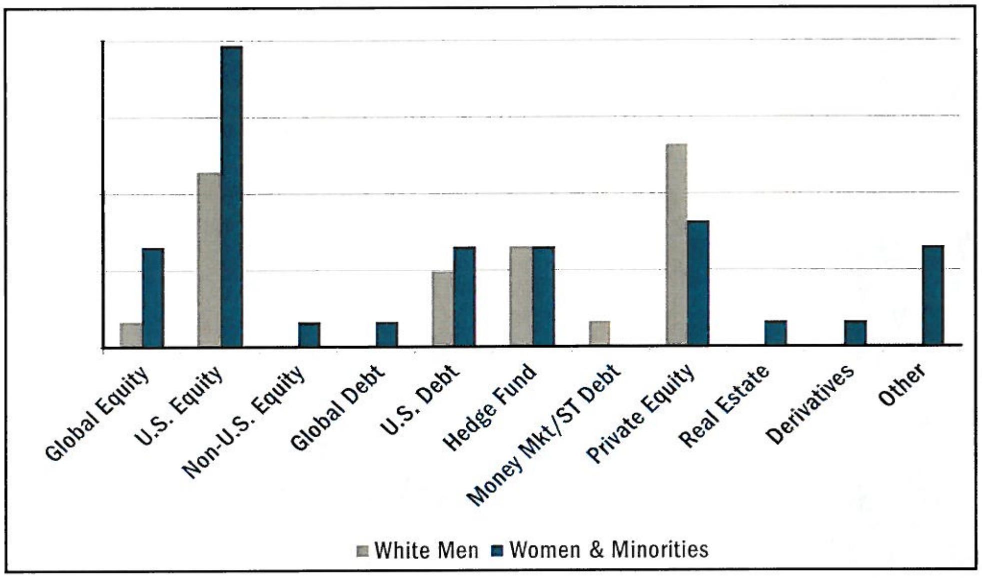

Figure 34 – First Quartile Performers More Likely to be U.S. Equity Managers

That results graphed immediately above could suggest that if one were looking for first quartile performers, white men who are private equity managers would be more likely to satisfy the performance criterion. Conversely, women and minority managers of U.S. equity portfolios were more likely to be first quartile performers than white men. In hedge funds, the proportions of first quartile performers were split evenly between white men and the remainder of survey participants reporting first quartile performance.

In aggregate, supporting decisions by various institutional investors that employ emerging manager programs, some seventy-four percent (74%) of first quartile performers worked at firms with aggregate client assets of $2 billion or less. Of that seventy-four percent (74%), thirty-three percent (33%) were white men, and forty-one percent (41%) were women and minorities. These proportions support not only the conclusions of those seeking emerging manager programs in order to find top performers, but also the empirical research by two manager-of-managers firms that have “emerging manager” practices.

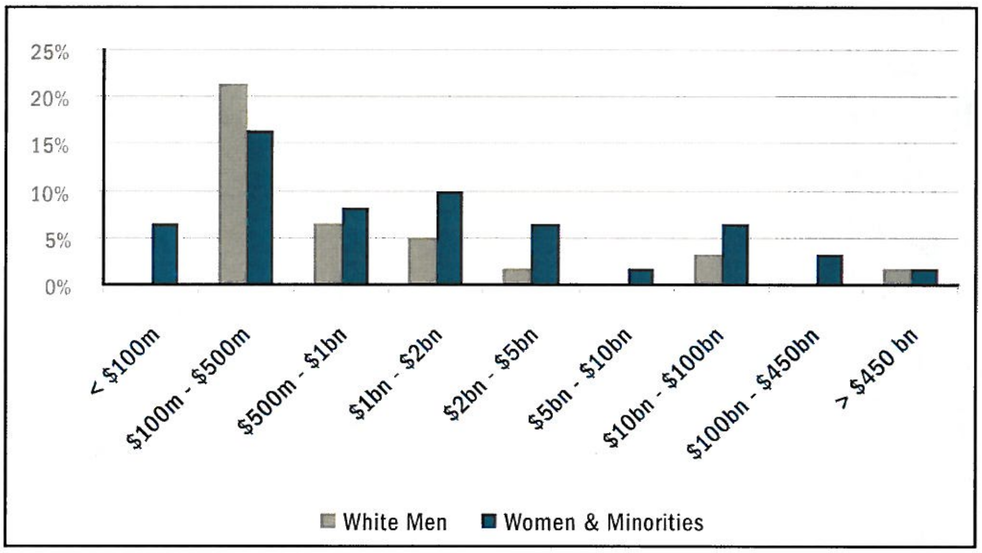

Figure 35 – First Quartile Performers Firms Tend to Run Less Than $2 Billion of Total Assets

As shown in the chart below, considering the sizes of the portfolios or funds run by first quartile performers presented further notable data.

- No participants who reported first quartile performance, regardless of sex or race, managed more than $25 billion.
- Of first quartile performers running assets between $500 million and $5 billion, portfolio managers were nearly five times more likely to be women or minorities than white men, thirty-three percent (33%) versus seven percent (7%).
- First quartile portfolio managers running assets up to $500 million were, in aggregate, nearly as likely to be women or minorities as white men, twenty-five percent (25%) versus thirty percent (30%) for white men.

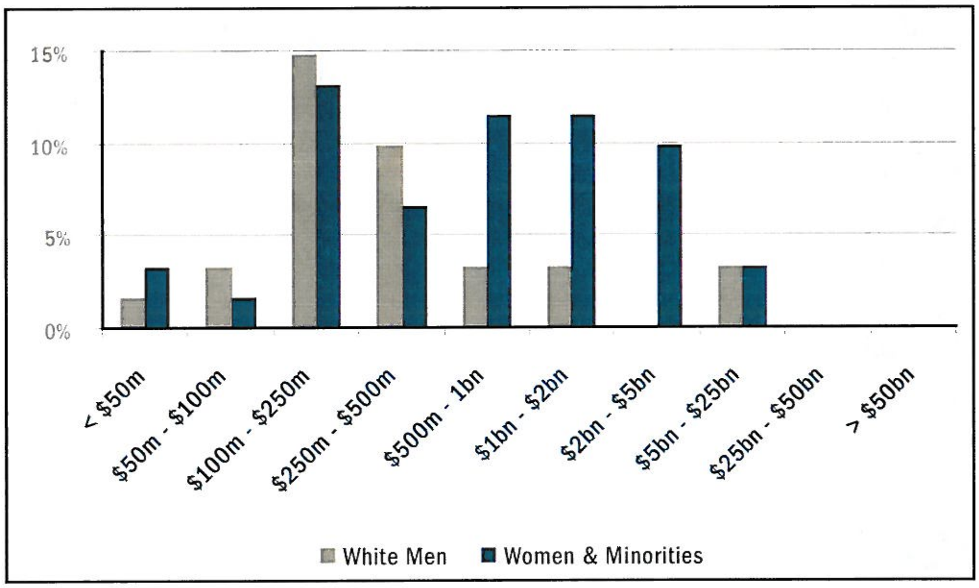

Figure 36 – How Large Are 1st Quartile Portfolios or Funds?

The distributions below speak for themselves, but perhaps the most notable datum from Figure 37 is the concentration of first quartile performers, forty-one percent (41%), willing to have their annual compensation be a flexible amount that is either explicitly or implicitly a function of their investment performance: a percentage of assets under management ("AUM"), or alternately, a total of a percentage of AUM plus "carry", a percentage of profits.

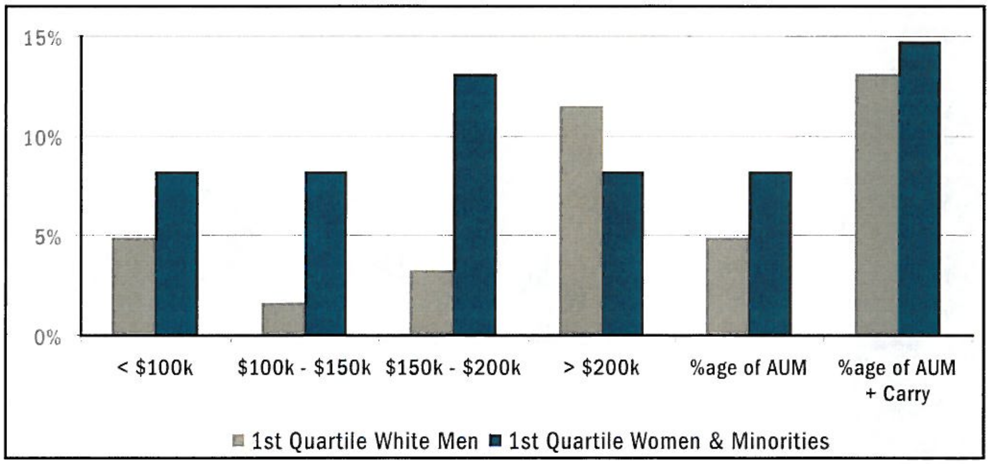

Figure 37 - Willing to Work for Alternatives' Fee Structures?

In the chart below, we see an extension of the chart above. Participating portfolio managers ("Qualified PMs") at firms managing aggregate client assets of $100 million or more are more willing to work for annual compensation that reflects their investment performance than for any single fixed amount of cash. This is as it should be, where clients' or plan members' economic interests are aligned with those of portfolio managers.

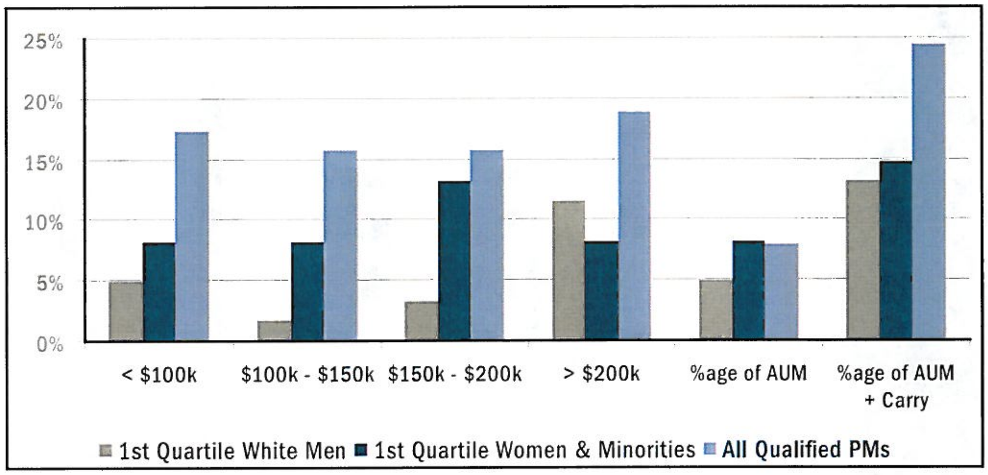

Figure 38 – Willing to Work for Alternatives' Fee Structures?

How Old Are First Quartile Performers, and How Do They Feel?

In terms of age distribution, the chart below shows that most woman and minority first quartile portfolio managers are in their 40s. Perhaps reflecting changes over time in our industry, first quartile performers in their 60s were more likely to be white men.

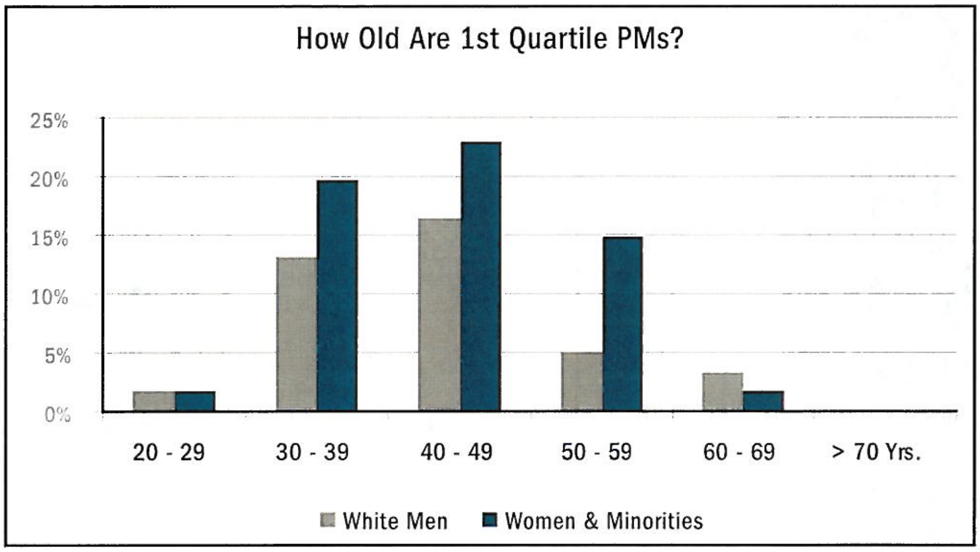

Figure 39 – How Large Are Their Portfolios or Funds?

Regarding their sex or race, first quartile performers who were women or minorities generally felt that their sex or race had hurt them. They were also less likely to have felt helped by their sex or race than all women and minorities responding to the survey.

It could be possible, then, to infer that the perception of bias may be a motivating factor for first quartile performers, driving women and minorities to deliver investment performance that would vitiate harms they feel accrue to them because of their sex or race.

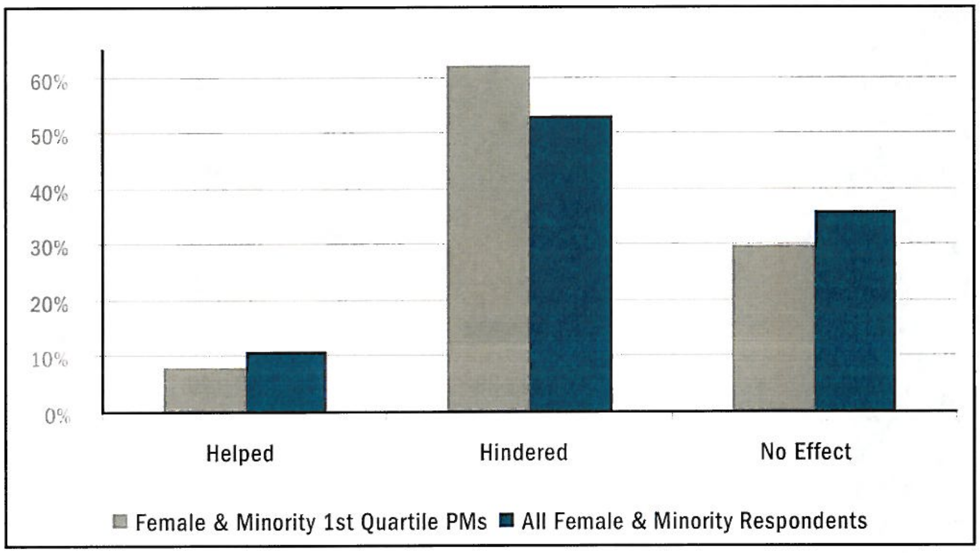

Figure 40 -Women and Minority 1st Quartile Performers More Likely to Feel Hurt by Their Status

In terms of their willingness to work with women or minorities, seventy-seven percent (77%) of first quartile performers endorsed working with more women and minorities if that could happen with neither loss of quality nor higher fees. Of interest, there were also women and minorities, eight percent (8%) of first quartile performers, or nearly one in ten, who did not welcome increased diversity under the conditions stated above. Certainly, this appears to reinforce a perception that bias against women and minorities in our industry exists, and not only in the populations more likely to be accused of prejudice against women or minorities.

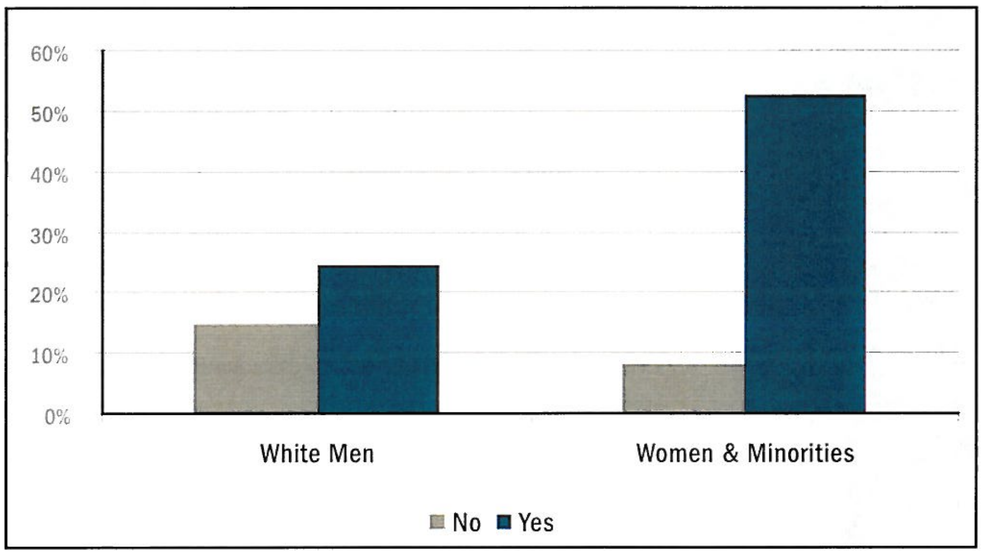

Figure 41 - First Quartile Performers Welcome Diversity Without Higher Cost or Worse Performance

Conclusions

As with the 2005 edition, at the end of the survey there was an open comment section. Comments from this year parallel those from 2006, and are worth reprinting in addition to the 2005 quotes to show the stability of the expressions about diversity in our industry.

The verbatim quotes below, are from 2005, and seem to capture the essence of opinions that promote a level playing field.

> "Really, folks, you need only to watch CNBC or Fox's Money Watch to understand that ethnicity and sex are no longer germane factors. I really don't care how performance is achieved. Just "show me the money!" Show me a quality firm backing it up. Show me staying in power."

And

> "I believe emphasizing diversity in fiscal or economic decisions is a waste of time. Concentrate on fiscal integrity, common sense, and forget this 'fluff'."

From the 2006 survey, below please see a pair of quotes that echo those above from 2005.

> "Since we are responsible for client assets, we cannot use inferior quality suppliers, regardless of any desire to advance a social agenda."

And

> "Making an allocation is 100% about the numbers."

The quotes above, though, and the opinions seemingly expressed by them, stand in balance to the opinions expressed in the quotes below from 2005.

> "I do believe that females and minorities are forced to work harder to be successful in the investment business due to negative perceptions of minorities and women in the business as well as the smaller numbers of women and minorities in the business. As this is a people business, people tend to hire people that look and have similar backgrounds as themselves."

And

> "Women and minorities often give better quality service than might otherwise be required simply to get a foot in the door. As such, they are a better deal when price and performance are held constant."

Below, from 2006, some quotes that appear to support diversity initiatives.

> "I have worked at several well-known hedge funds and a fund of funds over the years and, as in all areas of Alternatives, minorities and women are shut out of any positions outside client service and marketing. Minorities are shut out on the basis of race and access. Women are shut out on the basis of sexism as a result of perceived family obligations and often because of their need for flex time. My personal experience in the alternative universe has been positive but I continue to fight every step of the way."

And

> "Although I actively look for minority investment professionals to do my institutional and private investing, I evaluate their competency just as rigorously as I would a mainstream investment professional. Having been in the industry I also know that the bar is often set higher for minorities as a barrier to entry, so I take that into account in my evaluation."

At the end of the 2006 survey, even acknowledging the shortcomings of the survey, and survey processes, generically, as opposed to analysis of quantitative data, several items remain clearly suggested.

i) Biases against women and minorities still exist.

ii) Some portion of respondents to the survey report biases against women and minorities.

iii) Race and gender may assist manager selection for some asset classes, but that is exactly why across-the-board decisions based on race and gender as primary factors may also harm overall investment performance.

The 2006 survey results suggest that identifying better investment performers may be helped by quantitatively animated methods that hold investment performance foremost, but also treat sex and race as factors. The California Constitution, however, prohibits discrimination and the granting of preferential treatment to "any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting." Legally, then, California's public pension plans should not have specified goals or quotas for hiring women or minorities, even in fund management.

Nonetheless, one will observe that in many funds, business processes incorporate a policy of inclusion. There appears to be a belief that diversity adds richness and strength, and that including diversity in the selection of the best managers is in keeping with the fiduciary responsibilities of finding the best investments for pension plan members.

Anecdotally, we continue to note encouraging cases where, clearly, women and minorities, and, even, minority women, have been recognized, and promoted, based on competitively superior merit. In closing, not inconsistent with this observation, it still seems to remain appropriate in the context of our industry, to reflect on another quote by one of the 2006 survey participants.

> "I will use whomever does the best work. Period.
> If that means 100% women and minorities, great."