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Perspective Through A Diversity Lens ***Bringing ESG investment opportunity through a diversity lens***

By: Michael Arenibar

Should diversity be included when considering ESG? In short, absolutely. We know that diversity can stand on its own merits and its importance transcends inclusion in ESG. As the leader of an MBE firm, I value the importance of diversity and how critical it is to the world. However, I want to be clear: We are not here to discuss how diverse workforces outperform or how investors should support diversity with dollars. Those are important issues, but there are plenty of articles and academic papers evidencing these points. Today I want to focus on my individual perspective and how an investment business can be viewed through a lens of diversity.

I spent the last twenty-five years in the investment industry learning from the banking and investment executives I've worked with. For the most part, ***I encountered a typical homogeneous culture that was labeled as "firm culture" or "tradition"***. This monoculture was developed largely by industry executives, who came from similar backgrounds, thought the same way, and were satisfied with the status quo. As a young Mexican-American and Native American man, raised by a single mother on the South Side of Chicago, you can imagine that neither my background nor my perspective fit the status quo when I joined the industry ranks in the 1990s. But those differences, and the challenges I overcame along the way, made me all the better for it.

Being a minority places you in an underdog category, and being an underdog forces creative thinking, assertiveness, and bold leadership. It trains you to be humble, strong minded, and to have a global view—you cannot restrict yourself from any possible opportunities. ***The world gets larger not smaller.*** You must be self-reliant and must uncover and comprehend all risks. You challenge yourself

to step outside of your comfort zone and tolerate risk in a controlled manner. In an environment where nothing is given to you, you are put in a position where you are constantly having to prove your value.

Being diverse as a firm means you are representative of the real world—you transcend the monoculture, push back against groupthink, and value and amplify divergent perspectives. As any great investor knows, there are times when you need to be able to step back, realize when someone with a different perspective has an edge, and listen to them—



incorporating unique information makes you successful.

When I launched HFR Investments, I contemplated the culture I wanted to foster: I asked myself, "Should I apply the 'traditional' approach to culture or should I go my own way?" I weighed the options and risks of incorporating my diverse viewpoint and experiences into the firm. In the end, I have worked to apply a hybrid approach, blending my own experiences and diverse background with some of the valuable teachings of my mentors.

From the beginning, I knew with certainty that a continuation of the traditional approach would most likely achieve the same outcomes. While traditional investment firm culture can be successful, I knew a more diverse approach was critical in building a firm that leads in innovation and does not fall into the status quo. ***I recognize my background is different than most, and therefore, my perspective is framed from a distinct viewpoint. I believe it is important to recognize this difference, but—even more importantly—leverage the strengths that I have gained from it.*** My passion for applying my perspective to investing has led our firm to create investment products rooted in diversity—products that are reflective of the



expansive world we live in, and reflective of the diverse perspectives of our industry.

I see the challenges of minority representation everyday as an individual, but especially as a small MBE firm. Some might argue that being a minority-owned firm is a massive advantage over traditional investment advisory firms. I would argue it is the opposite. Unsurprisingly, it is almost impossible to get the same visibility as a multibillion-dollar investment firm. Even though a handful of MBE firms have become highly successful (with billions in AUM), in reality they do not do enough to help smaller MBE firms. In fact, I would argue that they are focused on getting the entire (albeit small) slice that is allocated to minority businesses. ***I believe it is the moral duty of larger MBE firms to do more for smaller MBE firms, by offering mentorship opportunities and working with us to enlarge the slice of the pie.*** As the [Wall Street Journal](#) reported earlier this month, despite commitments to diversifying our industry from traditional firms, large and small alike—the racial makeup of the financial services industry has not materially changed since 2009. ***If we want to create a more representative industry, MBE firms need to work together to create real change.***

Without fundamental changes to the industry, the traditional investment process and biases will remain the same. And though that may be okay with some allocators, **as an MBE firm, we want to break from the traditional mold, incorporate diverse perspectives, and provide modern, richer ESG investing opportunities to the alternative investment industry.** I would object to claims that ESG is simply a feel-good investment policy. We believe that ESG metrics go hand in hand with outperformance, while making the world a better place.

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