“Because investment consultants play a gatekeeping role in determining with which asset class managers pension funds do business, they are uniquely positioned to either promote or obstruct manager diversity.”¹

In 2018, Wilshire Associates Incorporated (“Wilshire”) announced a new diverse owned manager initiative for our consulting business. The strategic objectives of this initiative are 1) increased awareness of diverse owned managers among our clients and consultants and 2) proactive outreach from Wilshire to the community of diverse owned managers. As we continue to develop and execute on our strategy, we offer this annual report as a way to hold ourselves publicly accountable for doing our part to highlight diversity and inclusion in the asset management industry.

One of the cornerstones of our diverse owned manager initiative is the requirement to include a diverse owned firm in every public securities manager search conducted for non-discretionary consulting clients (often referred to as the “Rooney Rule”). For the year ended December 31, 2019, our consultants conducted 15 searches where diverse owned manager products were available and fit the client mandate, with four searches resulting in wins for the diverse owned manager. However, there were 15 additional searches where a suitable product or vehicle from a diverse owned manager was not identified and therefore was not included in the search process. In examining these instances, the searches that did not include diverse owned managers tended to be in niche strategies. For example, 10 of these 15 searches were in high yield bonds, real assets, and low volatility equity. Going forward, Wilshire will work to fill the gap in approved managers for these three strategies. Other searches where the firm did not identify high quality providers included risk parity, passive, and total fund overlay products. Finally, there was one search where the client opted to eliminate a manager and consolidate their assets with incumbent managers. As such, a diverse owned firm was not included in this very limited search. For a year-over-year comparison, in 2018, 49% of all searches included a diverse owned firm. The inclusion rate of diverse owned firms improved marginally to 50% in 2019. Finally, in 2018 and 2019, the search opportunities included 20 different diverse owned firms. Please see Exhibit 1 for a summary of Wilshire’s search experience for the past two calendar years.

As noted by the Knight Foundation,² the greatest challenge to research on diverse ownership or management is the lack of data. Therefore, Wilshire has focused on analyzing our database of diverse owned managers and understanding the profile of this population and holdings within our consulting client base. Wilshire CompassSM is a proprietary software application offering access to the Wilshire Investment Database and a sophisticated suite of analytics and reports for asset allocation modeling, manager search and evaluation, and total fund analysis. Originally developed in 1992 for the asset owner community, Wilshire Compass includes detailed information on approximately 2,000 investment managers. Within this database, our consultants have identified 145 viable diverse owned firms managing public securities portfolios. This number increased from 134 diverse owned firms in the previous year. Exhibit 2 details the demographics of the diverse owned firms in the Wilshire Compass database. Of these 145 firms, the owners primarily identify as non-minority women and male Asian and African Americans. As highlighted in the graphic, firms owned by minority women are most underrepresented at only 10% of the diverse owned manager universe.

Turning to holdings of diverse owned managers, 21.4% of Wilshire’s consulting client base has placed assets with diverse owned managers. Industry-wide, firms owned by women and minorities represent 8.6% of the industry’s total number of firms, but manage just 1.3% of assets.³ At Wilshire Consulting, diverse owned firms represent 10.4% of our manager database and manage 1.8% of our clients’ assets. While Wilshire’s numbers are higher than industry averages, they remain at low levels and reveal that these managers are under-owned relative to their prevalence, implying smaller average mandate size than majority owned firms. To address this imbalance, we believe it is incumbent upon our consultants to ensure that good diverse firms are represented in searches and to continue to educate our client base on the value proposition of diverse owned managers. To that end, we have increased the number of diverse owned funds that we are evaluating, and this has led to an expansion of the number of diverse owned firms and products rated in the top four deciles, the minimum rating to be short-listed for a search. Year-over-year, from 2018 to 2019, the number of highly rated diverse owned firms has increased from 21 to 25 and the number of highly rated products

has grown from 32 to 45. With double-digit growth in the opportunity set, we aim to offer our consulting clients greater choice among diverse owned firms and potentially increase the likelihood of matching mandates to managers. See Exhibit 3 for more details on the expansion of the list of highly rated diverse owned managers and products.

Another key part of Wilshire’s diverse owned manager initiative is outreach to the diverse owned manager community. We view quality interactions with diverse owned firms as so critical to success that it has been integrated as one of the criteria for each senior consultant’s discretionary compensation. As such, Wilshire consultants have conducted 89 meetings with 58 diverse owned firms over the course of 2019. For context, Wilshire’s Manager Research team meets with about one-third of the manager universe in any given year. Given 145 diverse owned firms, the consulting team met with 40% of this universe, showing a modestly better contact rate among diverse owned managers. Year-over-year, Wilshire’s reach in the diverse owned community has increased materially (see Exhibit 4). The increase in total meetings was 53%, while the number of firms with whom we met grew by 49%. A key part of improving both the quantity and quality of interactions with diverse owned managers was our newly established “Welcome to Wilshire” events. Beginning in the second quarter of 2019, Wilshire conducted a series of educational seminars, entitled “Welcome to Wilshire.” The agenda for these events includes presentations from Wilshire’s Senior Management and Manager Research team plus one-on-one time with our consultants. In 2019, 42 people from 25 diverse owned investment management firms attended four events at Wilshire’s offices in Santa Monica, Denver, Chicago, and Pittsburgh. Wilshire knows that navigating consulting firms is sometimes challenging and our goal is to use these events to become more transparent and accessible to diverse owned firms.

Finally, what are the additional lessons learned from our experience? Given that the program was established formally in 2018, we now have a baseline from which we can make year-over-year comparisons. The data reveal definitive successes, but also some ongoing challenges. The initiative has had a demonstrable impact on the awareness of diverse owned firms among our consultants and clients including:

- 8% growth rate in the number of diverse owned firms in the Compass manager database.
- 17% of diverse managers evaluated by Manager Research are rated in the top four deciles versus 14% of all firms and this number is growing.
- The number of diverse owned managers and products rated in the top four deciles grew by 19% and 41%, respectively.
- Total consulting meetings with diverse owned firms increased by 53%.
- While meetings increased, the scope of contact also increased. Wilshire consultants met with 49% more diverse owned firms in 2019 versus 2018.

Challenges to the Wilshire Diverse Owned Manager Initiative include:

- Our consulting clients affirm an interest in diverse owned managers, but the proportion of clients investing with diverse owned firms and the corresponding assets under management remain low.
- For the managers, feedback is critical. Wilshire is committed to a transparent process where managers can access their evaluations and be clear on how their strengths and weaknesses are viewed by Manager Research. This feedback loop is an essential element of reinforcing the strengths andremedying any weaknesses of diverse owned managers.
- The Welcome to Wilshire events were very well received, but will be suspended for 2020 due to COVID-19. In the absence of these events, the consulting team will step-up its proactive efforts and conduct one-on-one meetings by videoconferencing.

Perhaps most importantly, our consultants have learned that we have more work to do! As we go forward, we pledge to continue to raise the profile of diverse owned managers among our clients and consultants and proactively engage with the diverse owned manager community. Broadening the investment manager opportunity set is not only beneficial in principle. Diversity maximizes the talent pool and increases the likelihood of capitalizing on investment opportunities in an increasingly global and diverse world. As such, Wilshire remains committed to doing our part to be inclusive of diverse owned managers. To clients, consultants, and investment managers: Please join us!
Exhibit 1

**Manager Searches**

<table>
<thead>
<tr>
<th>Category</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Searches</td>
<td>39</td>
<td>31</td>
</tr>
<tr>
<td>Searches That Included a Diverse Owned Manager</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Searches Where No Suitable Strategy Was Identified</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Searches Prior to Adopting the &quot;Rooney Rule&quot;</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

"Other" includes a search conducted in 2018 by RFP process where no diverse owned manager responded and a search in 2019 where the client opted to eliminate a manager and consolidate their assets with incumbent managers, none of whom were diverse.

Exhibit 2

**Demographics: Percentage of Diverse Owned Managers**

- Male African American: 15%
- Male Asian: 21%
- Male Hispanic: 9%
- Male Native American: 3%
- Male Other: 2%
- Female African American: 3%
- Female Asian: 4%
- Female Hispanic: 1%
- Female Native American: 0%
- Female Other: 2%
- Female Non-Minority: 28%
- Combination: 11%
Exhibit 3

HIGHLY RATED DIVERSE OWNED FIRMS/PRODUCTS (TOP FOUR DECILES)

Number of Firms/Products

0 5 10 15 20 25 30 35 40 45 50

Number of Products

Q42018 Q42019 Growth in 2019

Exhibit 4

TOTAL CONSULTING MEETINGS

Due Diligence Meetings W2W Events

2018 2019

58 64 89

NUMBER OF FIRMS

2018 2019

39 58
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