

Black-Owned Investment Firm Sues New Jersey for Racial Bias

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A Black-owned investment firm sued New Jersey for racial bias on 23 June, saying officials told it that the state's pension was averse to hiring money-management firms owned by minorities.

Blueprint Capital Advisors is one of the few US investment firms founded by African-Americans. The Newark firm said in court documents on 22 June that New Jersey's pension office "usurped" its ideas and hired money-management giant BlackRock Inc. to run Blueprint's strategy. Blueprint alleges pension staff made efforts to block it from investing state money and turned against the firm after it spoke up about being treated unfairly. Blueprint was eventually hired to run money for New Jersey, but under terms that it describes as "punitive."

It is rare for an asset manager to sue an investor. Blueprint said it oversees about \$175m for New Jersey. The firm also sued BlackRock and Cliffwater LLC, a firm that assisted the state pension with investment decisions, alleging they profited at Blueprint's expense.

"We would like to see people in C-suites and bureaucracies held accountable for the things they do when no one is watching," Jacob Walthour, Jr., Blueprint's chief executive, said in an interview. He was previously a vice chairman at Cowen & Co. and held managing director roles at Cliffwater and Citadel in a Wall Street career that has spanned over 30 years.

While Blueprint was trying to get New Jersey to invest, a top investment staffer told Walthour in 2016 that Blueprint stood higher chances of getting state money if references to being minority-owned were scrubbed from pension memos, according to the lawsuit. Board members supervising the state investments weren't likely to approve a minority-owned firm, Christopher McDonough, the director who led the New Jersey's pension investment staff in that time, told Walthour, according to the suit.

McDonough also told Walthour in conversation that the board slate "was not a fan of investing with women- and minority-owned firms," according to Walthour and the lawsuit.

McDonough, who's no longer at the pension fund, didn't respond to a request for comment.

A New Jersey Treasury spokeswoman referred a request for comment to New Jersey's Office of the Attorney General, which declined to comment.

BlackRock's chief client officer, Mark McCombe, said a review by BlackRock and an outside law firm "found nothing inconsistent with our standards nor anything suggesting any wrongdoing by BlackRock," and "nor have we found any evidence that BlackRock improperly received any materials." He said BlackRock "has no tolerance for discriminatory or unethical conduct."

A Cliffwater spokeswoman said, "We have investigated the allegations made by Blueprint and

have found no evidence whatsoever.”

“Blueprint also has failed to provide any evidence that it has to support these allegations, as is clear from the lack of evidence in their complaint. We will defend this matter vigorously.” The firm also said “Cliffwater condemns discrimination in any and every form.”

The lawsuit comes as rifts in the country are being examined across society after weeks of protests over George Floyd’s death at the hands of police. The investment world, largely white, isn’t immune.

Many asset managers are wrestling with the failure to build a workforce that mirrors their customers. Pensions are under scrutiny over whether the metrics they use to pick managers have entrenched the biggest firms—and whether they have done enough to cast a wider net. New Jersey has a law requiring its state pension to try to hire women- and minority-owned firms.

US mutual funds run by minority-owned firms held less than 1% of that industry’s assets at the end of 2017, according to a study commissioned by the Knight Foundation.

New Jersey has one of the most deeply indebted US retirement systems. The office overseeing the roughly \$75bn pension fund has faced staff turnover and pressure to cut fees paid to money managers in recent years.

Blueprint, founded in 2015, seeks to build portfolios of hedge funds and private debt and negotiate lower fees for clients. It oversees about \$1.2bn in assets. Funds-of-funds firms face significant competition as more investors choose to pick funds by themselves.

Blueprint said it shared information on its investment models with the New Jersey pension, and staffed up after assurances that the state would hire it. The firm alleged that New Jersey passed trade secrets to BlackRock, and picked that larger competitor in 2016 to manage a strategy Blueprint said it developed and called FAIR. “The conspirators did not even bother to change the purloined program’s name,” according to Blueprint’s suit.

A person briefed on the matter said BlackRock used the name FAIR at the suggestion of a New Jersey pension official.

Starting in 2016, Blueprint shared its experiences with various New Jersey state and local officials. The firm said the pension office retaliated.

Blueprint alleges that New Jersey’s pension made it sign on to terms that were more onerous than previously discussed, causing it to accept lower fees than other managers. New Jersey had already asked for a share of the revenues Blueprint made as a firm, according to the lawsuit.

Blueprint said that a pension staffer tried to obstruct the firm’s hiring, in actions that helped drag out a formal deal, which closed in 2018, by more than a year after the state board approved the investment.

As Blueprint continued to press government officials to hear out its grievances, the firm alleges

that it was told by certain state employees that pension staff wouldn't let it make additional investments if it complained further.

Walthour said the lawsuit will be worth it if it moves the industry forward.

"African-Americans for almost their entire career inside Wall Street are made to feel like their voice never equals that of a white person," he said. "Why don't people speak up? One word: fear."

—Amara Omeokwe contributed to this article.

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