



# DIVERSITY

in the Management of Investments

**CALSTRS**  
HOW WILL YOU SPEND YOUR FUTURE?

2020 ANNUAL PROGRESS REPORT



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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. Building teams that exhibit diversity, equity and inclusion are essential in achieving our financial and return objectives. It's imperative that our internal investment team, as well as our investment partners and the company boards in which we invest, reflect the rich diversity of the members we serve.

In calendar year 2019, we took steps to achieve our diversity goals within our organization and in the companies we invest. We continued to build and support a diverse pipeline of investment professionals through our Student Intern Program and our Investment Mentor Program. We established an internal diversity steering committee consisting of leaders across the Investments Branch, whose first task included examining and redefining diversity in investments. We also began the process of recruiting and hiring a diversity-focused investment officer who will be responsible for managing and coordinating our investment management diversity and inclusion strategy.

We continued our long record of promoting gender diversity on corporate boards through our engagements with coalitions of other like-minded investors. In California alone, 20 out of 25 companies engaged by our California coalition appointed their first woman to their board of directors. We will continue our work to improve corporate board disclosures around diversity and ensure new board members have skill sets and perspectives that may be absent in corporate board rooms.

We hosted events with the goal of addressing barriers to promoting diversity and inclusion in the investment workplace. Our Diversity Forum, hosted along with the California Public Employees' Retirement System, was attended by more than 400 industry professionals, and our annual Beyond Talk workshop addressing unconscious bias was attended by more than 100 professionals.

We continue to support emerging managers within our portfolio and remain committed to nurturing our relationships with these managers. We intend to equip a diverse pool of investors with the proper tools and experience needed to establish a direct investment relationship with us. Our emerging manager investments represent \$15.5 billion—more than 15% of our externally managed investments.

We will continue to build on these efforts and find new ways to strengthen our operations in order to attract highly qualified talent to join our workforce. We know our diversity of thought, experience and talent is what will make us resilient in an ever-changing investment landscape.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Ailman', written in a cursive style.

California State Teachers' Retirement System



## MISSION

Securing the financial future and sustaining the trust of California's educators

## VISION

**Your reward** – A secure retirement  
**Our reward** – Getting you there

## CORE VALUES

The CalSTRS core values are a set of attitudes, beliefs and behaviors that define CalSTRS and our employees.



**Customer service** – We never compromise on quality as we strive to meet or exceed the expectations of our customers.



**Accountability** – We operate with transparency and accept responsibility for our actions.



**Leadership** – We model best practices in our industry and innovate to achieve higher standards.



**Strength** – We ensure the strength of our system by embracing a diversity of ideas and people.



**Trust** – We conduct ourselves with integrity, acting ethically in every endeavor.



**Respect** – We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty and courtesy.



**Stewardship** – We recognize our fiduciary responsibility as the foundation for all decision-making.

## INVESTMENTS BRANCH CORE VALUES

The CalSTRS Investments Branch core values align with the organization's 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 STAFF



## INTERNAL DIVERSITY

### The strength of CalSTRS Investments Branch staff

**We believe** a diverse workforce leads to better financial performance and business outcomes. Diversity in the management of investments at CalSTRS is accomplished with an investment staff of 176 individuals from various ethnic and cultural backgrounds.

Part of our long-term investment strategy is to enable our diverse investment staff to manage more assets in house. This provides the benefit of reducing costs and allowing staff greater control of the CalSTRS Investment Portfolio and crucial

investment decisions. As we look ahead to implement the CalSTRS Collaborative Model, we expect the number of staff to increase as a larger proportion of the portfolio becomes managed internally. This significant growth further emphasizes the importance of attracting, recruiting and retaining highly qualified staff. We will continue to look for innovative solutions to build an inclusive culture that will draw the best talent from the investment industry.

The CalSTRS Collaborative Model is an investment strategy to manage more assets internally—to reduce costs, control risks and increase expected returns—and leverage our external partnerships to achieve similar benefits.

We apply this model across all asset classes with varying methods due to the distinct market forces, regulatory environments, and competitive advantages and challenges affecting each of them.

## 2019 Investments Branch demographic information: A gender diverse workforce

### Notes on classification titles:

Investment Director category consists of:

- » Chief Investment Officer, Deputy Chief Investment Officer, Investment Director and Investment Operations Director

Portfolio Manager category consists of:

- » Associate Portfolio Manager and Portfolio Manager
- » CEA (Public Engagement Manager)

Administrative support category consists of:

- » Staff Services Analyst, Associate Governmental Program Analyst, Staff Services Manager I, Staff Services Manager II
- » Administrative Assistant I, Executive Assistant

Source: CalSTRS personnel data as of December 31, 2019.

### Investment Director



### Portfolio Manager



### Investment Officer III



### Investment Officer II



### Investment Officer I



### Administrative support



### Investments Branch staff total, not including administrative support

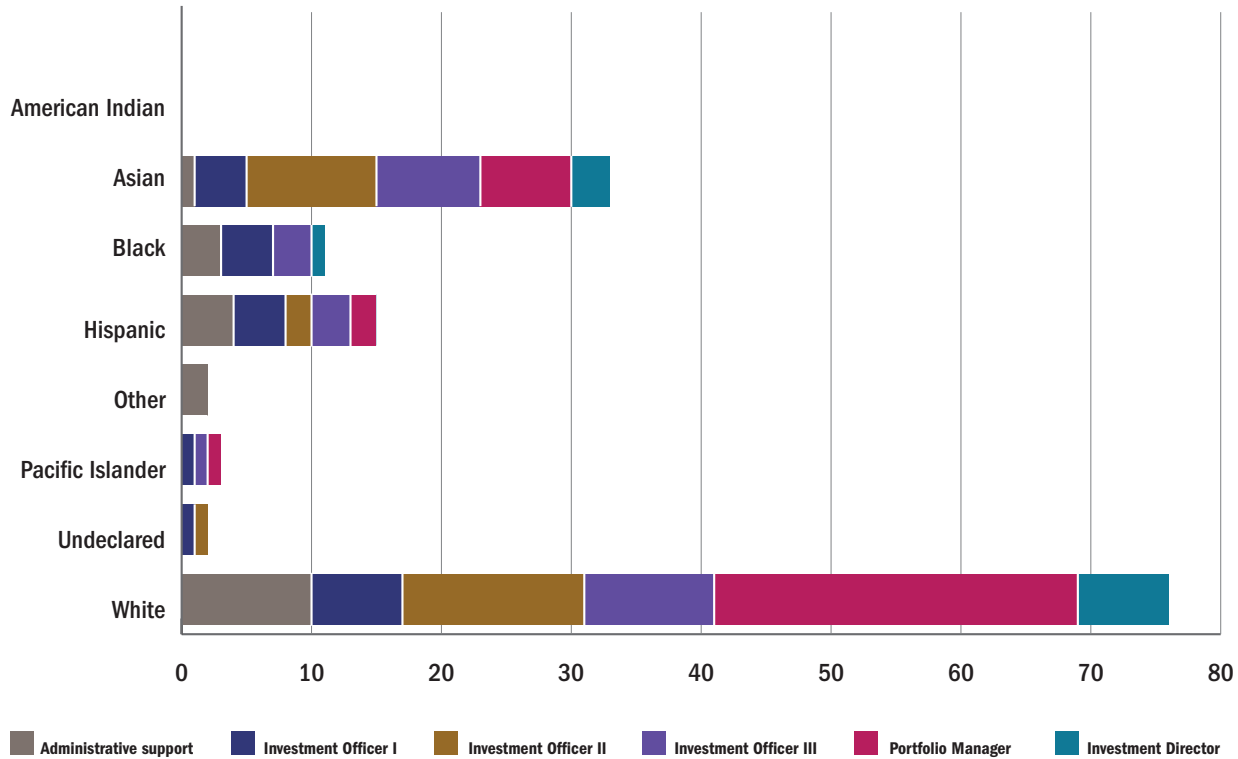


### Investments Branch staff total, including administrative support





## 2019 Investments Branch demographic information: An ethnically diverse workforce



Ethnicity breakdown of Investments Branch staff									
	American Indian	Asian	Black	Hispanic	Other	Pacific Islander	Undeclared	White	Totals
Investment Director	0	5	1	0	0	0	0	7	13
Portfolio Manager	0	12	1	2	0	1	0	31	47
Investment Officer III	0	15	2	4	0	1	0	17	39
Investment Officer II	0	9	2	1	0	0	2	9	23
Investment Officer I	0	9	2	6	0	1	0	10	28
Administrative Support	0	7	1	4	2	0	0	12	26
<b>Investments Branch staff total, not including administrative support</b>	<b>0</b>	<b>50</b>	<b>8</b>	<b>13</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>74</b>	<b>150</b>
<b>Investments Branch staff total, including administrative support</b>	<b>0</b>	<b>57</b>	<b>9</b>	<b>17</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>86</b>	<b>176</b>

Source: CalSTRS personnel data as of December 31, 2019.


NOTE: The Asian ethnicities include, but are not limited to, those who self-report as Asian Indian, Cambodian, Chinese, Filipino, Japanese, Korean, Laotian and Vietnamese. The Pacific Islander ethnicities include, but are not limited to, those who self-report as Guamanian, Hawaiian and Samoan.

## 2019 Investments Branch demographic information: An age diverse workforce

Staff count, state service and age breakdown of Investments Branch staff					
Class title	Number of staff	Average years state service	Average age	Average age female	Average age male
Investment Director	13	18.3	52.8	49.3	57.0
Portfolio Manager	47	14.4	49.5	49.6	49.5
Investment Officer III	39	10.7	41.8	44.8	39.8
Investment Officer II	23	4.5	36.3	34.3	38.5
Investment Officer I	28	6.1	36.6	36.6	36.6
Administrative support	26	6.9	35.3	36.1	29.3
<b>Investments Branch staff total, not including administrative support</b>	<b>150</b>	<b>11.3</b>	<b>43.4</b>	<b>42.8</b>	<b>45.1</b>
<b>Investments Branch total, including administrative support</b>	<b>176</b>	<b>10.1</b>	<b>42.2</b>	<b>41.1</b>	<b>43.3</b>

Source: CalSTRS personnel data as of December 31, 2019.





## STUDENT INTERN PROGRAM

**Since 2004**, the CalSTRS Investments Branch has mentored students from diverse backgrounds and who are underrepresented on Wall Street.

In 2019, 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 at the community college, undergraduate and postgraduate levels.

Out of 129 total applicants, we interviewed 23 students and hired 10 finalists (two community college students, two graduate students and six undergraduate students) as part of the Student Intern Program. These students were ethnically and gender diverse, and represented various experience levels, backgrounds and skill sets.

Each student shadowed our 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 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 Mentorship Program. This program provides the opportunity for experienced investment staff to develop a mentoring relationship with budding investment officers up to portfolio managers, who we call protégés, that inspires a long and successful career at CalSTRS.

Designed to support both protégés and mentors in achieving their career goals, protégés gain a broader perspective of the organization while mentors benefit from leadership development.

Protégés develop career goals while actively participating and maintaining regular contact with mentors over the course of nine months. Mentors provide guidance and honest feedback, and share their own professional successes and failures.

All program participants add value and equip others to better succeed in their career goals. This further supports diversity within the Investments Branch and CalSTRS as a whole.

## INVESTMENT INDUSTRY EVENTS

Diversity and inclusion:  
The power of difference



### **Diversity Forum**

CalSTRS, in partnership with CalPERS, hosted the 2019 Diversity Forum in Sacramento, an event that brought together investment and corporate executives to discuss how to better capitalize on the abilities of the diverse modern workforce. This two-day forum featured experts from McKinsey & Company, CFA Institute, Blackstone, The Carlyle Group, Goldman Sachs, State Street Global Advisors, JP Morgan Chase and more. Over 400 professionals attended the event to learn and network with others who share the same goal of furthering diversity and inclusion within the workplace.

### **BeyondTalk**

Beyond Talk, created in 2016 by CalSTRS Chief Investment Officer Christopher J. Ailman, is an event that encourages investment industry leaders to move beyond simply talking about gender diversity within the workplace to making tangible change. In July 2019, we hosted in partnership with Alliance Bernstein, our sixth Beyond Talk event, which included more than 100 investment industry professionals. The event examined unconscious bias and the use and effects of microaggressions. Attendees of the event participated in frank discussions and were provided tools to encourage positive changes around diversity and inclusion. Beyond Talk is a multiyear program where we partner with some of the largest and most influential investment managers in the world. The demand for this event is strong and we anticipate more events in the future.



# PORTFOLIO COMPANY ENGAGEMENT



## WHY DIVERSITY MATTERS

**Diversity still matters.** The most recent report by McKinsey & Company, [Diversity Wins: How Inclusion Matters](#), shows not only that the business case for diversity remains robust, but also that the relationship between diverse executive teams leading companies and the likelihood of financial outperformance has strengthened over time. The most diverse companies are now more likely than ever to outperform less diverse peers on profitability. In the case of ethnic and cultural diversity, the findings are equally compelling: in 2019, top-quartile companies outperformed those in the fourth quartile by 36% in profitability.

Diversity is more than gender, race and ethnicity. In today's era of globalization, we also consider religious and political beliefs, socioeconomic backgrounds, cultures, sexual orientation, gender identity, disabilities and educational experiences. Companies are discovering that by supporting and promoting a diverse and inclusive workplace, they are gaining benefits that go beyond optics. A truly diverse organizational culture is not just good for employees, it's good for business.

Substantial research illustrates that diversity brings advantages to an organization: increased profitability, enhanced creativity, stronger governance and better problem-solving abilities. By 2025, 75% of the global workforce will consist of [millennials](#), which means this group will occupy the majority of leadership roles over the coming decade. This strata will be responsible for making important decisions that affect workplace cultures and people's lives. In the [2019 Deloitte Global Millennial Survey](#), of 13,416 millennials surveyed across 42 countries, 32% stated that businesses should improve society by having a diverse workforce and reducing inequality through diversity initiatives.

# CalSTRS ADVOCACY THROUGH INVESTMENT INDUSTRY PARTNERSHIP



## Partnering with Sustainable Investment and Stewardship Strategies' investment managers: Influencing global markets

CalSTRS' Sustainable Investment and Stewardship Strategies 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 and 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 notable change and positive shift at Southeast Asian portfolio companies over the last 40 years.

### Schroders

Assess investment manager, [Schroders](#), with £500 billion in assets under management, has actively engaged over 200 companies with a particular focus on U.S. boards and technology sector boards. After reviewing their board diversity efforts, Schroders found that 49% of their targeted companies added at least one woman to their board. Within their U.S.-focused engagement, eight out of ten sectors saw changes at 50% or more of their companies. Schroders also heightened their voting policies against directors at companies that lacked diversity and at companies with all-male boards.

## CalSTRS proxy votes and governance principles

CalSTRS is a long-term steward of capital for California teachers. 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.

In 2019, after multiple years of board engagements, we voted against companies' nominating and corporate governance committee members with zero women on their board. We plan to elevate this activity to vote against all directors with zero women on their boards in upcoming years. As lack of progress in board diversity has continued, more and more institutional investors are addressing the issue through their proxy voting practices.





## **CalSTRS' multi-prong approach to promoting diversity**

CalSTRS continues to engage the companies we invest in to promote greater diversity on corporate boards. We focus on board composition, including the skill sets of directors and how members are nominated and evaluated. Using our proxy voting guidelines and corporate governance principles, we engage alongside other like-minded investors and believe this approach increases our ability to improve long-term returns resulting from enhanced diversity.

These partnerships include:

- California Board Diversity Initiative
- Thirty Percent Coalition
- Cross-Border Coalition of 5: Board Effectiveness and Diversity Initiative
- Human Capital Management Coalition

Through these engagements, we ask companies to:

1. Assess and disclose in their proxy their board's current skill sets and backgrounds and how those align with the company's long-term strategy to create and sustain value.
2. Affirm their commitment to identifying qualified candidates of diverse gender, racial and ethnic backgrounds for board nomination in board governance policies, such as the nominating and governance committee charter.
3. Incorporate procedures in which women and diverse racial and ethnic backgrounds are identified for consideration in every search for a board nominee—a practice commonly known as the “Rooney Rule” after its successful use in the National Football League.
4. Attest in governing documents that director searches will consider suitable nominees from corporate backgrounds beyond the executive suite, and noncorporate backgrounds (academia, government, nonprofit organizations and others) where additional diverse talent may be identified.



### California Board Diversity Initiative

Partnering with combined assets under management of approximately \$700 billion, the [California State Teachers' Retirement System](#), the [California Public Employees' Retirement System](#) and the [Los Angeles County Employees Retirement Association](#) are engaging portfolio companies that lack gender diversity and have no women on their boards.

In 2018, California Senate Bill 826 mandated board gender diversity for public companies headquartered in California and traded on the NYSE or Nasdaq, requiring at least one female director on all boards by December 31, 2019. As a result, the California Board Diversity Initiative wrote to 25 California-based companies that lacked a woman director. As of the deadline, only 4% of California-headquartered companies had all-male boards. This is a significant reduction from the previous number of 29% of headquartered companies with all-male boards as of June 30, 2018. Through engagement, 20 of the 25 companies engaged by the coalition appointed a woman to the board, with one of the companies appointing two women and two of the 20 companies appointing a woman of color.

Beyond the appointments of new directors, numerous companies revised nominating and governance committee charters to expand their commitment to board diversity, inclusive of gender, race and ethnicity, and sexual orientation. Many portfolio companies incorporated provisions to ensure that any director recruitment would encompass a diverse set of candidates for consideration.



### Thirty Percent Coalition

The [Thirty Percent Coalition](#) is composed of CalSTRS, 40 other institutional investors, and 12 treasurers and comptrollers, and has more than \$6 trillion in assets under stewardship. The coalition encourages companies with one or zero women board members to embrace diversity in order to secure needed skill sets for long-term strategy and business plans.

In 2019, CalSTRS, as a member and co-chair of the Institutional Investors Committee, sent 157 letters to companies. Of those, 52 companies appointed a total of 61 women. Many boards revised their nominating and governance committee charters to expand their commitment to board diversity, inclusive of gender, race and ethnicity, and sexual orientation. Many of the portfolio companies we engaged also incorporated provisions to ensure that any director recruitment would encompass a diverse set of candidates for consideration. Additionally, the coalition filed 37 shareholder proposals, with four of the resolutions going to vote and 33 of the companies adopting specific diversity changes.

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.



### **Cross-Border Coalition of 5—Board Effectiveness and Diversity Initiative**

In 2019, five large institutional investors representing more than \$2 trillion in assets under management formed an initiative to further engagement with U.S. portfolio companies that have long-tenured boards.

We contacted companies with only one or two women on their board and a significant proportion of their directors serving on the board for lengthy periods of time with the goal of improving board refreshment, composition and diversity in order to maximize board effectiveness. The Cross-Border Coalition of Five emphasizes that each board appointment is also an opportunity for boards to evaluate any skill set gaps linked to the company’s long-term strategy and plan.

The 21 companies selected from the S&P 500 for engagement were forthcoming and willing to have difficult discussions about board evaluation and refreshment despite many board members having served for longer than 12 years. The group shared best practices and encouraged boards to develop a systematic approach to refresh their boards, ensuring board members have the appropriate skill sets to contribute to the long-term strategy and business plans of these companies. Additional requests included using the Rooney Rule, improving proxy disclosures, and enhancing charter

and governance principles to adopt diversity language in selection of board members and in the company's refreshment processes.

This link between diversity and company financial performance reinforces the need for companies to craft better inclusion strategies for a competitive edge. Additionally, the coalition emphasizes the importance of promoting diversity at the senior management level and building a diverse talent pipeline.



### **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 29 institutional investors representing more than \$4 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. 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:

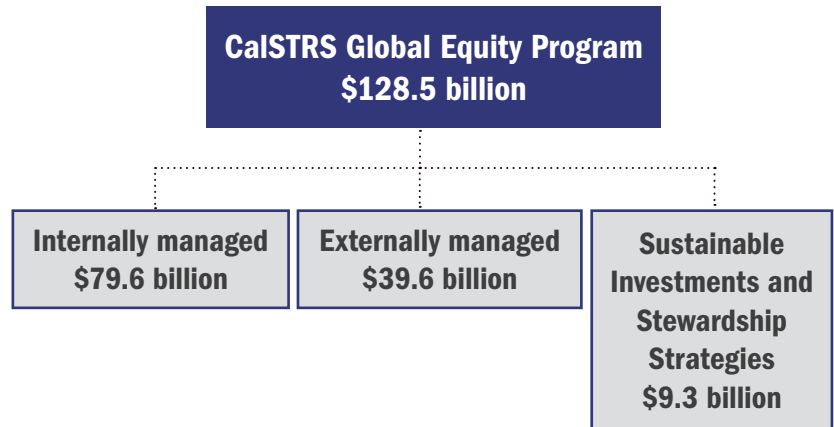
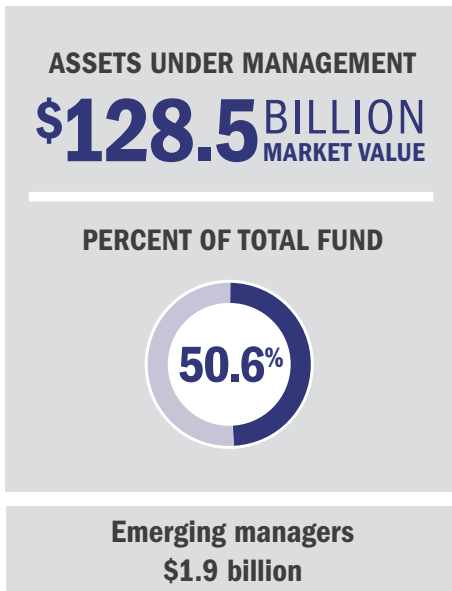
- **Workforce composition**  
Number of people employed by the issuer, broken down by full-time and part-time employees, along with contingent workers who produce the products or services, such as independent contractors and temporary employees.
- **Workforce costs**  
Total cost of the issuer's workforce, 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.



# PORTFOLIO MANAGEMENT

CalSTRS intentionally seeks to expand the diversity and reach of our opportunity set by accessing emerging managers. Our emerging manager investments represent \$15.5 billion, which is more than 15% of our externally managed investments. We have a long history of investing with emerging managers and will continue to engage, educate and set clear expectations around our standards for emerging managers.

## Global Equity



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2019.

### Global Equity emerging managers approach

Within the CalSTRS Global Equity Portfolio, diversification is a key consideration in terms of achieving returns and mitigating risk. The portfolio benefits from the inclusion of different backgrounds, experiences and ideas, enhancing the overall performance.

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. In addition to incorporating developing managers into our Global Equity Portfolio, our ultimate goal is to allow managers that have performed well in terms of investments and overall business operations to move to direct relationships with us when there is need for a specific sub-asset class or investment style in the portfolio.

To complement internal resources and optimize staff efforts to meet our investment goals, we work with three managers-of-managers who design manager portfolios to

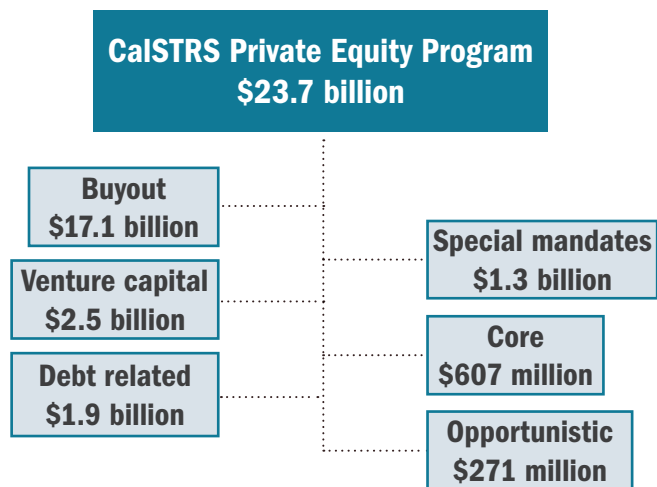
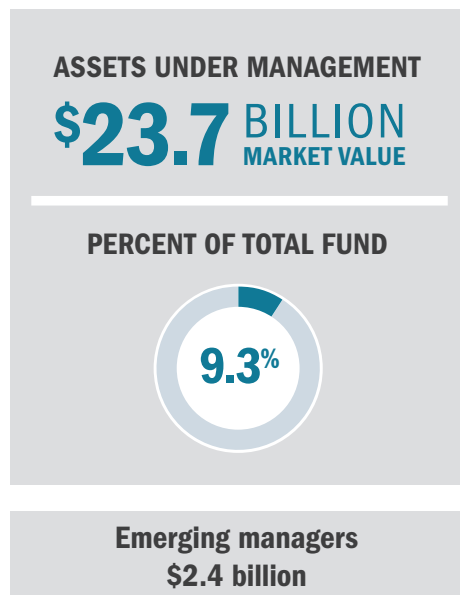
fulfill a U.S. small cap mandate and non-U.S. developed markets mandates. An additional goal is to provide managers that have delivered good performance and have sound business operations an opportunity to move toward a direct relationship with us when our portfolio needs a specific investment strategy or style.

### Global Equity's 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 55% 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.

## Private Equity



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2019.

### Private Equity emerging managers approach

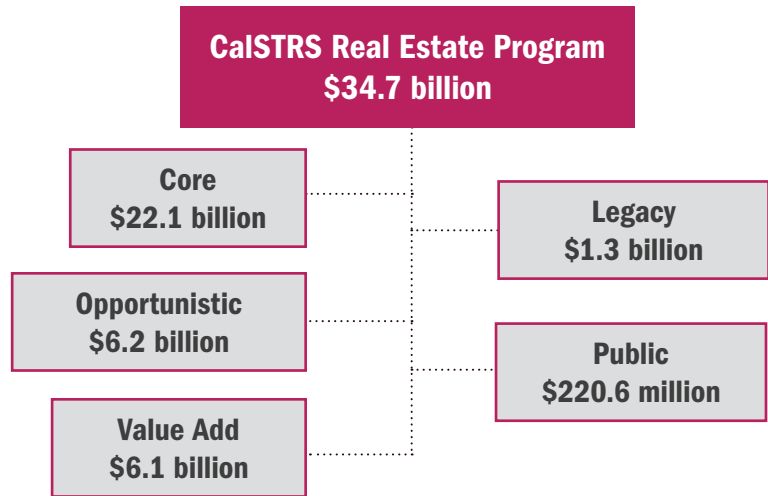
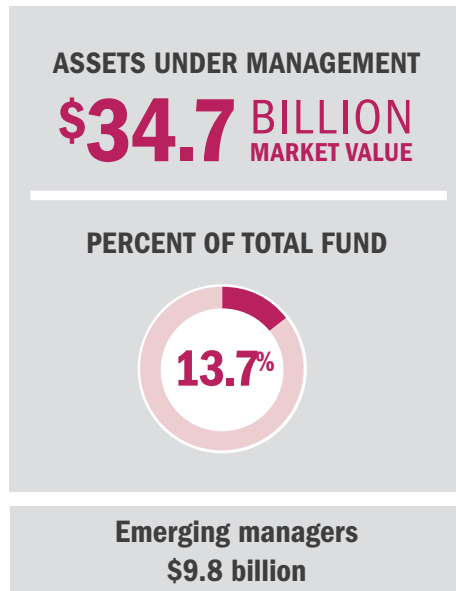
The Private Equity Portfolio is concentrated with 123 active manager relationships. Selection is biased toward partnerships with experienced and stable management teams, solid track records, appropriately sized funds and high levels of side-by-side general partner commitments. Strong alignment of interests 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 Invesco Private Capital, HarbourVest Partners and Muller & Monroe Asset Management. Commitments made through these feeder funds are generally less than \$20 million each.

### Private Equity’s emerging manager qualifications

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

- Be a legally structured entity.
- Have a public placement memorandum in place, be raising their first, second or third institutional fund or qualify as a diverse manager.

## Real Estate



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2019.  
 Note: Figures above may not foot due to rounding.

### Real Estate's emerging managers approach

Upon determination that an opportunity may be suitable for CalSTRS' investment objectives, the Real Estate unit decides whether to pursue a direct commitment to the opportunity or refer the opportunity to an existing partner funded with CalSTRS' capital. If an emerging manager has a successful track record and a strong prior background of investing institutional capital, we may consider a direct investment with that manager. If, however, the emerging manager has yet to garner significant institutional investment experience, we may refer the firm to one or more of our existing partners, with the aim of funding the emerging manager through the existing partner until enough institutional experience is acquired to merit a direct relationship.

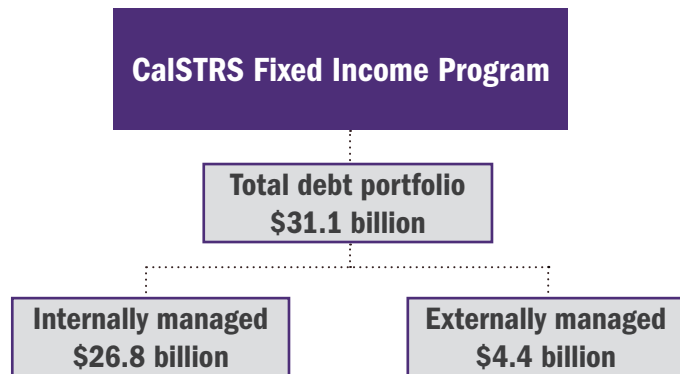
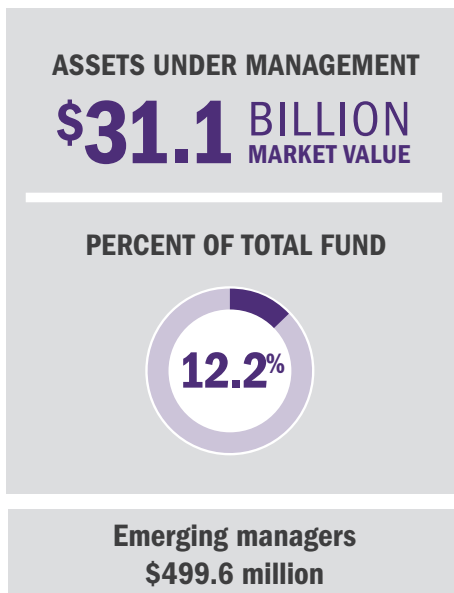
### Real Estate emerging manager qualifications

In order to qualify as a Real Estate emerging manager, firms must:

- Have \$1 billion or less in assets under management at the inception of the relationship.
- Have a maximum of 67% nonemployee ownership.
- Be a legally structured entity with a Corporate Tax Identification Number.
- Have a private placement memorandum in place or similar proposal in the event of a separate account relationship.



## Fixed Income



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2019.  
 Note: Figures above may not foot due to rounding.

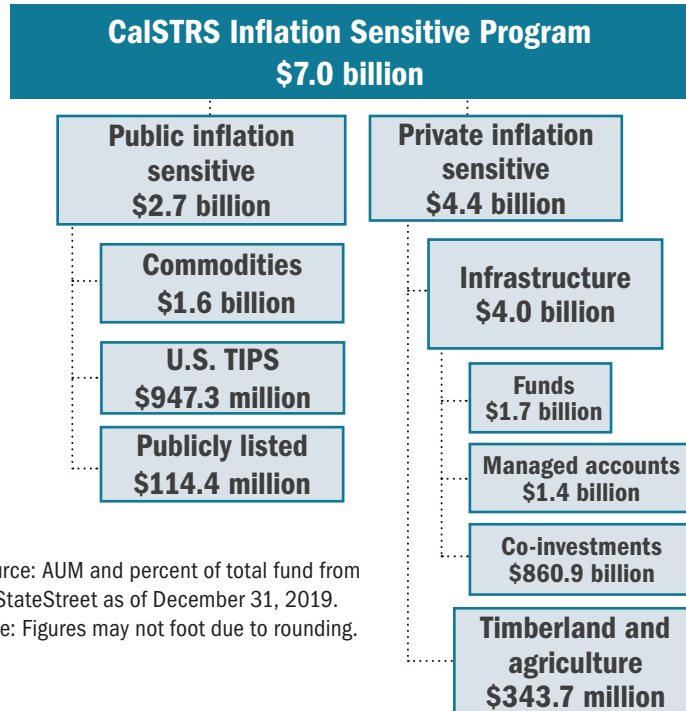
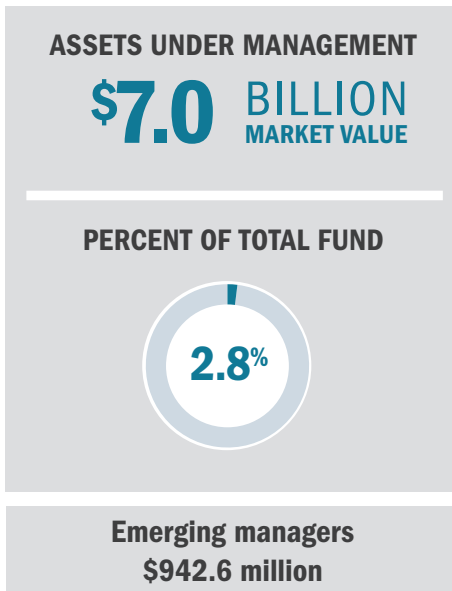
### Fixed Income’s emerging managers approach

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 and log it into a CalSTRS database that has grown to include more than 435 investment opportunities. This process was designed to facilitate manager access to CalSTRS and serve as a way for us to assess new ideas and market conditions. We have a long-standing open-door policy of using a diverse group of broker-dealers to execute trades. As a result, we currently conduct business with 10 emerging firms. All trades occur in a competitive environment. One area of success has been in primary market/new issuance where deals are released at a set price. Last year, the Liquidity Portfolio traded \$2.7 billion, or 6.9% 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.

## Inflation Sensitive



Source: AUM and percent of total fund from MyStateStreet as of December 31, 2019.  
 Note: Figures may not foot due to rounding.

### Inflation Sensitive's 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.

### 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 a first, second or third time vehicle no larger than \$1.5 billion.
- Be headquartered in the U.S.
- 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<sup>®</sup>  
HOW WILL YOU SPEND YOUR FUTURE?