Pensions&Investments

Commentary: Asian Americans, Pacific Islanders face 'bamboo ceiling' in money management

Jim Park

Photo: Christopher Barr
Jim Park

Last year's horrific events of social injustice put a spotlight on the ugly truth of racial disparity and structural issues in the U.S. It was a collective moment that prompted American companies to reflect on the realities of the nation's long history of discrimination and the silent role that they play as institutions in perpetuating inequality. While we have a long way to go, there have been positive changes and calls for dramatic shifts in the investment management industry as a direct result of this self-reflection.

In this broader conversation around diversity and inclusion, Asian Americans and Pacific Islanders, or AAPIs, are at risk of being left behind because myths of the "model minority" persist. While the recent escalation of heinous hate crimes against the AAPI community has shed light on the history of discrimination and attacks endured by the community, the social and institutional barriers AAPIs had to overcome to succeed continues to be downplayed. In fact, there is a widespread misperception that the AAPI community experiences no or limited obstacles in navigating the investment industry. The reality is that AAPI-owned managers face a steep climb toward equal opportunity and full inclusion.

According to a study published by the Association of Asian American Investment Managers and Bella Private Markets in December, U.S. asset management firms with a majority AAPI ownership represent only 3.5% of the industry total. These firms are also typically smaller and manage just 0.7% of asset under management, despite their performance meeting or exceeding industry benchmarks. This is nowhere near equitable with the Asian Americans and Pacific Islanders who make up more than 6% of the U.S. population.

The findings from this study put a sharper focus on the challenges faced by the AAPI investment community in gaining access to capital. To address that, institutional investors need to expand emerging manager programs to increase opportunities for all diverse managers and make them specifically targeted to woman and minority firms, including AAPIs.

Emerging manager programs can be a vehicle for change

The misperception that AAPIs are doing fine is partially driven by the relative success of AAPIs in getting their foot in the room of the investment field. Some 15% to 20% of graduates from the top 25 business schools are AAPIs, a good number of whom end up taking on analyst roles at investment firms. Lack of opportunity for advancement, however, is forcing talented investment professionals to start their own funds. This perpetuates the problem of non-diverse leadership at major firms and the lack of representation among decision-makers.

Emerging manager programs are intended to provide opportunities to such emerging and diverse managers that can otherwise struggle to compete for mandates against more established and widely represented managers. Today, there are 46 public pension plans participating in emerging manager programs, although the $23 billion managed through these programs still represents a small portion of institutional investors' total assets.

Of the 146 unique managers participating in the above emerging manager programs analyzed by the Association of Asian American Investment Managers, only seven are Asian American or Pacific Islander-owned. This shows that emerging manager program implementation has a significant opportunity gap for the AAPI community and indicates that AAPI-owned funds are not experiencing equal opportunity in the industry.

The low levels of support for these AAPI-owned funds from emerging manager programs makes it even more difficult to scale, despite the relative outperformance of AAPI-owned funds in most asset classes. And since emerging manager programs only make up a small percentage of institutional investors' total commitments, AAPI-owned firms are getting a minuscule bite of an already small slice of pie.

Breaking the ‘bamboo ceiling'

There is no doubt that emerging manager programs have helped to address inequality and structural bias in the industry by providing access to capital for managers that would otherwise struggle to grow their funds. Nonetheless, these programs need to be expanded to ensure that the more established and historically advantaged firms are not gaining access to an increasingly disproportionate share of the overall capital allocation, while emerging managers are fighting over scraps.

We will only see substantial progress if there is broader accountability for diversity and inclusion, particularly when it comes to initiatives like the emerging manager programs. As asset managers consider a course of action to create more opportunities for diverse communities, there needs to be a parallel effort to make emerging manager programs a greater tool for economic inclusion and equity. Institutional investors need to expand these programs to increase opportunities for all diverse managers and make them specifically targeted to woman and minority firms, including AAPIs.

We also need to recognize that what qualifies as an emerging manager programs is not consistent across the board. Pension plans have different definitions as to what counts as an emerging or diverse manager. Most programs require a fund to have less than $2 billion in assets, but some pension plans have raised that limit to $10 billion. There are only a few plans that have specified the firms must be minority- or women-owned. Decisions about who qualifies for mandates at times can shift based on who is in power and their priorities.

Changing the eligibility requirements to focus on the greatest areas of disparities should be the priority for allocators, which means giving priorities to underrepresented communities. This does not mean giving up on returns and performance, as reflected in many studies. Additionally, the definition of diverse managers must include all underrepresented communities in terms of ownership and AUM. Finally, limiting the number of application rounds a firm can pursue through emerging manager programs can also help to keep a steady flow of opportunities open to newer entrants.

Greater representation of diverse managers, including AAPIs, in investment mandates can also be achieved if more institutional investors are held to account by their stakeholders. We already see that public pressure on corporations and public funds to increase diversity and inclusion is bringing about meaningful change. Elsewhere, doors have started to open up to diverse managers — particularly among university endowments, which have their own separate set of rules and requirements for diverse managers. It's a positive step in the right direction, but we are still a long way from equity.

The large gulf between fact and perception of AAPI participation in the investment field perpetuates the ongoing belief that AAPIs are doing just fine in terms of participation in the finance industry. It has curtailed opportunities for many worthy AAPI-owned funds, and deepened the racial inequity in America that was highlighted by the tragedies of 2020. Through an increase in the dollar commitment to emerging manager programs and tightening up the eligibility requirements, we can begin providing meaningful opportunity to underrepresented investment managers. That would be a win-win for the asset management industry overall.

Jim Park is CEO of the Association of Asian American Investment Managers. He is based in San Diego. This content represents the views of the author. It was submitted and edited under P&I guidelines but is not a product of P&I's editorial team.