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# CALSTRS APPROACH TO DIVERSITY, EQUITY, AND INCLUSION

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**Attachment(s):** None

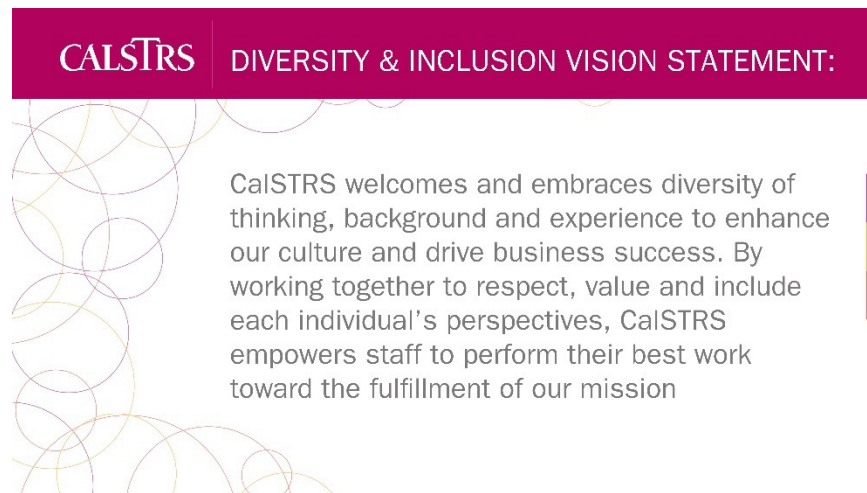
**PowerPoint(s):** CalSTRS Approach to Diversity, Equity & Inclusion

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## **BACKGROUND**

Diversity is a [core value](#) of CalSTRS: “Strength: We ensure the strength of our system by embracing a diversity of ideas and people.” The Diversity & Inclusion (D&I) internal organizational effort started as a way to support this core value, through an initiative to attract and recruit a diversified workforce reflective of California's population. It was quickly realized that simply hiring diverse staff was not enough; staff need to be supported and developed once they are a part of CalSTRS. In 2013, a D&I position was established in Human Resources to help lead the effort. Since 2013, CalSTRS’ D&I effort has grown from being solely recruitment focused to one incorporated within all business areas.

In partnership with the Centre for Organization Effectiveness (Centre), early work included creating an executive D&I Vision, where all executive staff worked together to create a guiding statement about D&I at CalSTRS.



After creating the vision statement, the Centre and HR staff created an all-staff training on diversity and inclusion fundamentals, entitled Diversity & Inclusion: The Power of Difference. All CalSTRS staff, including executives, attended this training, and it has since been instilled as the capstone course for the Onboarding program so all staff will continue to be trained in D&I fundamentals.

The D&I Specialist in HR differs from the Investments Diversity Officer position within the Investments Branch. The D&I Specialist is focused on maintaining and enhancing the culture of CalSTRS, while the Investments Diversity Officer is focused on managing external diverse relations with investment managers. Both positions work together to manage and lead respective internal and external diversity efforts.

Partnership between units has supported the Investment Branch diversity efforts, including working together to create Investment Branch Diversity Definition, supporting the annual Diversity in the Management of Investments report by the D&I Specialist attending Investment Diversity Team meetings and providing annual demographic data.

### **CURRENT APPROACH TO DIVERSITY, EQUITY, AND INCLUSION**

D&I is woven into the fabric of CalSTRS culture, and our internal approach focuses on the creation of a workplace where all staff are treated with respect and feel like they belong.

CalSTRS chooses to continually work on inclusion through ongoing efforts in each business area addressing competence, dignity, organization development, and social justice.

**CALSTRS** | CURRENT APPROACH TO DIVERSITY, EQUITY, AND INCLUSION

**D&I TRAINING**

**GETTING DEEP**

**D&I SHAREPOINT SITE**

**INCLUSION COUNCIL**

## Competence

It is vitally important that our staff are educated in the foundations of diversity and inclusion, as well as continue to grow their learning through the duration of their career at CalSTRS. All staff receive training in foundational D&I concepts through onboarding and are encouraged to put their learnings into practice daily. Foundational training includes relationship building, building respect, and minimizing stereotypes and unconscious bias. Additional learning is achieved through the monthly D& I SharePoint site. Leaders receive additional training regarding supervising staff through a diverse and inclusive lens including getting to know their staff, developing an inclusive mindset, and leading through challenges. The D&I team regularly stays abreast in the field's best practices through learning from Stanford's Clayman Institute, SHRM conferences and teachings, as well as learning from industry-wide articles.



## Dignity

CalSTRS affirms the value and interconnectedness of every staff, and focuses on the person, not just their productive value to the organization. We accomplish this by focusing on the mental and physical wellbeing of everyone. Another area is through recognition of accomplishments through the Virtuosity program, our formal recognition program.



## Organization Development

Staff are the most important asset to our organization, and their continued development is important to ensuring efficiency, innovation, and achieving CalSTRS' mission. D&I partnership is integral in many business areas, some of which include training, staff development, talent acquisition, recognition, and social/emotional intelligence. For example, throughout the pandemic, encouraging staff to stay mentally and physically well has been of utmost importance. D&I and the Organization Development unit within HR have partnered to create the Wellness Taskforce. Together, the taskforce has sent over fifty articles encouraging staff to focus on their wellbeing. The taskforce has also created the virtual Calm Room, a site dedicated to helping staff take a few minutes to get refreshed and recharged.



## Social Justice

This is one of the newest areas added to the D&I effort, and we are committed to treating people equitably and ethically. By focusing on social justice, we aim to strengthen a sense of togetherness and belonging by discussing topics such as race, privilege, and other differences. In the Getting Deep webinar series, staff learn about complex D&I topics from



each other by discussing their thoughts and feelings in a safe and inclusive space. The CalSTRS Inclusion Council aids in this focus and their role will become more integral as we navigate supporting our sustainable and resilient workforce.

## **DIVERSITY IN THE MANAGEMENT OF INVESTMENTS**

Building teams that exhibit diversity, equity and inclusion are essential in achieving CalSTRS' financial and return objectives. CalSTRS efforts to expand diversity in the management of investments began over 32 years ago in 1989, with the fund's first capital commitment to emerging managers in the public equity asset class. In 2003, diversity within investments was formally established as a Strategic Initiative of the Investment Committee. As such, diversity is integrated into the overall [CalSTRS Investment Policy and Management Plan](#).

### **Annual Progress Report**

In support of CalSTRS' mission to secure the financial future and sustain the trust of California's educators, CalSTRS Investments has continued to achieve and monitor its diversity initiatives within its organization and in the companies in which it invests. The 2022 annual progress report highlights accomplishments in calendar year 2021 and are catalogued into three pillars:

- **Internal Investments Branch.** *Workforce diversity brings advantages to organizations through increased profitability, enhanced creativity, stronger governance and problem-solving abilities.* As of December 2021, CalSTRS Investments total staff count is 212, where 45% self-identify as female gender; 50% as ethnically diverse.
- **Portfolio Company Engagement.** *Diversity is crucial to companies' long-term financial success. Along with our investment industry partners, we continue to influence global markets by steering changes in board and workforce diversity.* In 2021, one of our industry partners, the Thirty Percent Coalition via its "Adopt a Company" campaign, engaged 250 companies. Of those, 127 companies appointed women to their boards.
- **Portfolio Management.** *CalSTRS remain committed to its relationships with emerging managers and diverse managers within the industry.* In 2021, CalSTRS graduated an existing emerging manager, committed capital to new emerging managers and traded with emerging broker-dealers.

### **Strategic Roadmap**

In July 2021, Investments staff presented an update on CalSTRS' Diversity in Investment Management and presented a strategic roadmap to be used to develop and implement future diversity goals and objectives. The roadmap has four core objectives (Clarity, Priorities, Relevance and Implementation) and underlying guided actions towards the production and implementation of CalSTRS Investments Long-Term Diversity Strategic Plan (covering 2022 and beyond). The purpose of the Long-Term Diversity Strategic Plan is to: (1) formalize the programs and initiatives that CalSTRS Investments currently has in place and (2) set forth new goals that continues to embrace, expand and deepen impact of diversity within the investment

management of the CalSTRS investment portfolio. To date, CalSTRS Investments has completed Core Objectives one (Clarity) and two (Priorities). Subsequently, Core Objective three (Relevance) is underway.

### **Stewardship - Civil Rights/Racial Equity Audits**

As part of proxy voting responsibilities, CalSTRS reviews and cast votes on proposals presented by shareholders. Every year there are new proposals to review and determine the appropriate vote. During the 2021 proxy season, shareholder proposals asking companies to conduct civil rights/racial equity audits were submitted and went to vote at a handful of companies. While none of the proposals passed, many received support in excess of 30% which is high for a first-time proposal.

A civil rights or racial equity audit is an independent, systematic examination of significant civil rights and racial equity issues that may exist in a company's business policies, practices, products, and services to determine whether and how those components have a discriminatory effect and/or disparate impact on people historically subject to discrimination. After an initial assessment, the auditors work with the company to issue a public report to provide a blueprint for corrective action and proactive, equitable outcomes, and to ensure that structures are in place to implement civil rights changes and prevent future civil rights harms.

Additional reading material about civil rights/racial equity audits are offered below and will be discussed at the April Board offsite.

- [Racial Equity Audits: A New ESG Initiative](#), Harvard Law School Forum on Corporate Governance, posted by Ron S. Berenblat and Elizabeth R. Gonzalez-Sussman, Olshan Frome Wolosky LLP
- [The Rationale for and Key Elements of a Business Civil Rights Audit](#) by Laura W. Murphy

### **AB 890**

CalSTRS Board position of [AB 890 \(Cervantes; 2021\)](#) was neutral as it is the Board's policy to take a neutral position on bills that do not significantly or adversely impact the benefits or services provided through the funds administered by CalSTRS. [AB 890 \(Cervantes; 2021\)](#) requires CalSTRS to submit an annual report, beginning March 1, 2023, on the status of achieving appropriate objectives and initiatives, as defined and adopted by the Board, regarding the participation of emerging or diverse managers responsible for asset management within the system's investment portfolio. The bill sunsets on January 1, 2028, unless a later enacted statute deletes prior to 2028 or extends that date. The report must be based on contracts entered into on and after January 1, 2022.

## **LOOKING AHEAD**

CalSTRS' commitment to D&I has made the organization and its people stronger, and better and will continue to do so in the future.

The partnership between the D&I Specialist and Investments Diversity Officer will continue to expand on current Investments Branch efforts, as well as aim to support the Investments diversity strategic roadmap, and its effort to promote gender diversity in the industry.

It's important for CalSTRS to "walk the talk" and strive to be a thoughtful leader in diversity, equity, and inclusion. We hold our investment strategies to a high bar and our goal must be to mirror the same D&I values with our external partners across all functions. CalSTRS is currently in the process of securing the assistance of an external vendor, an expert in the field of diversity, equity, and inclusion to complete an assessment of our current efforts and make recommendations to strengthen our ongoing commitment to our staff and how we conduct business. Our focus is to integrate diversity, equity, and inclusion practices into CalSTRS business processes and to grow a workforce that understands its value for each other, our membership, and the community at large. This will help us remain at the forefront of diversity and inclusion best practices within the State of California, the pension industry, and with our national and global partners.