



Investment Committee

Item Number 4b – Open Session

Subject: Diversity in the Management of Investments

Presenter(s): LaShae Badelita

Item Type: Information

Date & Time: May 5, 2022 – 10 minutes

Attachment(s): Attachment 1 – Diversity in the Management of Investments: Annual Progress Report (2021)

PowerPoint(s): Diversity in the Management of Investments

POLICY

The Diversity in the Management of Investments report is covered under the reporting and monitoring requirements of the overall [CalSTRS Investment Policy and Management Plan](#).

PURPOSE

This is an information item to present to the Investment Committee updates on:

- Annual progress of the goals and objectives within the Diversity in the Management of Investments strategy; and
- The strategic roadmap to develop and implement the future goals and objectives within the Diversity in the Management of Investments strategy.

BACKGROUND

Diversity in the Management of Investments

Diversity is a [core value](#) of CalSTRS: “*Strength: We ensure the strength of our System by embracing a diversity of ideas and people.*” 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 commitment to emerging managers in the public equity asset class. In 2002, CalSTRS launched a diversity effort in Private Equity called the New & Next Generation Fund of Funds. 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, where many of the initiatives and goals have been completed by various Investment Branch programs to date.

In July 2021, staff presented its [annual update](#) on CalSTRS Diversity in the Management of Investments to the Investment Committee.

DISCUSSION I

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 2021 annual progress report](#) (Attachment 1) highlights accomplishments in calendar year 2021 and is catalogued into three themes: (1) Internal Investments Branch, (2) Portfolio Company Engagement and (3) Portfolio Management.

(1) Internal Investments Branch. *Workforce diversity brings advantages to organizations through increased profitability, enhanced creativity, stronger governance, and problem-solving abilities.*

- Investment Branch Diversity Definition: CalSTRS Investments Diversity Steering Committee, in collaboration with CalSTRS Human Resources and Public Affairs, updated the [CalSTRS Investments diversity definition](#).
- Diversity Officer: In 2021, CalSTRS Investments hired its first investment diversity officer – who applies investment expertise to develop and implement the diversity in the management of investment strategy. The diversity officer also leads internal and external diversity efforts for the Investments Branch.
- Internal Talent Management: CalSTRS Investments continued its efforts to build a highly qualified diverse talent workforce. As of 12/31/2021, CalSTRS Investments total staff count was 212, where 45 percent self-identify as female gender and 50 percent self-identify as ethnically diverse.
- Investment Mentor and Student Intern Programs: CalSTRS Investments continued to build and support a diverse pipeline of investment professionals. The Investments Branch successfully selected eight students to participate in the summer internship program. The Investments Branch also supports an in-house mentorship program, where every year mentees are paired with mentors to help promote a healthy and collaborative culture.
- Investment Industry Events: CalSTRS Investments hosted web-based events addressing diversity, equity, and inclusion within investment industry, including CalSTRS Beyond Talk with more than 100 attendees and the CalSTRS/CalPERS Diversity Forum with more than 400 attendees.

- Industry Steering and Advisory Boards: CalSTRS Investments continued to contribute insight in support of diversity, equity, and inclusion within the investment industry. As a member of the CFA Institute Inclusion & Diversity Steering Committee, CalSTRS contributed to the development of the [CFA Institute Diversity, Equity and Inclusion Code \(USA and Canada\)](#) and [published a letter of support](#).

(2) 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.*

- Corporate Board Diversity: CalSTRS Investments continued to promote gender diversity on corporate boards through its engagements with coalitions of aligned investors. As a member of the Thirty Percent Coalition, CalSTRS contributed to the “Adopt a Company” campaign. In 2021, the Coalition engaged 250 companies. Of those, 127 companies appointed women to their boards. Since the launch of the campaign, 517 companies have appointed at least one woman to their boards.

(3) Portfolio Management. *We remain committed to nurturing our relationships with emerging managers and diverse managers within the industry.*

- Investment Programs: CalSTRS remains 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. Additionally, asset classes accomplished the following:
 - 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 a pool of real estate talent.
 - Fixed Income: CalSTRS Fixed Income Liquidity Portfolio traded \$5.6 billion, or 3.7 percent 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.

DISCUSSION II

Strategic Roadmap

In February 2021, CalSTRS Investments Diversity Officer developed a strategic roadmap for the Diversity in the Management of Investments strategy. The strategic roadmap has four core

objectives and underlying guided actions toward 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 continue to embrace, expand, and deepen impact of diversity within the investment management of the CalSTRS investment portfolio.

In July 2021, staff received the [Investment Committee's support](#) of the strategic roadmap. To date, two of the four core objectives have been completed.

Strategic Roadmap: Core Objectives			
Core Objective		Purpose	Status
I	Clarity	Map the range of current activity on Diversity, Equity, and Inclusion	<i>Completed</i>
II	Priorities	Identify the areas of focus, sequence & coordination across the portfolio	<i>Completed</i>
III	Relevance	Establish opportunities where CalSTRS has capacity and potential impact on sustainable risk & return	<i>In Progress</i>
IV	Implementation	Plan delivery of key components, with reporting and targets integrated into strategies	<i>Not Started</i>

Based on the observations of core objectives I and II, CalSTRS Diversity in the Management of Investment strategy is aligned with other institutional investors viewed as active or as leaders in the area of DEI.

- CalSTRS Investments has an established definition of diversity.
- CalSTRS Investments has integrated diversity into its investment policies – including the CalSTRS Investment Policy and Management Plan.
- CalSTRS Investments has a collaborative leadership in all regards to our diversity.
- CalSTRS Investments promote total fund level and asset class activities focused on diversity, including talent management, training opportunities, emerging manager investments, company engagement and industry wide participation.
- CalSTRS Investments continue to voluntarily publish an annual report noting its diversity activities and accomplishments.

NEXT STEPS

Strategic Roadmap

CalSTRS Investments will: (1) continue to make progress on its strategic roadmap for the Diversity in the Management of Investments strategy and (2) report major milestones to the board on a timely basis.