

A Policy of Opportunity: How Corporate Treasurers Are Taking the Lead in Partnering with Diversity Firms

By Nilly Essaides, Managing Director of Research and Insight at NeuGroup



Treasurers charged with funding and investing to support corporate growth are actively seeking greater engagement with minority-owned banks, brokers and investment managers. That's according to NeuGroup's November 2022 D&I Financing and Asset Management Survey, a groundbreaking research project conducted in partnership with the National Association of Securities Professionals (NASP), Sustainable Fitch and Fitch Ratings.

"Treasury is the group that drives financial decisions. It's therefore critical that minority-owned firms build a strong relationship with the treasurer and the different functional heads in order to ensure they are given the opportunity to participate," said Ron Parker, NASP's President and CEO

TOP-THREE TAKEAWAYS

1. Treasuries plan to expand their engagement with minority-owned firms. Our data shows a significant projected increase in activity in the next 12-24 months.
 2. While 88% of treasury organizations do not have a formal policy to govern how much business they direct to minority-owned firms, most have informal guidelines, and 100% are actively seeking greater engagement. Importantly, a formal policy is not a prerequisite for the success of treasury's D&I initiatives.
 3. Treasuries apply the same metrics to evaluate the performance of diverse-owned firms as they do to the rest of their external cash and pension asset managers. While they actively seek to increase opportunities for diversity firms, their selection criteria reflect good business sense.
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PUSHING FOR GREATER ENGAGEMENT

Treasury is the custodian of corporate financial assets. Its primary mandate is to ensure companies have the liquidity to run the business and the funding to invest in growth. As chief procurer of financial services, treasury is at the epicenter of a complex ecosystem of financial partners, from banks to brokers to pension and cash investment managers.

Treasurers hold the purse strings and are increasingly sharing their wallet with diverse-owned firms. According to our survey:

- **25%** of respondents expect to invest as much as 50-75% of short-term cash with diverse firms, vs. the current ceiling of 40%.
- **50%** of respondents plan to invest 21-30% of strategic cash via minority-owned firms, up from 25% currently.
- **50%** of respondents intend to allocate 5-10% of pension assets to minority-owned firms, up from 33% currently.
- **13%** of respondents expect to increase underwriting commitment to diverse-owned firms to 11-20%. Currently, the top allocation level is 5-10%.
- **50%** of respondents expect to spend 5-10% of fees with diverse-owned firms, up from 33% currently.

A grassroots effort. The drive to increase engagement with diversity firms is coming from within treasury. Ninety-two percent of respondents reported they are not experiencing any pressure from the Board, and 84% of treasurers are accountable for the execution of the D&I initiative.

The data also shows that only half of CFOs are highly engaged in the effort. This is not to say that CFO engagement is not important; as we will see later in this report, an engaged CFO is a characteristic associated with a successful treasury D&I program.

- “While many CFOs are supportive,” said Mike Simonton, head of Social Value Collaborations, Global DEI Advisory Committee | Global CSR Committee, at Sustainable Fitch. “Treasurers are more connected into the financial market ecosystem. Because they have external lens, they can see the importance of this issue and are moving forward.”
- “The CFO is not knocking at our door to include diverse-owned firms in our debt underwriting and investment activities,” explained one respondent. While treasury maintains a direct communication line to the CFO, “it’s not like he’s actively asking us how things are going.”
- “The treasury group is pushing up versus responding to a top-down mandate,” said an investment manager at another member company. In fact, treasury is ahead of other corporate functions, such as procurement, in diversifying its vendor base. “We are proactively communicating what we are doing in this space in order to motivate others to take similar steps,” she said.
- “It’s more of an organically driven process,” agreed a member from a tech company that issued debt recently and included minority-owned brokers. “We have a whole impact team that’s committed to social goals and green initiatives.”
- The same goes for working with external investment advisors. “It’s us pushing them,” said a respondent, in a follow up focus group. “Consultants and advisors are not adamant about adding diverse-owned firms to our portfolio.” He added: “We require our advisors to include at least one diverse firm in their RFPs.”



“While treasuries may not have a policy for tracking investment with minority-owned firms, they are doing it because it’s the right thing to do,” said Marshay Hall, head of communication and programing at NASP.”

BEYOND FORMALITIES

While treasury is doing a lot with diverse firms, in 88% of the cases it does not have a function-specific formal policy that governs its engagement levels. Nor is there a specific requirement to invest or fund through minority-owned firms.

“While treasuries may not have a policy for tracking and investing with minority-owned firms, they are doing it because it’s the right thing to do,” said Marshay Hall, head of communication and programing at NASP. Our data backs up her statement. Treasuries are using the same performance metrics to evaluate diverse-owned firms as they do with other underwriters and managers (see sidebar on page 4)

Doing more, elsewhere. The most-cited reason for not having a treasury D&I policy is that the company believes it can make a bigger difference through other means, for example via direct community investment and hiring policies.

- “I am not surprised that many companies do not have a formal policy for treasury,” said one NeuGroup member. “We believe we can make a bigger impact through other areas of the organization, like HR and sustainability.” For example, after considering whether to invest cash in CDs at minority-owned banks, treasury at this company decided that investing directly in community projects will be more impactful.

Aligning with a corporate policy. Another reason for the absence of a treasury-specific policy is that many companies already have strong, enterprise-level policies that are cascaded down to different functions.

- “We don’t have a formal policy, mostly because there is an overarching corporate strategy, and treasury has to do its part,” said one respondent. “We do a lot in the treasury space,” he said, “but this is not the organization’s focus.”
- “We have a formal policy at the corporate level to promote D&I objectives,” added another respondent, “and our treasury team (capital markets, cash and pension investment) has done a great job being able to participate.”

A pragmatic constraint. Finally, particularly in the pension space, the selection of financial partners is highly regulated.

- “We cannot set hard targets because of ERISA’s (Employee Retirement Income Security Act) fiduciary requirements, which determine asset allocation and the qualifications of external managers,” one corporate pension manager said. For example, firms need to have a certain number of years of a performance track record, which prevents some of the smaller or newer ones from getting a share of the market.
- “It’s a chicken or the egg situation,” explained another member. “Managers cannot gain the track record because we cannot allocate them the business.” Yet, “despite ERISA, we ended up the year with 5% of our pension assets invested through minority-owned firms; we hope to see that share increase in 2023.”

A NEW PHENOMENON

While a formal policy is not a prerequisite for success, a documented approach has benefits. Absent a policy, “the risk is that when things change, for example during a recession, the initiative will fall down the list of priorities,” said NASP’s Mr. Parker. An interesting data point (see sidebar on page 7) is that 100% of treasuries where the CFO is highly involved have a formal document.

- “Our investment policy governs duration and asset classes, but not engagement with diverse-owned firms. It would be good to incorporate it, but we struggle with how to do that,” said one cash investment manager at a company that does extensive business with minority-owned firms. For example, she said, “because our cash is growing so fast, it would be hard to put in place specific targets. They will get out of date very quickly.”



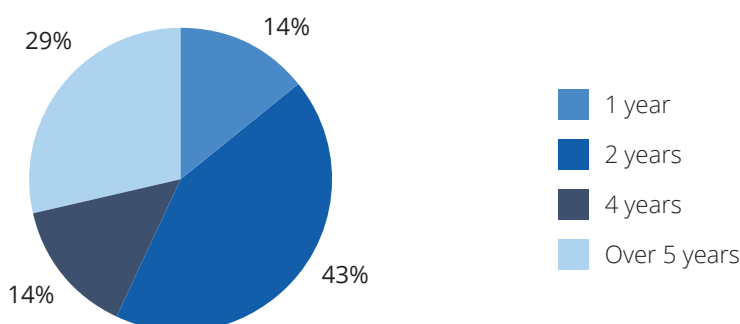
“We don’t have a quota, but it’s a formal part of our process of consideration in the cash and asset management space.”

- An effective way to build a policy is by connecting with peer companies that already have one in place. “We do have a policy that formalizes how we engage with diverse firms as part of processes and procedures,” one respondent said. “We have made some broad changes to it recently, and it now includes diverse firms as part of the evaluation of any new product or service; it has to be in the RFP. We also have a pre-vetted list of firms we can work with.”
- “We don’t have a quota, but it’s a formal part of our process of consideration in the cash and asset management space,” another member added. The company has recently looked to expand its mandate. “We interviewed diverse firms in the debt capital markets space, but we are at an early part of our journey. There’s a lot at stake, and we want to get comfortable with minority-owned firms before we make significant changes.”

The scarcity of formal policies reflects the still-early stages in the evolution of treasury’s engagement with diverse-owned firms. Our survey revealed that in more than half the cases, when treasury has a documented policy, it has been in place for fewer than two years (see Fig. 1).

- “I started working to expand our initiative 4-5 years ago,” according to one focus-group participant. “But we have only formalized the policy two years ago.”
- In another case, the policy was put in place three years ago, sparked by rising focus on ESG in general. “We wrote the policy to help clarify our thinking,” the member said. “The ESG and the D&I policies are one and the same.”

Figure 1: Number of years treasury’s D&I policy has been in place



Source: D&I Financing and Investment Survey, NeuGroup, 2023

STANDARDS OF PERFORMANCE

Our data shows that treasuries are not extending diverse-owned firms any “special treatment.” Rather, they judge their performance in the same way they evaluate the performance of other financial partners. “We hold them to the same metrics, all the way from performance to timely reporting and quarterly market updates,” said one cash investment manager. Fig. 2 shows the importance of metrics treasury uses to measure the performance of corporate cash managed by minority-owned firms. Given the conservative nature of cash investments, **risk management** and compliance with guidelines and **performance against the benchmark** are tied for the number-one spot, followed by **performance against managers with a similar mandate**.

Figure 2: Cash Investment: Managers’ performance metrics



Case Study

BEYOND FEES: VERIZON PUSHES CORPORATES AND BANKS TO OFFER DIVERSE-OWNED FIRMS MEANINGFUL OPPORTUNITIES

Verizon is a recognized leader among corporates giving more business to minority-owned firms in the past several years. The company has made providing both meaningful economics and—more importantly—meaningful opportunities—to diverse-owned banks and brokerages a fundamental principle of its commitment to bringing more diversity to Wall Street and the capital markets.

- The finance executive driving that approach, leading by example and pushing other corporates and their banks to engage meaningfully with minority-owned firms in the bond market, is Verizon senior VP and treasurer Scott Krohn.

Invest for growth. A key tenet of Mr. Krohn's D&I strategy is to "invest for growth." He explains: "It goes beyond cutting a check for D&I firms to grow. While increasing their capital base is important, so is the ability to enhance their distribution franchise to place bonds with investors. Treasury has an important role to play in providing a meaningful opportunity for D&I firms whether you're an issuer, large bank or fixed-income investor."

- As a large and frequent issuer of investment grade-debt, Verizon is walking its talk, in part by giving D&I firms active, leading roles in transactions, deepening and developing their experience as they grow. In a \$25 billion bond offering in 2021, the company gave all nine D&I firms active roles, with some serving as joint book runners. The D&I firms were allocated a combined \$487 million in bonds, most likely the largest allocation to D&I firms ever in a single bond deal.
- That amount represented about 2% of the total deal, which for now is a good rule of thumb, Mr. Krohn said, as long as treasuries can structure a D&I syndicate with a voice in the process and ample opportunity to participate. "From the start of the transaction, there needs to be coordination," he said. To ensure that happens, Verizon has named banks including Morgan Stanley to serve as D&I coordinators on several of its bond deals.

Metrics: fees paid to diverse-owned firms. With economics, Verizon is using its influence to help define metrics for itself and other corporates as well as making clear what it expects from big banks that underwrite its debt. The effort includes drawing attention to data showing the dollar amounts of fees paid to D&I firms by top investment grade debt issuers, including banks, and the percentage of total fees those amounts represented—a key yardstick to measure progress.

- For example, data sourced from public filings and collected by Ramirez & Co. showed that in 2021, Verizon paid fees to D&I firms on bond deals topping \$21 million—the highest dollar amount of 20 top issuers. That \$21 million equaled 13% of the total fees Verizon paid for debt deals that year. By comparison, only five other issuers in the top 20 reported double-digit percentages; and fees paid to D&I firms by some large banks on their own debt deals failed to reach 3% of their total fees.
- Mr. Krohn hopes that other corporate issuers not only raise the percentage of total fees they pay to D&I firms but join him in exerting pressure on large banks. "Part of my hope is that there are more of us that draw conclusions on who's walking the talk, and that we demand more from our partners in the capital markets," he said. Data for part of 2022 provided by other sources to NeuGroup suggests more banks are getting the message, raising the percentage of fees paid to D&I firms, if not yet hitting double-digits.

The future. In a recent Strategic Finance Lab podcast panel discussion available on Apple or Spotify, NeuGroup CEO Joseph Neu asked Mr. Krohn and other panelists to describe what they hope to see in five years. Mr. Krohn began his answer by saying, "Although tremendous progress has been made, there is more work to do."

- "As I think about five years from now, it would be very nice to see 2% of allocations going to D&I firms just being a starting point and a much higher allocation going forward."
- Mr. Krohn also would like to see much more market transparency around D&I firms' activities in capital markets. "I think a lot of the data does exist; you're just not going to see it very often in pitch books. We'd like to see that more broadly."
- His final point: "I just hope that the focus and the improvement that we've seen will contribute to additional diversity on the Street and in bond markets."

SELECTING A DIVERSE-OWNED PARTNER

While the focus on D&I is important across financial partners, firms that self-identify as minority-owned must also demonstrate that they embody the commitment to diversity.

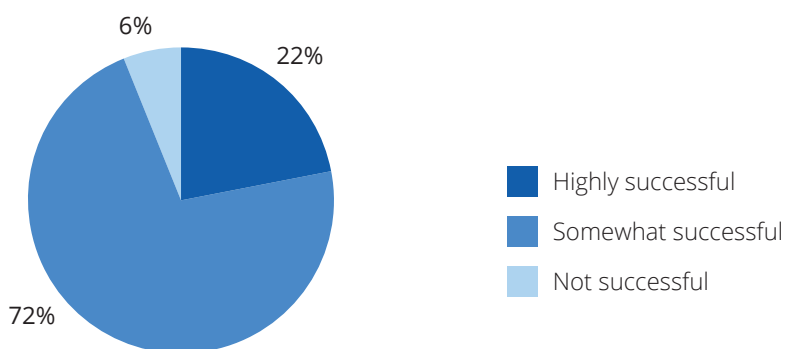
- “Determining whether a firm fits the category can be tricky,” one member said. “Just because they have a certain percentage of minority ownership is not enough.”
- “In identifying firms to work with, the most important aspect to us is the authenticity of the firm,” one member said. “That means reviewing the diversity of the firm’s workforce, the advancement opportunities for minority employees, the actual jobs held by minorities and the path to ownership,” he said.
- “We had a few interviews where the owner didn’t show up,” he said. In other cases, most of the people who showed up to the meeting were white males, with perhaps just one member of the minority group the firm represented. He added: “If they’re telling you they’re a minority firm and minorities are just 26% of the people who work there, something’s just not right. That helps you narrow the field.”

Determining whether the program is effective in achieving its objectives requires a balanced scorecard approach, i.e., a mix of quantitative and qualitative measures

PORTRAITS OF SUCCESS

Measuring the success of a D&I initiative is difficult because metrics are few, thus much of the assessment is based on subjective evaluations. According to the survey, only 22% of treasuries rank themselves as highly successful in executing their D&I mandate. (Fig. 3).

Figure 3: Treasury D&I initiative degree of success



Source: D&I Financing and Investment Survey, NeuGroup, 2023

Determining whether the program is effective in achieving its objectives requires a balanced scorecard approach, i.e., one that includes a mix quantitative and qualitative measures, for example:

- YOY percentage of overall underwriting fees
- YOY percentage of participation
- YOY number of diverse firms included in debt deals
- YOY percentage of assets under management
- The diversity of minority-owned firms’ workforce
- How well they are executing on their mission through mentoring and training programs and involvement in their communities
- How well does the finance initiative support the company’s overall ESG mandate

Through the eyes of leaders. To surface best practices and help other organizations reach a higher level of achievement, we analyzed the data associated with the 22% of highly successful treasuries and created the following leadership profile.

1. Leaders don't necessarily have a formal documented policy.
2. Leaders are not experiencing any pressure from the Board but have a highly engaged CFO.
3. Leaders actively seek opportunities to work with minority-owned firms.
4. Leaders have significantly raised the percentage of short-term cash invested via diverse firms.
5. Their advisors are likely or highly likely to recommend minority-owned investment managers.
6. They are more likely to invest in longer-term fixed income via their minority-owned managers.
7. They are more likely to include the D&I focus of their partners in their performance evaluation criteria.
8. They are more likely to have deposits with minority owned banks.

WHEN THE CFO IS INVOLVED

A highly involved CFO is a feature in the profile of a successful treasury effort to expand engagement with diversity firms. When the CFO is a strong partner, treasury is more likely to have:

- A formal D&I policy that governs its work with minority-owned firms.
- A policy that has been in place for over two years.
- Investment advisors who are required to include diverse-owned firms in their proposals.

This data suggests that while treasurers can push forward with remarkable success, a high degree of senior-level engagement is associated with a more mature program. For treasurers, this is a call for action: To move up the maturity curve, they should advocate for their programs by demonstrating success through financial KPIs that show the business benefits of expanding the diversity of financial partners.

CONCLUSION: CLOSING THE GAP

The data analysis, combined with extensive follow-up conversations, helped identify the following actions items treasury can take to improve the success of its D&I initiative and catch up with leaders like Verizon.

1. **Engage the CFO.** Treasury is doing an admirable job expanding the relationship with diversity firms. However, the level of CFO engagement is reflective of the program's success. It's therefore imperative that treasurers encourage their CFOs to become active partners.
2. **Provide the opportunity.** While it may not be possible to set hard targets for allocating business to diverse-owned firms, treasury can ensure they get the chance to participate by including them in RFPs for new products and services.
3. **Don't leave it up to the banks.** Some banks may say they are allocating bonds to minority-owned firms, but it's up to treasury to establish tracking mechanisms. Eighty-percent say they monitor the activity in-house, and some are mandating banks to include specific firms in the syndicate.
4. **Push your advisors.** Only 20% of pension advisors are likely to include a minority-owned firm in their proposal. That figure is higher for corporate cash investment (50%). Still, there's a lot of room for improvement. Leading treasuries are requiring advisors to include at least one diverse-owned firm in every proposal.
5. **Benchmark with peers.** To come up the learning curve quickly, our members recommend treasury share and learn from peers about approaches to expanding their work with diversity firms. NeuGroup is committed to facilitating peer-to-peer exchange through our expanding DE&I working group, which currently has over 50 member companies.



"I want to change the way we do things, where we don't have much reliance on the banks anymore. The diverse-owned firms are getting so much better, with the talent that they're bringing in and the bandwidth that they have now."

Bringing the future forward. There are substantial changes on the horizon, according to our members. One tech firm intends to allocate most of its short-term corporate cash to diverse-owned firms.

"I'm going to do something completely different in the future," said a treasurer. "I want to change the way we do things, where we don't have much reliance on the banks anymore." Diverse-owned firms are getting so much better, with the talent that they're bringing in and the bandwidth that they have now. "So, we're going to narrow it down to fewer banks, more diversity firms. And you're starting to see more and more corporates doing this."

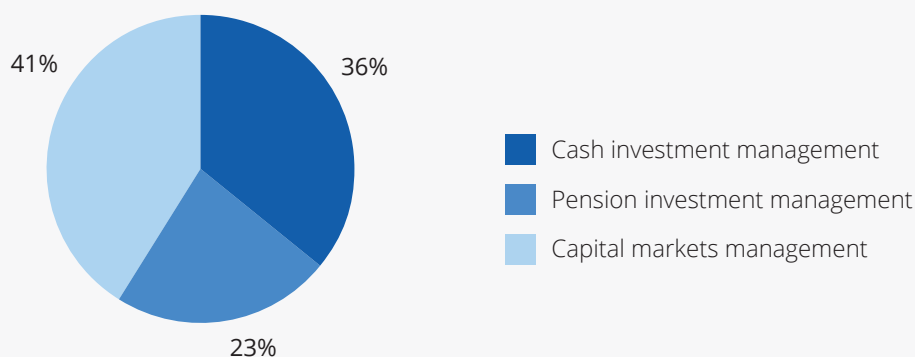
ABOUT THE SURVEY

While there's plenty of research on diversity and inclusion within financial institutions, there little if any about corporate approaches to working with minority-owned firms in capital market transactions and management of cash and pension assets. This survey provides data and insight into current practices and future plans among treasury executives from some of the world's most iconic companies.

Results are based on 65 curated responses from NeuGroup cohorts corresponding to four working and peer groups that focus on:

- Short-term corporate cash and Investments
- Pension fund management
- Capital markets/funding
- D&I in treasury overall

Figure 4: Respondents distribution by treasury role



Source: D&I Financing and Investment Survey, NeuGroup, 2023