



DIVERSITY

in the Management of Investments

2021 ANNUAL REPORT

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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Message from

CHRISTOPHER J. AILMAN

CalSTRS Chief Investment Officer



CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We believe building teams that exhibit diversity, equity and inclusion are essential in achieving our financial and return objectives.

In calendar year 2021, the CalSTRS Investments Branch continued to make progress on the **CalSTRS Collaborative Model**. This investment strategy of managing more assets internally has helped us reduce costs through fewer management fees and less carried interest. Strengthening and maintaining our diverse staff and culture serves as a competitive advantage in executing a strategy of bringing more of our assets in-house.

We upheld the Investments Branch's commitment to internal staff diversity by hiring a diversity-focused investment officer responsible for developing, managing and implementing our diversity in the management of investment strategy. We also continued our long record of promoting gender diversity on corporate boards through our engagements with coalitions of other like-minded investors. We hosted events with the goal of addressing barriers to promoting diversity and inclusion in the investment workplace. Plus, we continue to support emerging managers within our portfolio and remain committed to nurturing our relationships with emerging managers within the industry.

The Investments Branch will continue to build on these efforts in order to attract highly qualified talent to join our workforce. Our diversity of thought, experience and skills is what makes us resilient in an ever-changing investment landscape.

Sincerely,



Christopher J. Ailman

Investments Branch core values

The CalSTRS Investments Branch core values align with the organization and serve to further unify our team in pursuit of our mission.



Respect – We strive to not only treat others as we would like to be treated, but to go the extra mile and treat others as they would like to be treated.



Personal development – We support an individual's career and personal goals.



Balance – We encourage employees to balance a strong work ethic with interests outside of the office.



Worth – We strive to recognize everyone's efforts and contributions to the organization.



Challenge – We are honored to accept the challenges placed upon us and strive to create an innovative work environment.



Purpose – We work toward a common goal, thereby making a difference for others and ourselves.



Honesty – We are truthful to ourselves, to peers, to supervisors, to the board, and to the organization; our word is our bond.



INTERNAL INVESTMENTS BRANCH

Workforce diversity brings advantages to organizations through increased profitability, enhanced creativity, stronger governance and better problem-solving abilities.

Internal staff diversity

Diversity in the management of investments at CalSTRS is accomplished with an investment staff of 212 individuals from various socioeconomic backgrounds, cultures, religious and political beliefs, ages, gender identity, sexual orientation, educational experiences and disabilities. The gender, ethnic and age diversity of our Investments Branch staff are illustrated on pages 6–8.

We stand by our **diversity statement**:

Diversity supports CalSTRS' mission to secure the financial future and sustain the trust of California's educators. We believe diversity of experience, background, skills, gender, race, culture and all the ways people can differ from one another—visibly and not—produces a diversity of thought that leads to better decision-making and better results.

The Investments Branch is committed to measuring and managing our progress in educating, attracting, hiring, developing, promoting, paying, partnering with and investing in a diverse array of practitioners within CalSTRS and across the financial markets.

CalSTRS Collaborative Model

Part of our long-term investment strategy is to enable our diverse investment staff to manage more assets in-house. The CalSTRS Collaborative Model is our investment strategy to manage more assets internally to reduce costs, control risks and increase expected returns, plus leverage our external partnerships to achieve similar benefits. We apply this model across the entire CalSTRS Investment Portfolio with varying methods due to the distinct market forces, regulatory environments, and competitive advantages and challenges affecting each of them.

As we bring more assets internally, the number of Investments Branch staff increases. This significant growth emphasizes the importance of attracting, recruiting and retaining high quality, diverse staff. We use innovative solutions to build an inclusive culture that will continue to draw the best talent from the investment industry.

CalSTRS Investment Diversity Officer



LaShae Badelita joined CalSTRS in January 2021 as the Investments Branch's first investment diversity officer. LaShae applies investment expertise to develop and implement our diversity in the management of investments strategy.

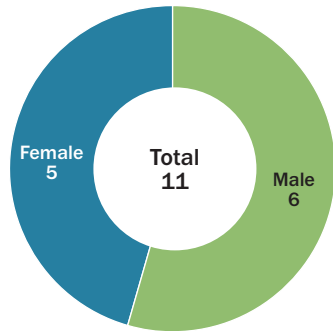
In collaboration with our chief investment officer, deputy chief investment officer and asset class directors, she expands diversity initiatives of external investment managers, events that promote diversity in the broader investment industry, and relationships with industry affinity groups.

“We strive to create a positive impact throughout the investment industry while simultaneously advancing the future financial security of our members—California’s public school educators.”

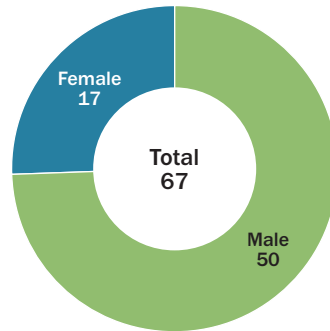
— LaShae Badelita

Investments Branch gender diversity

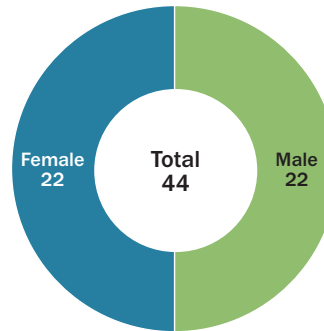
Investment Director



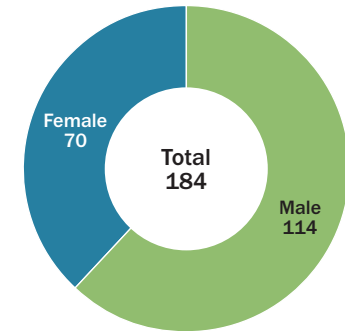
Portfolio Manager



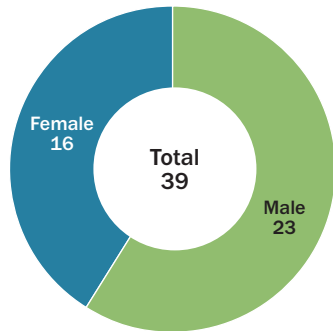
Investment Officer III



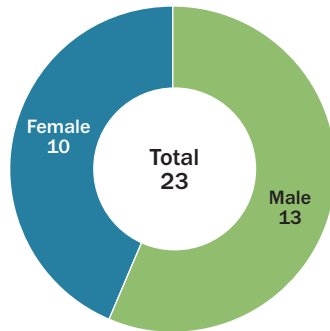
Investments Branch staff total, not including administrative support



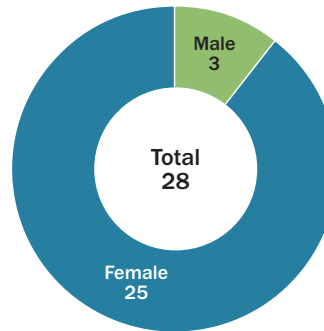
Investment Officer II



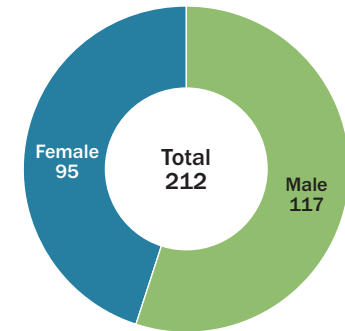
Investment Officer I



Administrative support



Investments Branch staff total, including administrative support



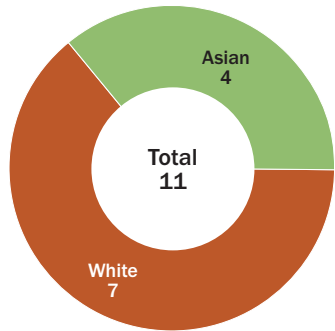
While Investments Branch staff gender identity categories are limited to the State of California's data collection system, we strive for an inclusive staff and welcome all gender identities and members of the LGBTQ+ community.

Notes on classification titles

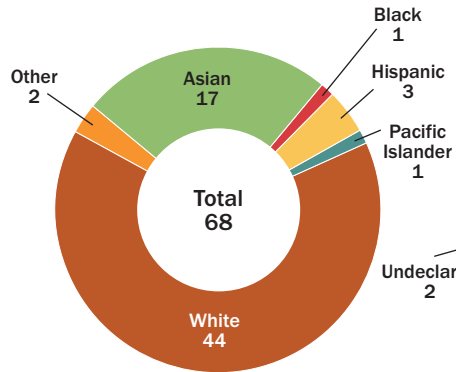
- Investment Director category consists of Chief Investment Officer, Deputy Chief Investment Officer and Investment Director.
- Portfolio Manager category consists of Associate Portfolio Manager and Portfolio Manager.
- Administrative support category consists of Staff Services Analyst, Associate Governmental Program Analyst, Staff Services Manager I, Staff Services Manager II and Administrative Assistant I.

Investments Branch ethnic diversity

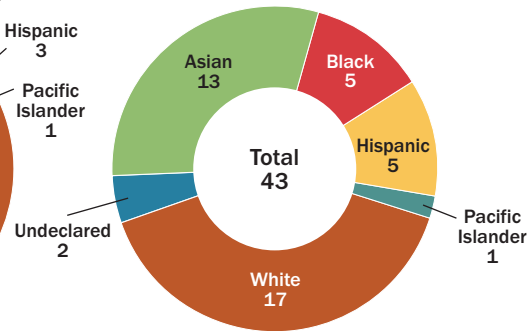
Investment Director



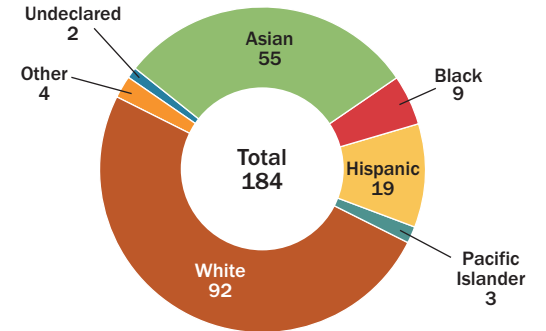
Portfolio Manager



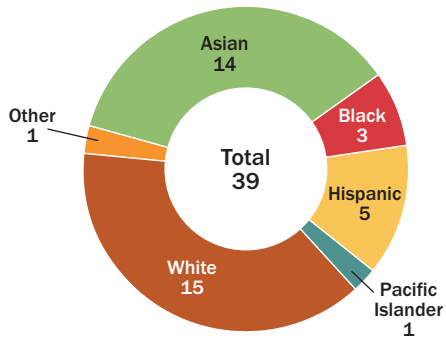
Investment Officer III



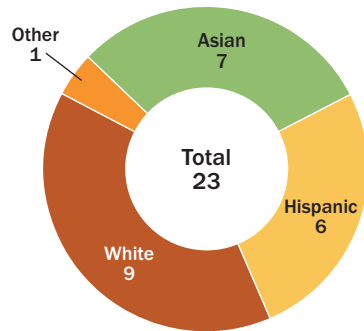
Investments Branch staff total, not including administrative support



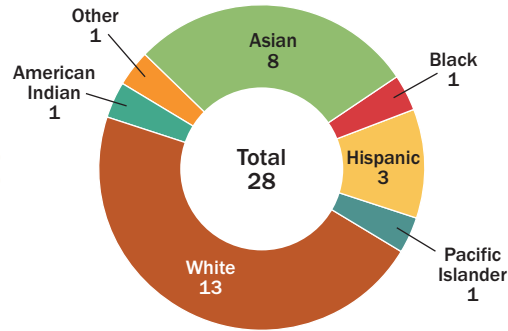
Investment Officer II



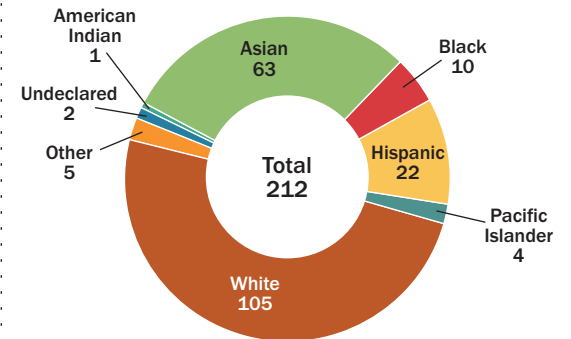
Investment Officer I



Administrative support

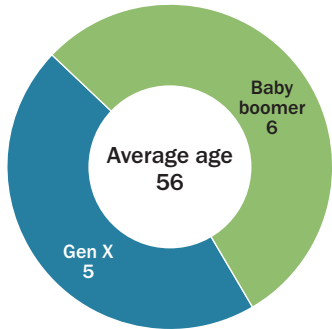


Investments Branch staff total, including administrative support

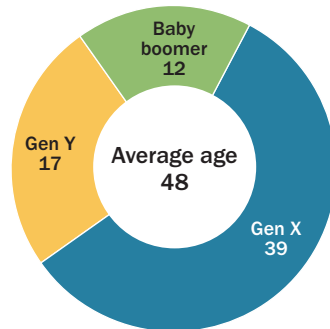


Investments Branch age diversity

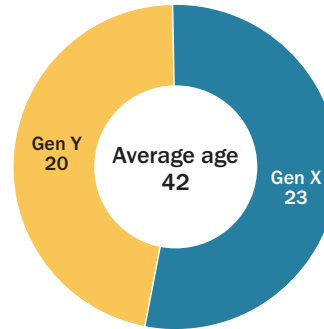
Investment Director



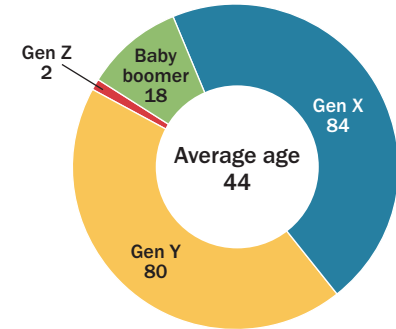
Portfolio Manager



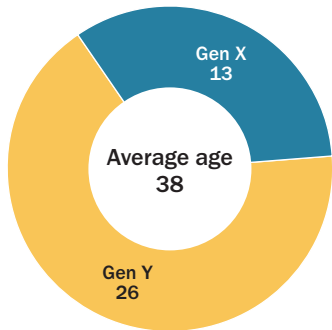
Investment Officer III



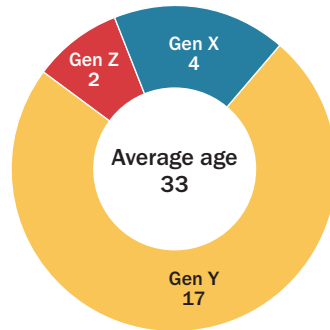
Investments Branch staff total, not including administrative support



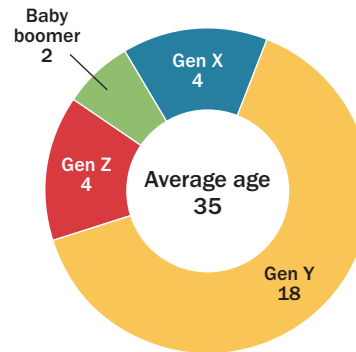
Investment Officer II



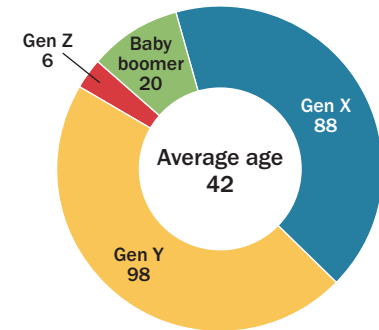
Investment Officer I



Administrative support



Investments Branch staff total, including administrative support



■ Baby boomer
Born between 1946–1964

■ Generation X
Born between 1965–1980

■ Generation Y
Born between 1981–1995

■ Generation Z
Born between 1996–2010

Diverse internal pathways

CalSTRS strives to attract diverse professionals who will drive innovation within our organization. We continue to support staff development through our Student Intern Program and our Investment Mentor Program.

Student Intern Program

Since 2004, the CalSTRS Investments Branch has mentored students from diverse backgrounds and who are underrepresented on Wall Street. In 2021, we continued to build on the success of our Student Intern Program. Through a collaborative partnership between Investments Branch and Human Resources staff, we reached out to hundreds of students at colleges and universities, and ultimately hired eight of the applicants. These students were ethnically and gender diverse, and represented various experience levels, backgrounds and skill sets.

Each student shadowed Chief Investment Officer Christopher J. Ailman for a week and worked with a director, portfolio manager or investment officer from each asset class. Most importantly, a good measurement of students completed the 500 hours of work experience required to take the California Human Resources Investment Officer I exam upon graduation from college.

Investment Mentor Program

Building a recruitment pipeline for investment officers is the first step to maintaining a diverse workforce. The next important step is retaining staff. To build the support and resources needed for staff to thrive, we developed the Investment Mentor Program. This program provides a mentoring relationship between budding investment officers up to portfolio managers—who we call protégés—and experienced investment staff. This mentoring relationship helps cultivate a long and successful career at CalSTRS.

In 2021, 28 protégés were partnered with a mentor over the course of nine months. Through this process, protégés gained a broader perspective of our organization and developed career goals, while mentors benefited from leadership development. All program participants add value and equip others to better succeed in their career goals, which further supports diversity within the Investments Branch and CalSTRS as a whole.

Investment industry events

CalSTRS collaboratively engages with companies in our portfolio, as well as investment leaders on a global scale, to motivate positive momentum. Through hosting our annual Beyond Talk workshop and co-hosting the Diversity Forum, we address barriers to promoting diversity, equity and inclusion in the investment workplace.

Beyond Talk

Created in 2016 by CalSTRS Chief Investment Officer Christopher J. Ailman, Beyond Talk encourages investment industry leaders to move beyond simply talking about gender diversity within the workplace to making tangible change. Beyond Talk is a multiyear workshop where we partner with some of the largest and most influential investment managers in the world.

In February 2021, we virtually hosted our seventh Beyond Talk event, in partnership with Invesco, which included approximately 200 investment industry professionals. The event examined unconscious bias and the use and effects of microaggressions. Attendees of the event were provided tools to encourage positive changes around diversity, equity and inclusion. The demand for this event is strong, and we anticipate more events in the future.

Diversity Forum

CalSTRS, in partnership with CalPERS, hosted the 2021 Diversity Forum, which covered issues such as the impact of the COVID-19 pandemic on human capital, and how bias impacts corporations and financial markets. Each session also discussed different aspects of the investment sector.

The event featured more than 25 speakers from pension funds, the financial industry and regulatory agencies, including the CFA Institute, Nasdaq and the New York Stock Exchange, and was attended by more than 500 investment professionals. For a recap, watch this [video](#).

Diversity Roadshow

CalSTRS is committed to enabling a diverse pool of external investment managers to establish a direct relationship with us. We do this partly by establishing collaborative relationships across a vast network of industry associations. In summer 2021, we embarked on a virtual tour with seven industry organizations: Association of Asian American Investment Managers, Hispanic Heritage Foundation, Investment Diversity Exchange, New America Alliance, National Association of Investment Companies, National Association of Securities Professionals and TOIGO Foundation. The meetings were a space to engage openly, exchange diversity, equity and inclusion initiatives, and identify opportunities to collaborate.



PORTFOLIO COMPANY ENGAGEMENT

Diversity is crucial to companies' long-term financial success. Along with our investment industry partners, CalSTRS' Sustainable Investment and Stewardship Strategies unit continues to influence global markets by steering and inspiring changes in board and workforce diversity.

Investment industry partnerships

AGF Investments

Our Sustainable Investment and Stewardship Strategies unit's investment partners, which include **AGF Investments**, integrate environmental, social and governance factors into investment decision-making and ownership practices to identify key risk and return drivers that contribute to better investment outcomes. AGF's Sustainability Council tracks the influence of its engagement in promoting corporate board and pipeline diversity. Of particular note is AGF's successful advocacy for greater female representation on corporate boards in South Korea, Singapore and China. This has been a positive shift at Southeast Asian portfolio companies over the last 40 years.

Schroders

Asset investment manager, **Schroders**, with £500 billion in assets under management, has actively engaged companies with a particular focus on U.S. boards, specifically technology sector boards. Schroders also heightened their voting policies against directors at companies that lacked diversity and at companies with all-male boards.

PREA Foundation and Urban Alliance

In partnership with the PREA Foundation, CalSTRS has helped expand professional opportunities in the real estate industry for diverse undergraduate students since 2017. In 2021, the CalSTRS Real Estate unit engaged several external managers through the Property Management Pathway Program, which is an internship program sponsored by the **PREA Foundation** and **Urban Alliance** that trains high school students in underserved communities for careers in property management and maintenance. This partnership has helped create a robust pipeline of diverse talent in the institutional real estate industry.

Multipronged approach

CalSTRS is a long-term steward of capital for California's public school educators. We rely on a set of foundational principles, policies and standards for fair and open governance of corporations and use our **Corporate Governance Principles** to guide how we vote at companies' annual general meetings around the world.

For the 2021 proxy season, we held companies accountable by increasing the number of votes against boards with zero women. Over time, CalSTRS, other institutional investors and proxy advisory firms have refined voting policies regarding board diversity. We will continue to review and revise our voting practices to further incentivize portfolio companies to increase gender, racial, ethnic and LGBTQ+ board diversity. In addition to proxy voting, we engage with aligned investors, such as the California Investors for Effective Board Diversity, the Human Capital Management Coalition and the Thirty Percent Coalition, to improve our long-term returns.

Through these engagements, we ask companies to:

- **Commitment policy**

Appoint diverse board members or disclose a matrix of existing board members' skills and backgrounds that includes their diverse characteristics and how they align with the company's forward-looking strategy to create and sustain value.

- **Candidacy pool**

Commit to including qualified candidates of diverse gender, racial and ethnic backgrounds, and the LGBTQ+ community in every search for board nomination in key governance policies, such as the nominating and governance committee charter.

- **Member appointment**

Include suitable nominees from backgrounds beyond the executive suite, such as academia, government and nonprofit organizations, for all new director searches.



California Investors for Effective Board Diversity

In 2015, CalSTRS and CalPERS launched the California Board Diversity Initiative to engage California-headquartered companies who lacked board diversity and had zero women on their corporate boards. This decision was driven by research showing that companies with diverse boards attain better financial results, on average, than those without diversity.

Over the past four years, CalSTRS collaborated with other California pension systems (CalPERS, LACERA and SFERS) to encourage companies to improve their corporate board diversity. The group sent letters to California-based companies in the Russell 3000 Index asking nominating and governance committees to include individuals with diverse backgrounds on their board, inclusive of gender, race, ethnicity and LGBTQ+ identity.

The initiative's efforts were bolstered by the California Legislature passing, and the governor signing, Senate Bill 826 in 2018. This law required the corporate boards of California-based companies to have at least one woman director by the end of 2019.

By mid-2020, 150 companies in the Russell 3000 Index had appointed 186 women to their boards, and only five of the companies originally engaged by the coalition had failed to appoint any women directors. When private engagement with two of these companies failed to produce outcomes, CalSTRS escalated efforts by co-filing shareholder proposals. The three other companies agreed to appoint women to their boards.

Building on its success, the group has now shifted its focus toward companies headquartered outside of California. The renamed California Investors for Effective Board Diversity is currently engaging 74 companies in the S&P 500 index and asking companies to improve board diversity inclusive of gender, race, ethnicity and LGBTQ+ identity.



Human Capital Management Coalition

The Human Capital Management Coalition is a cooperative effort among a diverse group of influential institutional investors to further elevate human capital management as a critical component in company performance. The HCMC is led by the UAW Retiree Medical Benefits Trust, with CalSTRS co-leading the group of 35 institutional investors representing more than \$6.6 trillion in assets under management.

The HCMC successfully petitioned the Securities and Exchange Commission to issue a rule-making proposal on specific human capital metrics that are material to a company's long-term sustainability, and continued to engage with the SEC on the matter. The HCMC advocates for a hybrid approach to reporting that combines universal mandatory metrics with principles-based, industry and company specific metrics.

Based on empirical research, the HCMC supports these mandatory metrics be disclosed by all companies:

- **Workforce composition**
Number of people employed by the issuer, broken down by full-time and part-time employees, along with contingent workers who produce the products or services, such as independent contractors and temporary employees.
- **Workforce costs**
Total cost of the issuer's workforce, including wages, benefits and other transfer payments, plus other employee expenses.
- **Workforce turnover**
Staff resignations or similar workforce stability metric.
- **Workforce diversity data**
Gender, racial and ethnic diversity across different levels of seniority.



Thirty Percent Coalition

The **Thirty Percent Coalition** is composed of CalSTRS, 40 other institutional investors, and 12 treasurers and comptrollers, and has more than \$8 trillion in assets under management. The coalition encourages companies with one or zero women board members to embrace diversity to secure needed skill sets for long-term strategy and business plans.

The Thirty Percent Coalition's Adopt a Company campaign's call to action for the upcoming fiscal year includes:

- Reiterate the coalition's vision: For senior leadership and board of directors to reflect the gender, racial and ethnic diversity of the U.S. workforce.
- Increase focus on women of color.
- Integrate diversity in senior leadership.
- Develop a matrix to provide enhanced disclosure of a board's composition in a company's proxy statements, which will allow investors to make more informed decisions when electing directors to a board.

The Adopt a Company campaign sent 250 letters to companies. Of those, 127 companies appointed women to their boards. Of those, 65 companies with all-male boards appointed a woman, most for the first time, and 62 companies appointed a second woman. Additionally, 28 shareholder proposals on board diversity were filed, with 22 withdrawn based on positive agreements. Overall, 517 companies appointed at least one woman to their boards since the campaign launched in 2012.



PORTFOLIO MANAGEMENT

As of December 31, 2021, the CalSTRS Investment Portfolio had \$327.6 billion total assets under management. This report details the assets under management and percentages of our Global Equity, Private Equity, Real Estate, Fixed Income and Inflation Sensitive portfolios of the total fund.

Emerging manager investments

Our effort to expand diversity in investment management began over 32 years ago when, in 1989, we allocated our first commitment to emerging managers. We continue to engage, educate and set clear expectations around our standards for emerging managers. In 2021, we graduated a set of existing emerging managers and committed capital to new emerging managers.

Global Equity

The primary objective of CalSTRS' Global Equity's trading desk is to seek best execution. The desk actively uses diverse or emerging broker-dealers to execute internal portfolio order flow and traded over \$2 billion in equities with such firms in 2021.

Private Equity

CalSTRS' Private Equity has made commitments to new and emerging fund-of-fund managers in excess of \$2 billion.

Real Estate

Emerging managers that have successfully graduated from the CalSTRS Real Estate emerging manager program is approaching \$10 billion. We continue to grow the vibrant pool of real estate talent.

Fixed Income

CalSTRS' Fixed Income Liquidity Portfolio traded \$5.6 billion, or 3.7% of trades, with emerging broker-dealers.

Inflation Sensitive

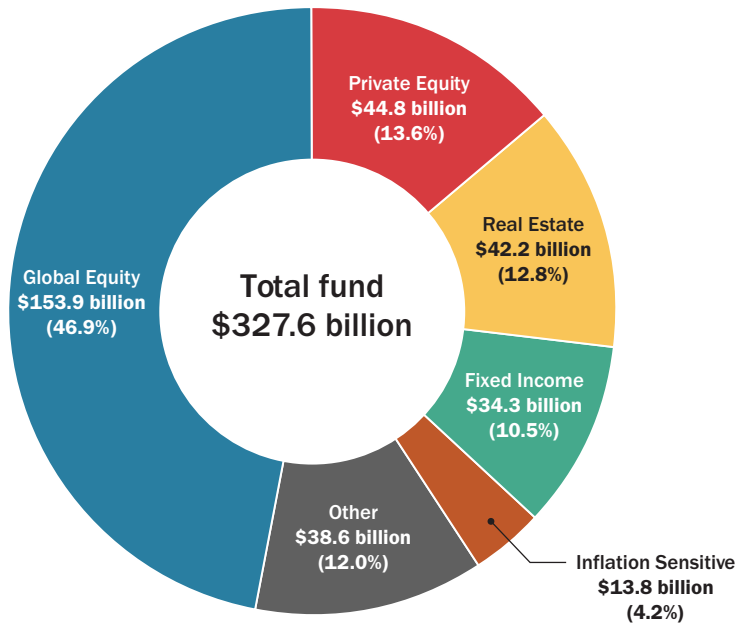
CalSTRS' Emerging Manager Infrastructure Program committed \$150 million to a new emerging manager focused on domestic infrastructure projects.

Portfolio management

Total fund

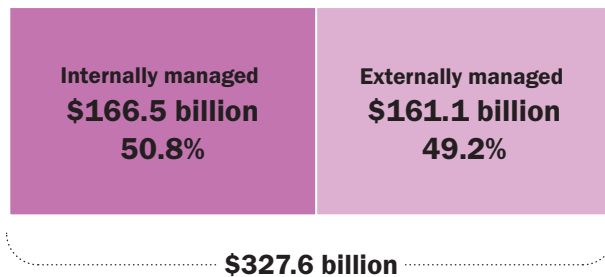
Assets under management

(percentage of total fund)



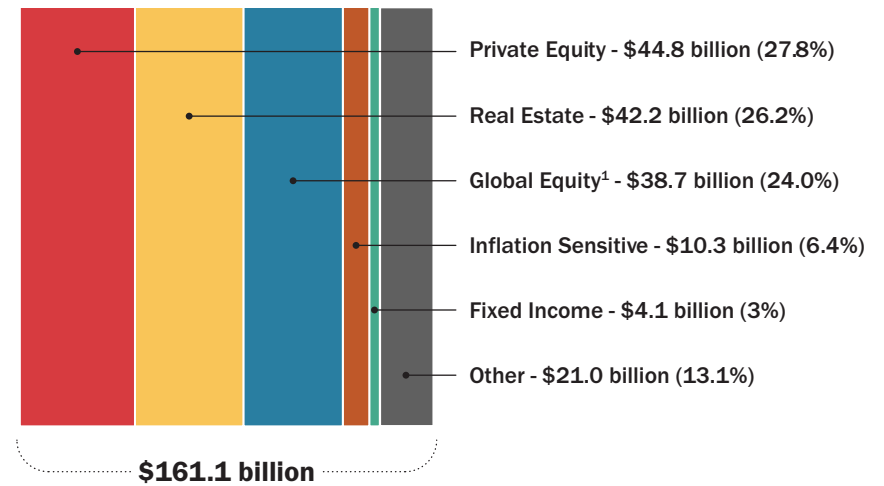
Assets under management

(percentage of total fund)

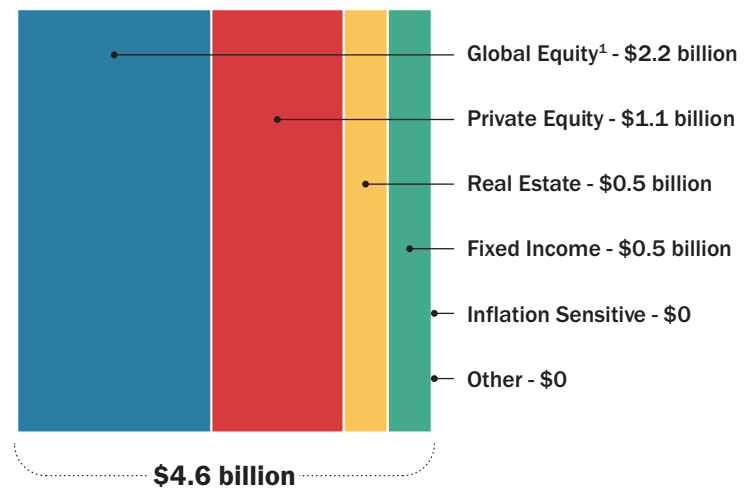


Assets under external management

(AUM as a percentage of external management)



Assets under emerging managers

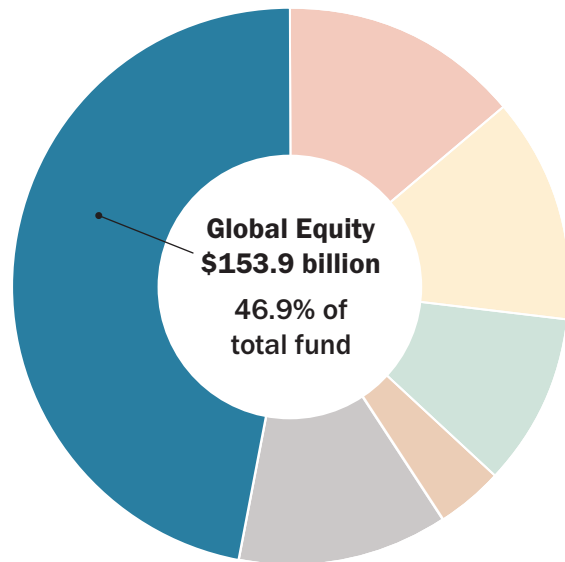


¹ Includes assets from our Sustainable Investments and Stewardship Strategies unit.

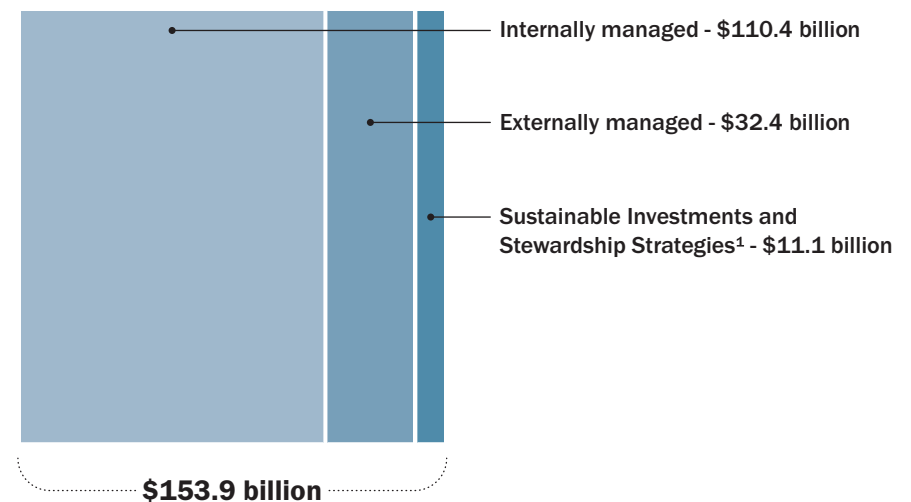
Portfolio management

Global Equity

Global Equity total portfolio AUM



Global Equity total portfolio composition



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2021.

Global Equity emerging managers approach

Within the CalSTRS Global Equity Portfolio, diversification is a key consideration in terms of achieving returns and mitigating risk. We invest with developing managers to seek alpha potential, to provide more opportunities for newer and smaller firms, and to access new talent and future manager capacity. An additional goal is to provide managers that have delivered good performance and have sound business operations an opportunity to move toward a direct relationship with us when our portfolio needs a specific investment strategy or style.

To complement internal resources and optimize staff efforts to meet our investment goals, we work with three manager-of-managers who design manager portfolios to fulfill a U.S. small cap mandate and non-U.S. developed markets mandates.

Global Equity emerging manager qualifications

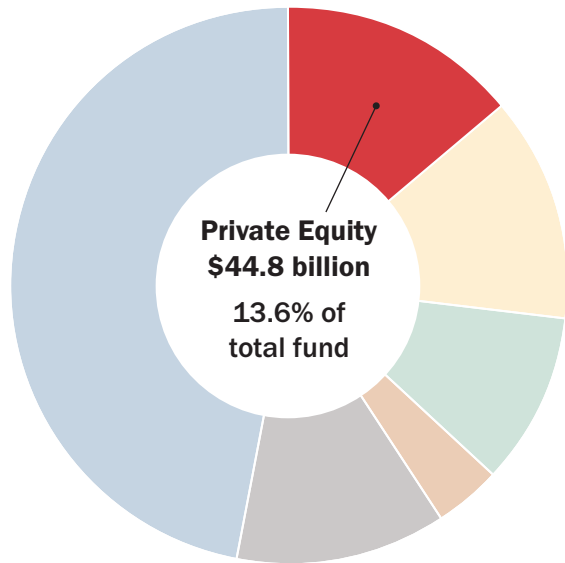
In order to qualify as a Global Equity emerging manager, firms must:

- Have \$5 billion or less in assets under management.
- Have a maximum of 50% nonemployee ownership.
- Be a legally structured entity with a Corporate Tax Identification Number.
- Be a registered investment advisor or must qualify for exemption from registration.

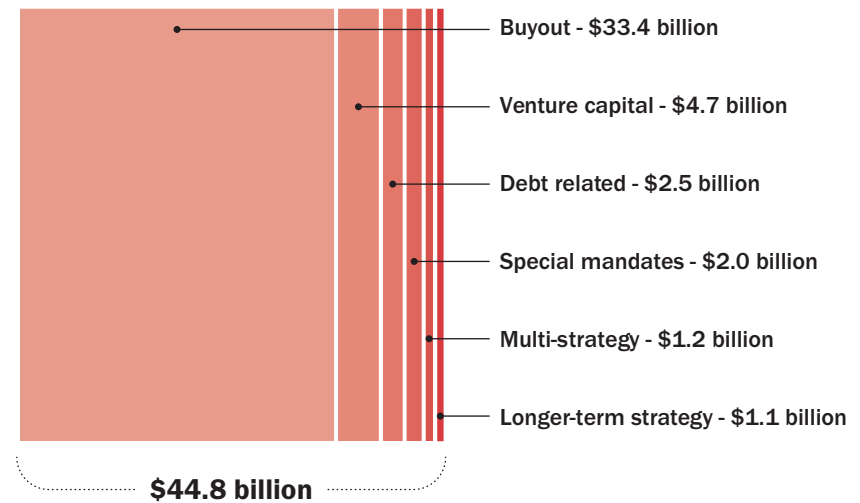
Portfolio management

Private Equity

Private Equity total portfolio AUM



Private Equity total portfolio composition



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2021.

Private Equity emerging managers approach

The Private Equity Portfolio selection is biased toward partnerships with experienced and stable management teams, solid track records, appropriately sized funds and high levels of side-by-side general partner commitments. Strong alignment of interests and utmost integrity are requisite. One element of the Private Equity Program's strategy focuses on investing with new and emerging managers and in underserved markets via HarbourVest Partners, Invesco Private Capital and Muller & Monroe Asset Management. Commitments made through these fund-of-funds are generally less than \$20 million each.

Private Equity emerging manager qualifications

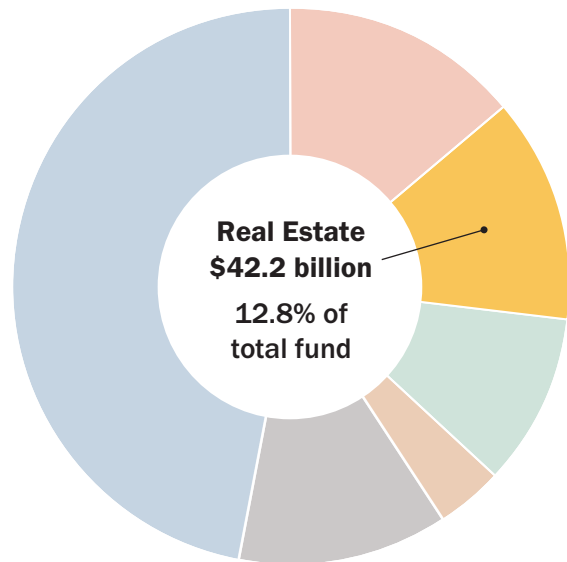
In order to qualify as a Private Equity emerging manager, firms must:

- Be a legally structured entity.
- Have a private placement memorandum in place, be raising first, second or third institutional fund and not exceed certain fund size limits.

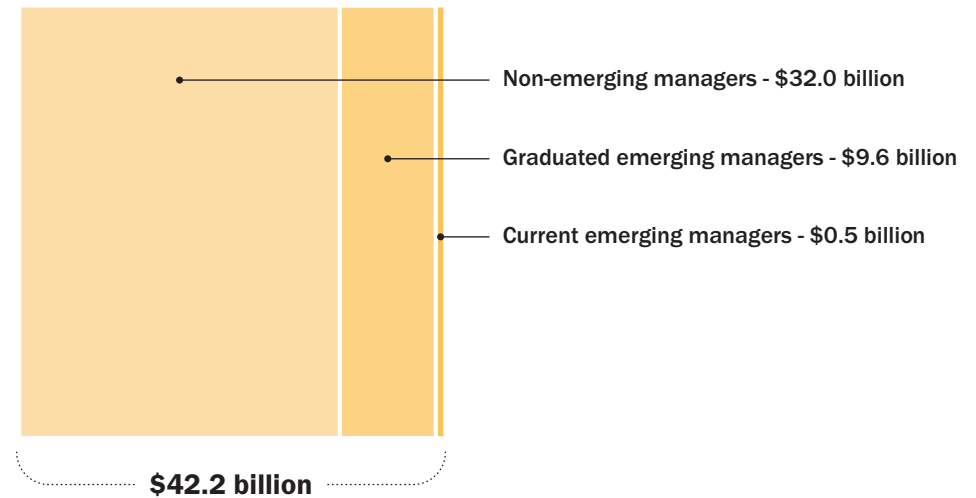
Portfolio management

Real Estate

Real Estate total portfolio AUM



Real Estate total portfolio composition



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2021.

Real Estate emerging managers approach

CalSTRS' Real Estate emerging manager program has engaged with smaller and newer real estate investment management firms providing them with access to institutional capital. CalSTRS has supported a variety of emerging managers with diverse strategies and investment profiles. We continue to seek new and diverse talent for the CalSTRS emerging manager program, supporting the next generation of real estate investment management.

Real Estate emerging manager qualifications

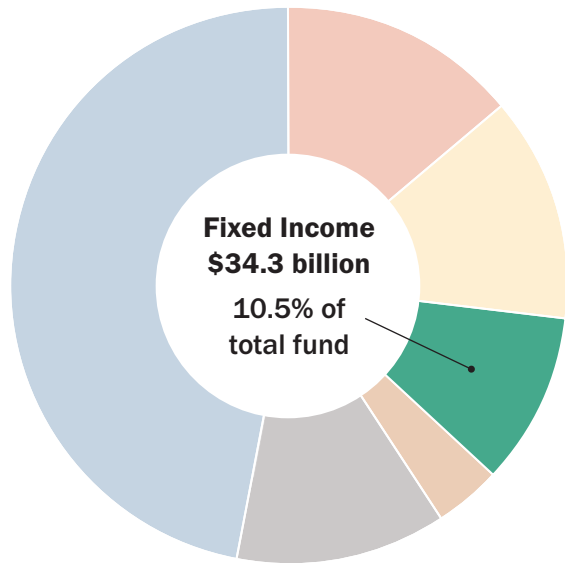
An emerging manager is at an early stage within its life cycle (generally, raising its first, second or third institutional fund or separate account/joint venture). In order to qualify as a Real Estate emerging manager, firms:

- Must manage less than \$2 billion of gross AUM across all clients, at the inception of the relationship.
- Must have latest fund offerings that are not too large (generally, seeking less than \$500 million of equity) and should have relatively targeted strategies.
- Should have at least 50% of their economic interests owned by principals and employees.

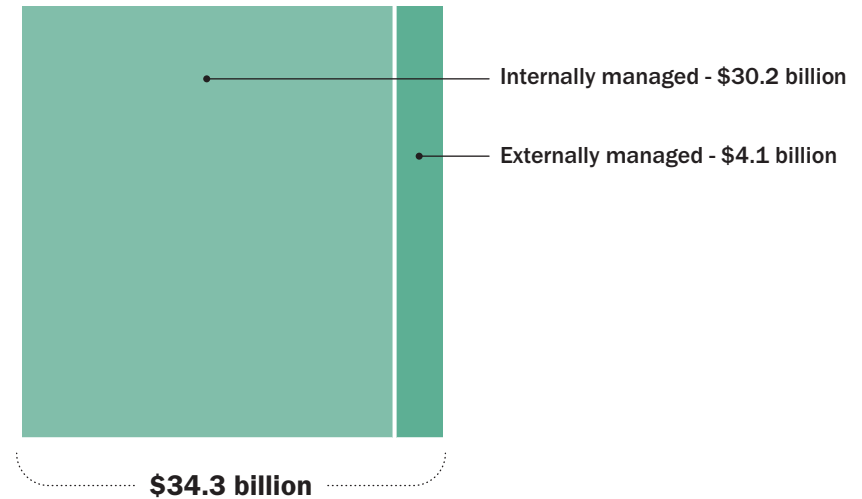
Portfolio management

Fixed Income

Fixed Income total portfolio AUM



Fixed Income total portfolio composition



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2021.

Fixed Income emerging managers approach

Based on our belief that investment opportunities can appear in large, small and start-up firms, the Fixed Income unit has established a process and a team of investment professionals to review all new investment proposals. We review each proposal for strategic fit, risk and alpha opportunity. This process is designed to facilitate manager access that meets procurement parameters, and serve as a way for us to assess new ideas and market conditions. In addition, we have an open door policy of using diverse broker-dealers for trade executions and currently conduct business with 12 emerging brokers. Our Liquidity Portfolio traded \$5.6 billion, or 3.7% of trades, with emerging broker-dealers.

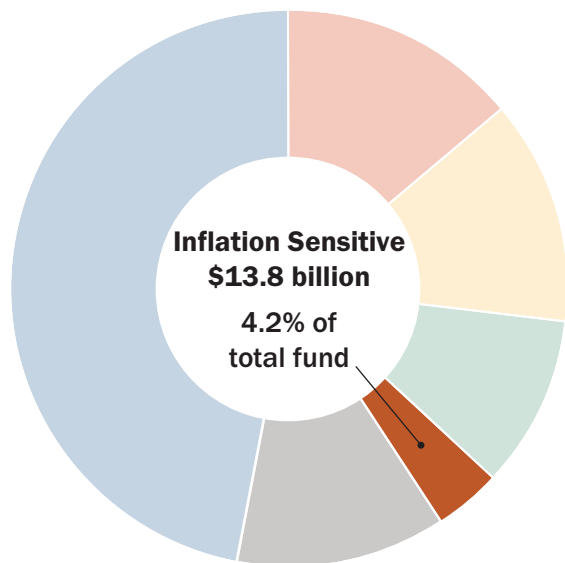
Fixed Income emerging manager qualifications

Fixed Income does not have a dedicated emerging manager program. However, the selection process has evolved over time to facilitate the consideration of a broad universe of managers regardless of assets under management, based on quantitative and qualitative factors that indicate a successful asset management business partner.

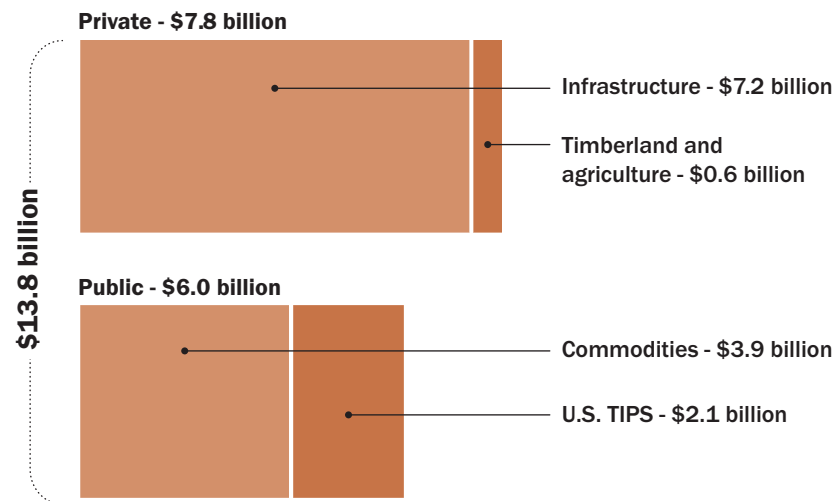
Portfolio management

Inflation Sensitive

Inflation Sensitive total portfolio AUM



Inflation Sensitive total portfolio composition



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2021.

Inflation Sensitive emerging managers approach

The CalSTRS Inflation Sensitive unit is working to construct a portfolio with fund managers from diverse backgrounds. Because this asset class is relatively new to the investment industry, there are a limited number of asset management companies with meaningful track records. Consistent with the investment industry at large, a lower ratio of these management companies is owned or operated by women or ethnic minorities.

Our ability to hire emerging managers is further constrained by scale. Because of resource limitations and the program's size, we must make investment commitments large enough to efficiently deploy capital. The demand for inflation-linked investments is a growing global trend and draws investment managers on a worldwide scale. As the Inflation Sensitive Portfolio expands, we expect to attract and include exceptional managers with diverse teams. In 2021, the Inflation Sensitive team committed \$150 million to a new emerging manager focused on domestic infrastructure projects.

Inflation Sensitive emerging manager qualifications

To qualify as an Inflation Sensitive emerging manager, a firm must:

- Have less than \$3 billion in total AUM.
- Be raising its first, second or third vehicle. This vehicle may be no larger than \$1.5 billion.
- Be headquartered in the United States.
- Be a legally structured entity with a Corporate Tax Identification Number.
- Have a private placement memorandum for the investment vehicle being raised.
- Be at least 45% employee owned.

In addition, the partners of the firm must have a demonstrable track record of managing investments on behalf of institutional investors.

CALSTRS®
HOW WILL YOU SPEND YOUR FUTURE?