

GAO Highlights

Highlights of [GAO-17-726](#), a report to congressional requesters

Why GAO Did This Study

Asset management firms registered in the United States manage more than \$70 trillion. MWO firms manage less than 1 percent of those assets. The federal government has an interest in increasing opportunities for MWO businesses. Questions have been raised about how often federal entities use MWO asset managers and the transparency of their selection processes. GAO was asked to examine, among other things, (1) competitive challenges MWO firms face and how institutional investors address them, (2) selected federal entities' use of MWO firms, and (3) the entities' asset manager selection processes, including their use of key practices. GAO reviewed investment policies and financial statements of 8 entities that manage or sponsor federal retirement plans, an endowment, and an insurance program. GAO also interviewed 14 state, local, and private retirement plans and foundations and 10 MWO asset managers (selected based on size and other factors).

What GAO Recommends

GAO makes four recommendations to increase opportunities for MWO firms, in keeping with federal interests. Four federal entities should use key practices, as appropriate. The Army and Air Force Exchange Service, Navy Exchange Service Command, and Tennessee Valley Authority Retirement System agreed. The Federal Retirement Thrift Investment Board disagreed. GAO maintains that key practices should be used, as discussed in the report.

View [GAO-17-726](#). For more information, contact Michael Clements at (202) 512-8678 or clementsm@gao.gov, or Charles Jeszeck at (202) 512-7215 or jeszeckc@gao.gov.

September 2017

INVESTMENT MANAGEMENT

Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers

What GAO Found

According to asset managers and industry associations with which GAO spoke, minority- and women-owned (MWO) asset managers face challenges when competing for investment management opportunities with institutional investors, such as retirement plans and foundations. For example, institutional investors and their consultants often prefer to contract with large asset managers with brand recognition and with whom they are familiar. Also, small firms, including MWO firms, are often unable to meet minimum requirements set by institutional investors, such as size (assets under management) and past experience (length of track record). State, local, and private retirement plans and foundations GAO interviewed addressed these challenges in a variety of ways, such as asking their consultants to include MWO firms in their searches. Many plans also lowered their minimum threshold requirements so that the requirements were proportional to the size of the firms while maintaining the same performance requirements for all asset managers in their selection processes.

Federal retirement plans, the endowment, and the insurance program GAO reviewed invest in asset classes in which MWO asset managers have a market presence, but overall use of MWO firms varied. For example, some retirement plans either did not use any MWO firms or did not track this information. The endowment and insurance program reported using some MWO asset managers.

GAO identified four key practices institutional investors can use to increase opportunities for 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.

Some federal entities we reviewed, such as the Federal Reserve System, have used all the practices, but others made partial, limited, or no use of the practices.

- The Federal Retirement Thrift Investment Board does not intend to use the practices in its planned mutual fund window platform.
- The Navy Exchange Service Command and Tennessee Valley Authority Retirement System used one practice, but have not used the others.
- The Army and Air Force Exchange Service has used two practices, and partially used two practices.

By using the key practices, the entities GAO reviewed could widen the pool of candidates in their asset manager searches and help ensure that they find the most qualified firms. In keeping with federal interests, the practices could also help address barriers MWO firms face and increase opportunities for them.