Congress of the United States
Washington, DC 20515
March 20, 2018

The Honorable Mitch McConnell
U.S. Senate
Washington, DC 20510

The Honorable Paul Ryan
U.S. House of Representatives
Washington, DC 20510

The Honorable Charles Schumer
U.S. Senate
Washington, DC 20510

The Honorable Nancy Pelosi
U.S. House of Representatives
Washington, DC 20510

The Honorable Orrin Hatch
U.S. Senate
Washington, DC 20510

The Honorable Kevin Brady
U.S. House of Representatives
Washington, DC 20510

The Honorable Ron Wyden
U.S. Senate
Washington, DC 20510

The Honorable Richard Neal
U.S. House of Representatives
Washington, DC 20510

Dear Colleagues:

We are aware of a March 7, 2018 letter sent to congressional leaders by the heads of some of America's leading higher education institutions requesting a repeal of, or amendment to, the endowment tax levied on certain universities and colleges pursuant to the recently passed tax law.

We are generally supportive of these institutions' efforts to reinstate the tax-free status of their endowments. However, we would like to draw your attention to a related issue that congressional leaders should consider when debating the public policy justification of repealing the endowment tax. We request that any federal subsidy of education endowments – including fully reinstating their tax-free status – be coupled with a requirement that these large vehicles of wealth creation adopt policies to increase the use of minority- and women-owned (MWO) asset management firms consistent with the federal government's interest in ensuring equal opportunity and closing the racial and gender wealth gaps.

A recent study commissioned by the John S. and James L. Knight Foundation found that although there is no statistical difference in performance between MWO firms and their counterparts, foundations and endowments are less likely to invest with MWO firms than other types of institutional investors including public pension funds.

In September 2017, the U.S. Government Accountability Office (GAO) issued a report that examined key practices among federal institutional investors – including the Smithsonian Institution's endowment – to expand opportunities for MWO managers. The report found that MWO managers and smaller firms face unique challenges when competing for investment opportunities with federal retirement plans and foundations. After surveying the asset management landscape on both the state and federal levels, the GAO recommended that federal entities adopt four key practices to increase opportunities for MWO firms and small asset managers including the following:

- **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.

Although the study found that some federal entities – including the Federal Retirement Thrift Investment Board – are behind in their adoption of such key practices, others, including the Smithsonian Institution's endowment, have already adopted all four of these practices.

There have also been commendable efforts among private foundations and endowments to increase their use of MWO firms. For example, over the course of seven years the Knight Foundation increased diversity among its endowment's money managers and now invests $472 million with MWO firms which amount to 22 percent of its holdings. The University of Chicago has also taken positive steps toward increasing its contracting with MWO businesses by hosting 230 such firms – including money managers – for its two-day annual event designed to increase face-to-face contact between the University's department leaders and diverse firms.

It's imperative that other public and private education endowments take similar affirmative steps to diversify their money managers which should include adopting the GAO's recommended four key practices, especially if Congress decides to provide these institutions a federal subsidy by way of an endowment tax exemption.

Federal fiscal policy remains a powerful tool to combat wealth inequality. Accordingly, if Congress decides that it is good public policy to forgo billions of dollars in revenue in favor of universities and colleges amassing large amounts of wealth tax-free, that decision should be made with commitments from these institutions to diversify the management of such wealth. Such a decision would go a long way toward closing the wealth gap that threatens our economy's sustainability and conflicts with our nation's highest ideals of equal opportunity.

Sincerely,

Gregory W. Meeks
Member of Congress

Maxine Waters
Ranking Member
Committee on Financial Services