



# Diversity

IN THE MANAGEMENT OF INVESTMENTS

2022 ANNUAL REPORT

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## A CONVERSATION WITH **Christopher J. Ailman** AND **LaShae Badelita** CHIEF INVESTMENT OFFICER INVESTMENT DIVERSITY 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 return objectives.

In calendar year 2022, we continued to expand our diversity in the management of investments strategy across the total fund. We strategically implemented and collaborated with a vast network of investment managers, portfolio companies and industry associations in order to maximize returns and leverage opportunities for positive change.



**Watch a conversation** with Chris Ailman and LaShae Badelita around the importance of diversity in the management of investments.

# Investments Branch



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 **staff diversity**

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

Diversity in the management of investments at CalSTRS is accomplished with an investment staff of 222 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 5–7.

Diversity supports our 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. Watch our **diversity statement video** below to learn more.



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

## 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 2022, 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, universities and affinity partnerships, and ultimately hired nine 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. We recruited and onboarded three students who participated in the 2022 cohort of the Student Intern Program.



### INVESTMENT MENTOR PROGRAM

Building a recruitment pipeline for investment officers is the first step to maintaining a diverse workforce. The next 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 2022, 34 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.

### 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.

# INVESTMENTS BRANCH DEMOGRAPHICS

## Gender diversity

### INVESTMENT DIRECTOR | Total 11



### PORTFOLIO MANAGER | Total 38



### ASSOCIATE PORTFOLIO MANAGER | Total 36



### INVESTMENT OFFICER III | Total 45



### INVESTMENT OFFICER II | Total 36



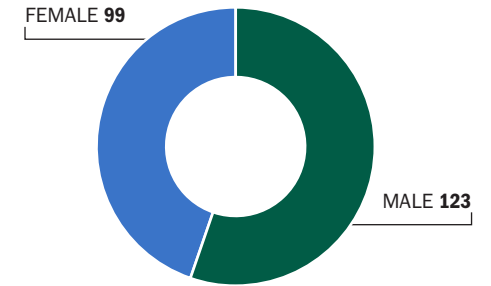
### INVESTMENT OFFICER I | Total 26



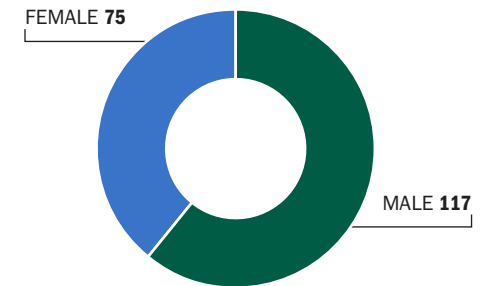
### ADMINISTRATIVE SUPPORT | Total 30



### INVESTMENTS BRANCH STAFF TOTAL | 222 INCLUDING ADMINISTRATIVE SUPPORT



### INVESTMENTS BRANCH STAFF TOTAL | 192 NOT 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 Portfolio Manager and CEA (Public Engagement Manager).
- Associate Portfolio Manager consists of Associate Portfolio Managers.
- Administrative support category consists of Staff Services Analyst, Associate Governmental Program Analyst, Associate Management Auditor, Staff Services Manager I and Staff Services Manager II.

# INVESTMENTS BRANCH DEMOGRAPHICS

## Ethnic diversity

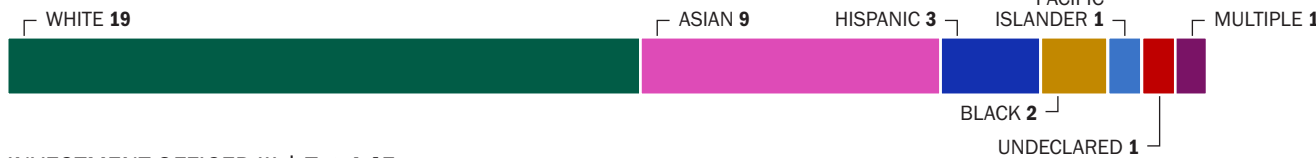
### INVESTMENT DIRECTOR | Total 11



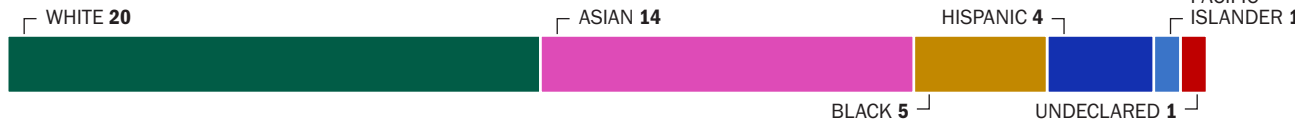
### PORTFOLIO MANAGER | Total 38



### ASSOCIATE PORTFOLIO MANAGER | Total 36



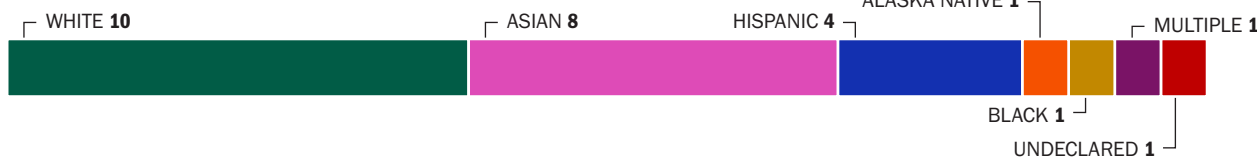
### INVESTMENT OFFICER III | Total 45



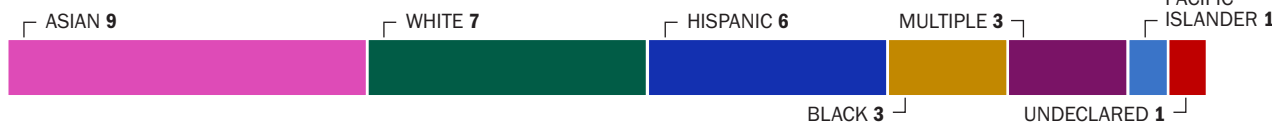
### INVESTMENT OFFICER II | Total 36



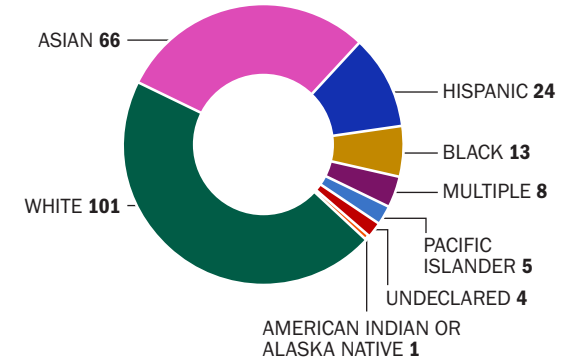
### INVESTMENT OFFICER I | Total 26



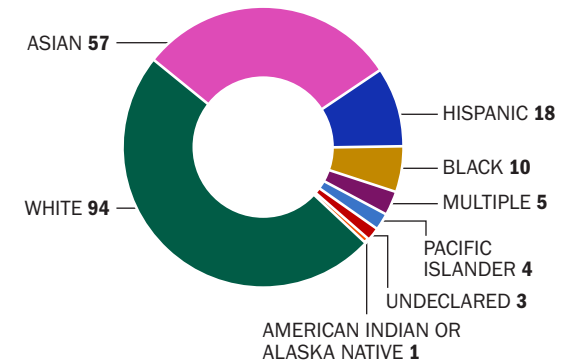
### ADMINISTRATIVE SUPPORT | Total 30



### INVESTMENTS BRANCH STAFF TOTAL | 222 INCLUDING ADMINISTRATIVE SUPPORT



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# INVESTMENTS BRANCH DEMOGRAPHICS

## Age diversity

INVESTMENT DIRECTOR | **Average age 57**



PORTFOLIO MANAGER | **Average age 51**



ASSOCIATE PORTFOLIO MANAGER | **Average age 44**



INVESTMENT OFFICER III | **Average age 42**



INVESTMENT OFFICER II | **Average age 39**



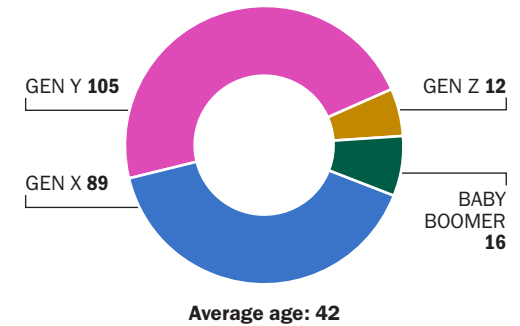
INVESTMENT OFFICER I | **Average age 32**



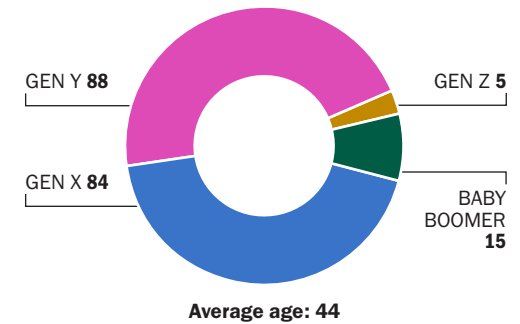
ADMINISTRATIVE SUPPORT | **Average age 34**



INVESTMENTS BRANCH STAFF TOTAL | **222**  
 INCLUDING ADMINISTRATIVE SUPPORT



INVESTMENTS BRANCH STAFF TOTAL | **192**  
 NOT 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

## 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 other diversity events, 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 October 2022, we hosted our tenth Beyond Talk event, in partnership with Blackstone, which included approximately 150 investment industry professionals. The event discussed diversity, intersectionality and male allyship. 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 TOUR

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. For the second year, we embarked on a virtual tour to engage openly, exchange diversity, equity and inclusion initiatives, and identify opportunities to collaborate with other organizations.

In 2022, these organizations participated:

- Association of Asian American Investment Managers
- Hispanic Heritage Foundation
- Investment Diversity Exchange
- New American Alliance
- National Association of Investment Companies
- National Association of Securities Professionals
- SEO Investment Academy
- TOIGO Foundation



# 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 corporate board and workforce diversity, equity and inclusion.

## INVESTMENT industry partnerships

### IMPACTIVE CAPITAL

The Sustainable Investment and Stewardship Strategies unit provided the initial strategic investment to help launch Impactive Capital in 2019. As of June 30, 2022, Impactive Capital is a \$2.6 billion investment manager whose strategy uniquely integrates environmental, social and governance factors as tools to drive long-term sustainable returns.

As of September 30, 2022, Asbury Automotive Group, one of the largest automotive dealers in the United States, is Impactive Capital's largest holding. The group's biggest obstacle to growing its most successful business has been a labor shortage among skilled auto technicians. After noticing a lack of workforce diversity with more than 99% of their technicians being male, Impactive Capital suggested to the group's management that they could grow earnings by diversifying hiring and boosting the number of women in their technician ranks.

Asbury Automotive Group has since implemented several initiatives aimed at increasing the number of female technicians, such as adding women's locker rooms, implementing a best-in-class maternity leave policy and rolling out flexible work week options. While still in the early stages of the initiative, the group has already doubled their female technician count and materially increased their recruiting pipeline, which bodes well for future progress.

### SCHRODERS

United Kingdom-based asset manager, Schroders, with \$939 billion in assets under management as of June 30, 2022, is a core manager in CalSTRS' public equity portfolios (Global Equity and SISS). In early 2022, Schroders published an **Engagement Blueprint** that serves as a comprehensive road map for its active ownership efforts across six key thematic areas, one of which is diversity and inclusion. Schroders believes companies should strive to create diverse, equitable and inclusive organizations and encourages the companies it invests in to consider diversity broadly, in terms of both demographics and professional diversity.

Schroders breaks down its diversity and inclusion engagement into four key sub-themes, detailing the desired long-term outcomes as well as specific short and medium term actions, in the categories of board, executive, workforce and value chain diversity. Long-term outcomes are full and effective participation and equal opportunities for women and underrepresented minorities. Short and medium term actions cover disclosures, target and strategy setting, policy implementation and commitments to genuine cultural change.

The Schroders Engagement Blueprint was awarded 2022 ESG Engagement Initiative of the Year at the Environmental Finance Sustainable Investment Awards. In addition, Schroders' **Workforce Diversity Report 2021** was an important step in providing transparency into the diversity of its own workforce.

## CALSTRS' engagement on diversity

The Teachers' Retirement Board established a set of **Stewardship Priorities** that guide and prioritize our stewardship work. One of the priorities is board effectiveness and includes the oversight by boards of human capital management and diversity practices. More diverse companies have been shown to have improved financial performance over those that are less diverse.

Through our stewardship efforts, we aim to influence the market and promote diversity in corporate boards and workforces at the companies in our portfolio. Much of this effort is accomplished through exercising our shareholder voting rights at company board meetings, a process known as proxy voting, and through corporate engagements where we speak directly with company executives and board members.

### PROXY VOTING

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 our proxies at companies' annual general meetings around the world.

For the 2022 proxy season, we held companies accountable by voting against the election of directors in companies that have moved too slowly to achieve greater board diversity. We have been a leader in encouraging diversity at companies in our portfolio through private engagement, but some companies have resisted change.

We continue to vote against the board of companies with zero women representatives. Additionally, if a company does not have at least 30% women board members, we vote against the board's nominating committee. We continue to review and revise our voting practices to further incentivize portfolio companies to increase gender, racial, ethnic and LGBTQ+ board diversity.

### CORPORATE ENGAGEMENT

In addition to proxy voting, we collaborate with aligned investors, such as the California Investors for Effective Board Diversity, the Human Capital Management Coalition, the Thirty Percent Coalition, the Diversity, Equity and Inclusion Code, and the DEI in Asset Management Executive Council, to drive diversity in the companies we invest in and support our long-term returns.

### MULTIDIRECTIONAL APPROACH

We believe engagement is our most effective tool to use our influence to shape company behavior.

Through proxy voting and corporate engagement, we ask companies to:

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

## INVESTOR collaboration

### CALIFORNIA INVESTORS FOR EFFECTIVE BOARD DIVERSITY

#### Focusing on our home state

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. Over the years, both organizations expanded this engagement and collaborated with the Los Angeles County Employees Retirement Association and the San Francisco Employees' Retirement System. The group engages targeted companies to improve their corporate board diversity and encourage clear guidance in their corporate governance policies, addressing diversity in board refreshment and recruitment practices.

In 2021, the group sent letters to 57 companies in the Russell 1000 index that lacked racial or ethnic diversity. Although the collective request to expand participation across all dimensions of historically underrepresented groups remained broad, the group asked company nominating and governance committees to include individuals with diverse backgrounds on their board, inclusive of gender, race, ethnicity and LGBTQ+ identity. The group's engagement resulted in 43 companies appointing 53 diverse directors.

Additional engagement successes include:

- 32 companies updated their definition of diversity to include gender and race/ethnicity in either their proxy or governance documents.
- 29 companies included enhanced diversity disclosures in their proxy statements.
- 19 companies included a skills matrix in their proxy statements.
- 10 companies adopted the Rooney Rule—a policy that requires candidates from underrepresented groups be included in the initial search pool of candidates.

The group continues to build on their success and, as of the date of this report, is engaging 60 companies in the MSCI USA Investable Market Index.

### HUMAN CAPITAL MANAGEMENT COALITION

#### Driving better disclosures from companies

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 composed of a group of 37 institutional investors representing more than \$8 trillion in assets under management.

The HCMC successfully petitioned the Securities and Exchange Commission to issue a rule-making proposal requiring companies disclose 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 the mandatory reporting of four foundational disclosures by all companies:

- **WORKFORCE COMPOSITION**  
Number of people employed by the company, broken down by full-time and part-time employees, along with contingent workers who produce the products or services.
- **WORKFORCE COSTS**  
Total cost of the company's workforce, including wages, benefits and other transfer payments, plus other employee expenses.
- **WORKFORCE TURNOVER**  
Staff resignations, retention or similar workforce stability metrics.
- **WORKFORCE DIVERSITY DATA**  
Gender, racial and ethnic diversity across different levels of seniority.

## THIRTY PERCENT COALITION

### Increasing diversity on corporate boards

The Thirty Percent Coalition is composed of CalSTRS, 44 other institutional investors, and 12 treasurers and comptrollers, and has more than \$8 trillion in assets under management. The coalition encourages companies that lack diversity on their boards 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 includes:

- Senior leadership and board of directors to reflect the gender, racial and ethnic diversity of the United State'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.

Overall, more than 600 companies appointed at least one woman to their board since the campaign launched in 2012.

## CFA INSTITUTE DIVERSITY, EQUITY AND INCLUSION CODE

### Providing practical DEI guidance

Led by the CFA Institute, CalSTRS collaborated with a working group to develop the CFA Institute's draft voluntary Diversity, Equity and Inclusion Code for the United States and Canadian investment industry. We became a signatory in May 2022.

As large asset owners expand their efforts around diversity, equity and inclusion, and emphasize its importance for investment returns, the code can be used as a tool to support this effort. The code outlines six principles to accelerate diversity, equity and inclusion, sets implementation, reporting and monitoring standards, and is designed to foster a metrics-based commitment that includes annual reporting.

The code will help the investment industry identify and remedy diversity, equity and inclusion insufficiencies and then provide an organized, controlled set of framing questions, internal discussions and intentional thought processes. We believe these actions will foster momentum and incentivize investment managers and asset owners to improve their approach to diversity, equity and inclusion.

## DEI IN ASSET MANAGEMENT EXECUTIVE COUNCIL

### Promoting inclusive cultures

CalSTRS joined Milken Institute's Center for Financial Markets inaugural DEI in Asset Management Executive Council in 2022. The council works to improve diversity and promote inclusive cultures within the investment industry, with a particular focus on women and Black and Indigenous people of color.

Members of the council include Apollo Global Management, Ares Management Corporation, Brightstar Capital Partners, Carlyle Group, Columbia Investment Management Company, Davidson Kempner Capital Management, EJP Capital, Georgetown University's McDonough School of Business, Girls Who Invest, Howard University, Lafayette Square, Palladium Equity Partners, Teacher Retirement System of Texas, Trident, Vista Equity Partners, W.K. Kellogg Foundation and Xponance.

## GIRLS WHO INVEST

### Developing and championing the next generation

Founded in 2015, Girls Who Invest is dedicated to increasing the number of women in portfolio management and executive leadership in the asset management industry. The organization offers a 10-week Summer Intensive Program and a subsequent six-week paid internship at a leading investment management firm. Since 2016, more than 800 students from United States universities and colleges have participated. Since 2017, CalSTRS has annually welcomed one of the Girls Who Invest scholars into the CalSTRS Student Intern Program. CalSTRS serves on the Girls Who Invest Advisory Board.

# Portfolio management



As of December 31, 2022, the CalSTRS Investment Portfolio had \$302.1 billion total assets under management. This report details the assets under management and percentages of the total fund.

## EMERGING AND DIVERSE **manager investments**<sup>1</sup>

### EVOLVING WITH CONSISTENCY AND INFLUENCE

CalSTRS made our first capital commitment to emerging managers more than 30 years ago. Since then, diversity within investments was formally established in our Investment Policy and Management Plan. While our parameters for emerging and diverse managers evolved over time, we remain committed to this investment approach.

In 2022, the Teachers' Retirement Board, which governs CalSTRS, approved definitions of emerging manager and diverse manager. The board also supported CalSTRS to pursue and invest in emerging managers and diverse managers that generate performance aligned with the risk and return objectives to the CalSTRS Investment Portfolio.

Through various opportunities, we continued to participate in programs that promote diversity in the investment industry that provide emerging and diverse managers an opportunity to connect directly with us, such as through the National Council of Teacher Retirement, New American Alliance CIO Capital Connections engagement, Texas Retirement Employees Retirement System Emerging Manager Conference and the National Association of Investment Companies Roadshow.

### GLOBAL EQUITY

Global Equity began our emerging manager-of-manager partnerships with Bivium Capital Partners, Leading Edge Investment Advisors, and Xponance Asset Management and Investments nearly 15 years ago.

Bivium Capital Partners is a minority-owned investment management firm that collectively placed more than \$10 billion in assets with external managers for its clients, including CalSTRS.

Leading Edge Investment Advisors is a minority-owned investment management firm. In 2022, through our manager-of-manager vehicle, we invested in underlying emerging and diverse firm, Frontier Global Partners.

Xponance Asset Management and Investment is a minority-owned and women-owned investment management firm. In 2022, through our manager-of-manager vehicle, we invested in underlying emerging and diverse firm Redwood Investments. Since 2016, Redwood Investments has been an underlying manager in our manager-of-manager portfolio with Leading Edge.

The Global Equity desk used diverse or emerging broker-dealers to execute internal portfolio order flow and traded over \$900 million in equities with such firms in 2022.

Also, the Global Equity Director helped plan CalSTRS' Beyond Talk workshop with Blackstone. Blackstone has partnership relationships in CalSTRS Real Estate and Private Equity portfolios.

### PRIVATE EQUITY

CalSTRS' Private Equity has made commitments to new and emerging fund-of-fund managers in excess of \$2 billion. Recent commitments include \$100 million to Oak HC/FT, a female-owned venture capital and growth equity firm. Oak HC/FT was originally in two of CalSTRS' fund-of-funds.

<sup>1</sup> Includes a subset of CalSTRS portfolio managers.

## REAL ESTATE

Belay Investment Group is a majority women-owned investment management firm that invests in emerging managers on behalf of CalSTRS. Our emerging manager fund-of-fund partnership with the group spans 16 years. Belay has invested approximately \$1 billion of CalSTRS capital by creating long-term relationships with high caliber operating partners. The group's senior management team members have, on average, 19 years of experience investing and managing billions of debt and equity real estate transactions. In 2022, CalSTRS' Real Estate committed an additional \$350 million to emerging managers.

In 2022, through our joint venture with Belay Investment Group, we invested in SoLa Impact's Black Impact Fund. SoLa Impact is a minority-owned investment manager that has a family of social impact real estate funds with a double bottom line strategy focused on preserving, refreshing, and creating high-quality affordable housing for the homeless and low-income communities across California, mostly in the West and South Los Angeles areas. Additionally, SoLa Impact supports these communities by way of youth education, scholarship and workforce programs. Read their **2021 Social Impact Report** to learn more.

CalSTRS also transitioned an emerging manager with combined commitments of \$245 million into the core program.

## FIXED INCOME

CalSTRS' Fixed Income Liquidity Portfolio traded \$4.9 billion, or 5.8% of trades, with emerging broker-dealers.

Additionally, Fixed Income has a long-standing relationship with emerging and diverse manager LM Capital Group, LLC since the onset of their Core Plus program in 2007. Founded in 1989, the group is an employee-owned minority firm that provides fixed income investment management services.

## INFLATION SENSITIVE

CalSTRS' Emerging Manager Infrastructure Program has committed \$150 million to JLC Infrastructure, an emerging manager focused on domestic infrastructure projects, such as transportation, communications, energy, utilities and social infrastructure sectors.

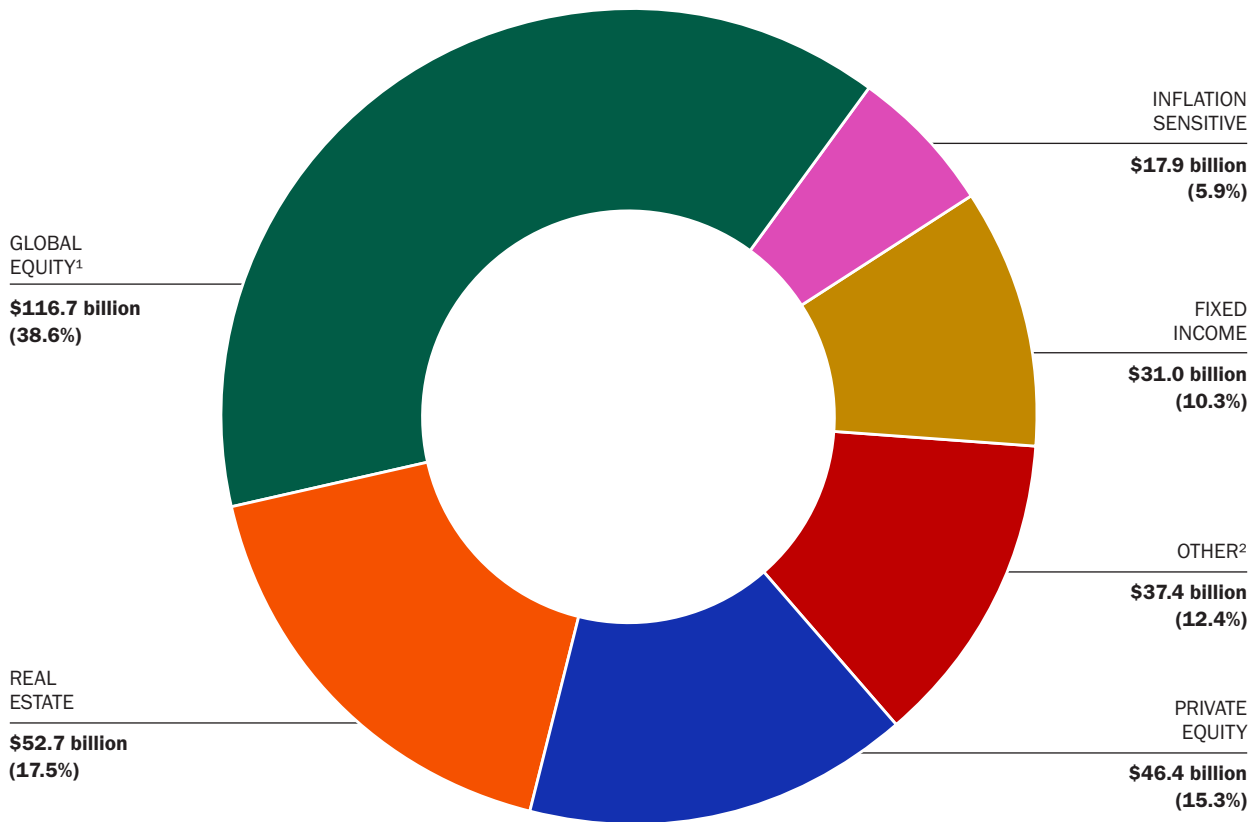
## RISK MITIGATING STRATEGIES

Launched in 2015, Systematica Investments is a minority-owned diverse firm with investment strategies of macro and equity, directional and relative value. CalSTRS committed capital to the firm in 2022.

# PORTFOLIO MANAGEMENT | Total fund

## ASSETS UNDER MANAGEMENT | Total fund: \$302.1 billion

PERCENTAGE OF TOTAL FUND



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

## ASSETS UNDER MANAGEMENT | Total fund: \$302.1 billion

PERCENTAGE OF TOTAL FUND

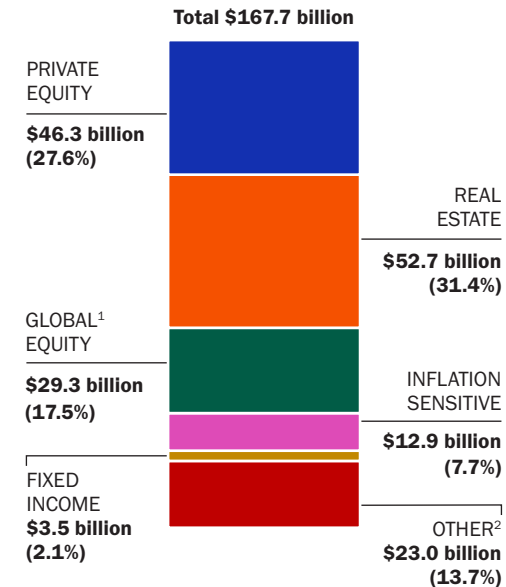


<sup>1</sup> Includes assets from our Sustainable Investments Stewardship Strategies unit.

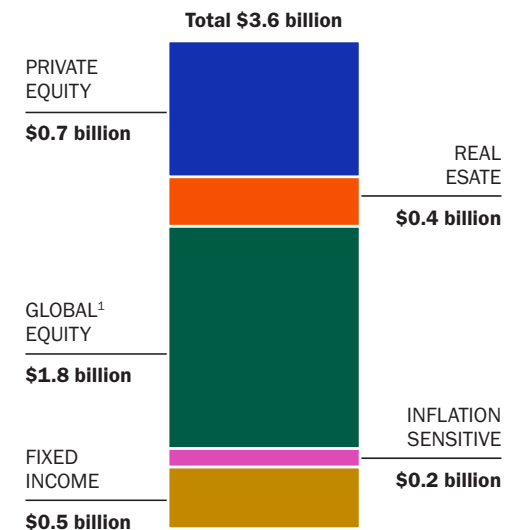
<sup>2</sup> Includes Risk Mitigating Strategies, Innovation Strategies, Strategic Overlay and Cash/Liquidity.

## ASSETS UNDER EXTERNAL MANAGEMENT

(AUM AS A PERCENTAGE OF EXTERNAL MANAGEMENT)

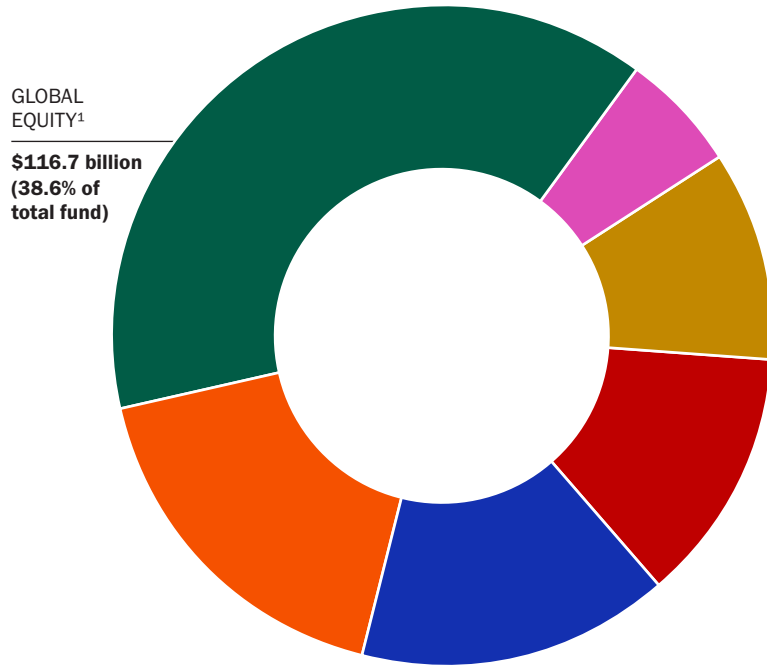


## ASSETS UNDER EMERGING MANAGERS



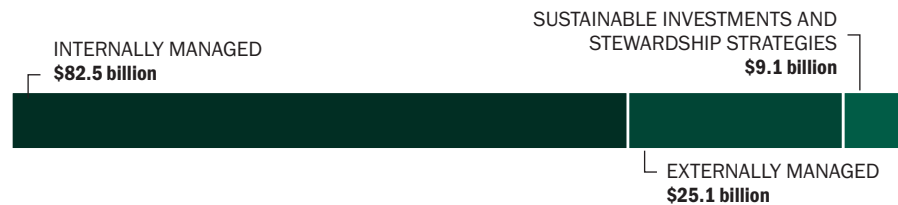
## PORTFOLIO MANAGEMENT | Global Equity

### TOTAL PORTFOLIO | Assets under management



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

### TOTAL PORTFOLIO COMPOSITION | \$116.7 billion



<sup>1</sup>Includes assets from our Sustainable Investments and Stewardship Strategies unit.

### GLOBAL EQUITY EMERGING MANAGER PROGRAM

The objectives of our Global Equity Program are to improve the diversification of the total CalSTRS Investment Portfolio and to enhance the risk-adjusted total return. We manage the assets to provide long-term capital appreciation and generate current income.

In addition, diversification is key to achieving returns and mitigating risk within our Global Equity Portfolio. Investing with developing managers is one tool we use to enhance diversity. To complement internal resources and optimize staff efforts, our Global Equity team partners with three manager-of-managers who design manager portfolios to fulfill a U.S. small-cap mandate and two non-U.S. developed markets mandates. Our three manager-of-managers are Bivium Capital Partners, Leading Edge Investment Advisors, and Xponance Asset Management and Investment.

Our objectives are to generate alpha by investing in early-stage funds that demonstrate a high potential for success, to contribute to cultivating the next generation of portfolio managers through long-term partnerships, and to access new talent and future manager capacity. An additional goal is to provide managers with sound business operations that have delivered strong performance through the manager-of-manager program the opportunity to move toward a direct relationship with us where appropriate.

### GLOBAL EQUITY EMERGING MANAGER QUALIFICATIONS

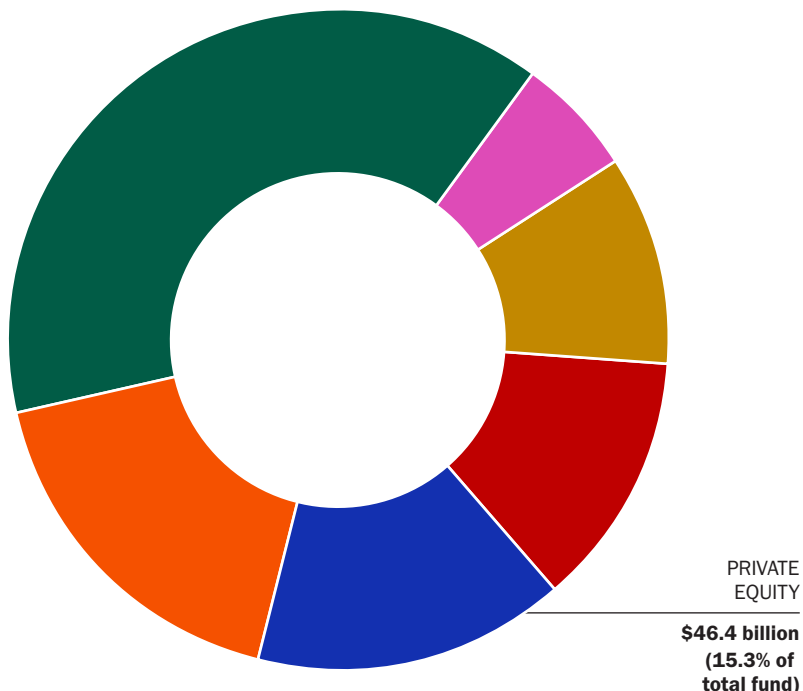
In order to qualify as a Global Equity emerging manager, firms must:

- 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.



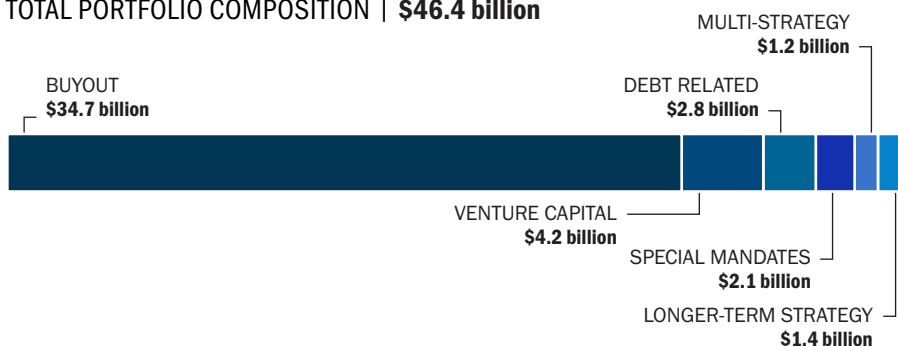
## PORTFOLIO MANAGEMENT | Private Equity

### TOTAL PORTFOLIO | Assets under management



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

### TOTAL PORTFOLIO COMPOSITION | \$46.4 billion



### PRIVATE EQUITY EMERGING MANAGER PROGRAM

The Private Equity Portfolio selection is focused 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.

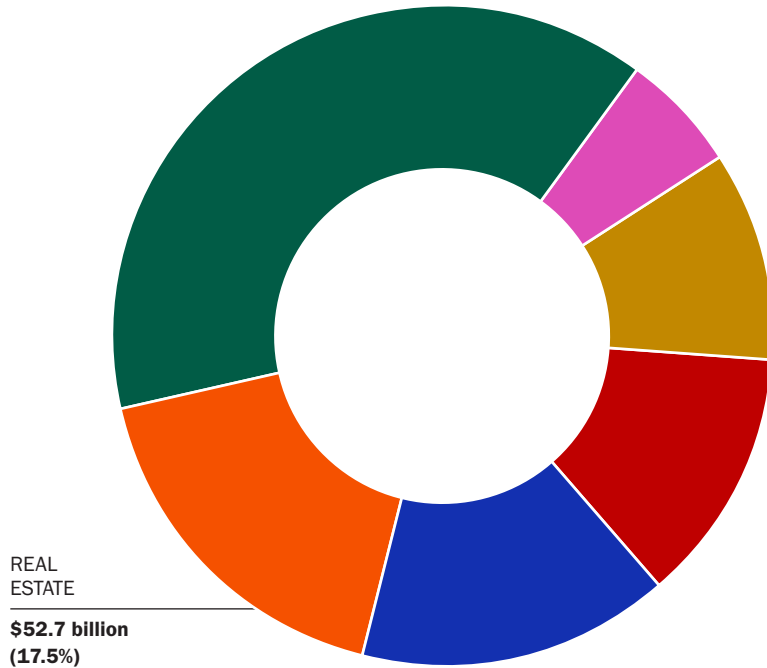
### PRIVATE EQUITY EMERGING MANAGER QUALIFICATIONS

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 a first, second or third institutional fund and not exceed certain fund size limits.

## PORTFOLIO MANAGEMENT | Real Estate

### TOTAL PORTFOLIO | Assets under management



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

### TOTAL PORTFOLIO COMPOSITION | \$52.7 billion



### REAL ESTATE EMERGING MANAGER PROGRAM

We have committed over \$10 billion to emerging real estate managers since the inception of the program in 2001. The program allows Real Estate staff to invest with newer and smaller firms across funds, direct joint venture relationships, and manager-of-manager ventures to provide them with access to institutional capital. The program is dynamic and has changed over time to meet ongoing demands of the overarching Real Estate Portfolio.

We have supported a variety of emerging managers with diverse strategies and investment profiles. In 2022, we committed an additional \$350 million to emerging managers. We remain steadfast in our commitment to seek new and diverse talent for the Emerging Manager Program, supporting the next generation of real estate investment management firms.

### REAL ESTATE EMERGING MANAGER QUALIFICATIONS

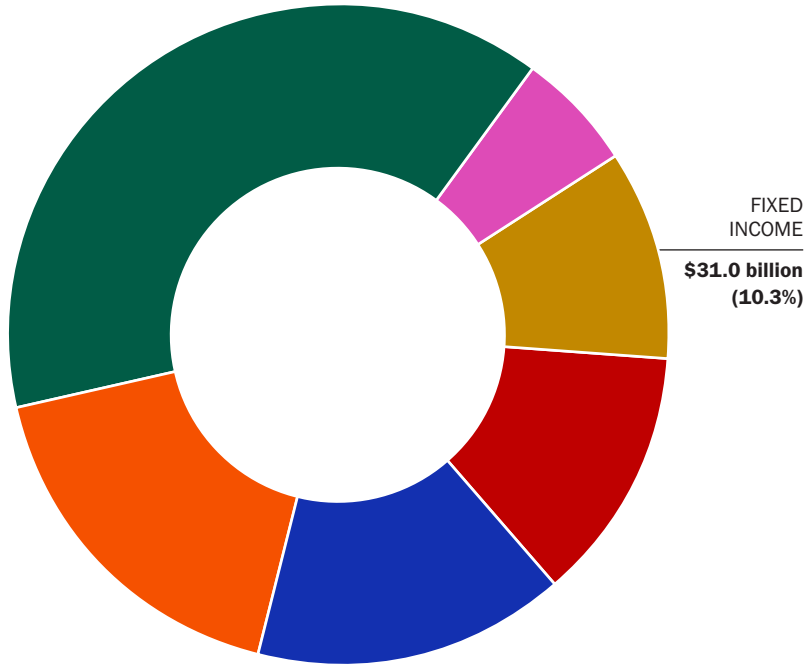
An emerging manager is at an early stage within its life cycle (generally, raising its first, second or third institutional fund or separate account/joint venture).

To qualify as a Real Estate emerging manager, firms:

- Must manage less than \$2 billion of gross assets under management 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

### TOTAL PORTFOLIO | Assets under management



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

### TOTAL PORTFOLIO COMPOSITION | \$31.0 billion



### 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 \$4.9 billion, or 5.8% of trades, with emerging broker-dealers.

### FIXED INCOME EMERGING MANAGER QUALIFICATIONS

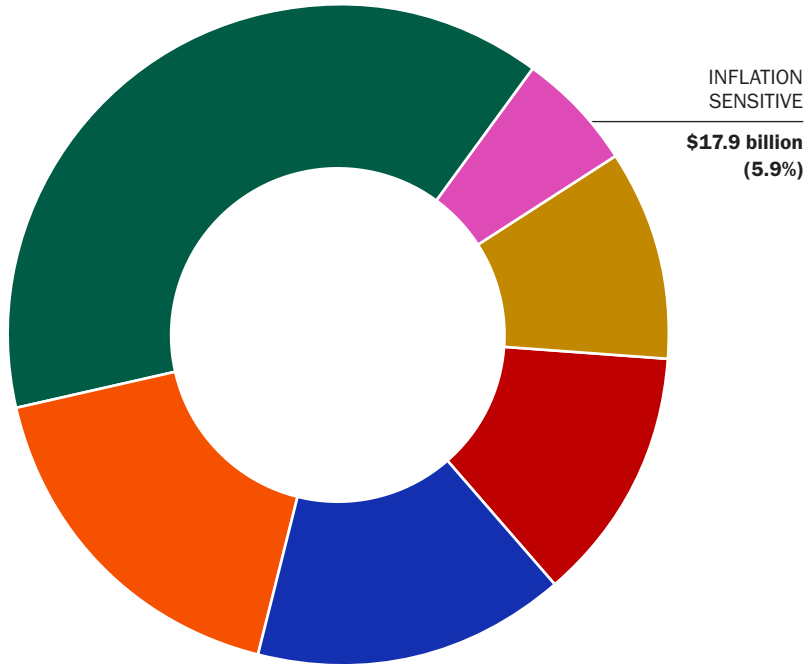
Fixed Income does not have a dedicated emerging manager program. However, the selection process has evolved over time to facilitate the consideration of a broad universe of managers regardless of assets under management, based on quantitative and qualitative factors that indicate a successful asset management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

To qualify as an emerging manager, a firm 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.

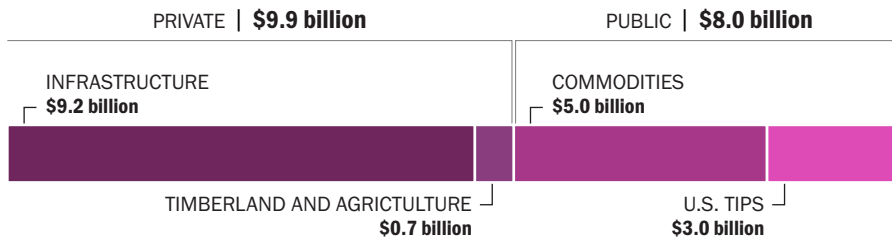
## PORTFOLIO MANAGEMENT | Inflation Sensitive

### TOTAL PORTFOLIO | Assets under management



Source: AUM and percentage of total fund from MyStateStreet as of December 31, 2022.

### TOTAL PORTFOLIO COMPOSITION | \$17.9 billion



### INFLATION SENSITIVE EMERGING MANAGERS APPROACH

The CalSTRS Inflation Sensitive unit is working to construct a portfolio with fund managers from diverse backgrounds. We continue to engage emerging managers that could provide meaningful investment opportunities. Due to 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. So far, the Inflation Sensitive team has committed \$150 million to an 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 assets under management.
- 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.

# Assembly Bill 890



California Assembly Bill 890 was signed into law in October 2021. AB 890 sunsets on January 1, 2028, unless a later enacted statute that is enacted before January 1, 2028, deletes or extends that date.

## CALSTRS REQUIREMENTS

AB 890 requires the Teachers' Retirement Board to define the terms: (1) emerging manager; (2) diverse manager; and (3) appropriate objectives and initiatives regarding the participation of emerging or diverse managers responsible for asset management within the CalSTRS Investment Portfolio. In May 2022, the board approved the definitions of the required terms, which are posted on our **diversity in the management of investments webpage**. The board also directed us to pursue and invest in emerging managers and diverse managers that generate performance aligned with the risk and return objectives to the portfolio, consistent with our fiduciary duties.

Beginning March 1, 2023, we are required to report on the status of achieving appropriate objectives and initiatives regarding the participation of emerging or diverse managers responsible for asset management within our portfolio. The report must be based on contracts entered into on and after January 1, 2022, and include the:

- Name of each emerging or diverse manager providing investment portfolio or asset management services at the end of the prior fiscal year, including but not limited to, fund-of-funds contracts, for all asset classes.
- Year these managers were first engaged or contracted to provide services.
- Amount managed by each of these managers by asset class at the end of the prior fiscal year.
- Total dollar amount allocated by the system in the applicable asset class during the year.
- Total dollar amount of the asset class in the portfolio.

## APPENDIX | Assembly Bill 890

### ANNUAL PROGRESS REPORT January 1, 2022, to June 30, 2022

Asset class	Total assets under management (\$ in billions)	Total commitment during this period (\$ in millions)	Manager name	Date first engaged or contracted date with manager	Identify as emerging manager <sup>1</sup>	Identify as diverse manager <sup>2</sup>	Amount managed by manager during this period (\$ in millions)
Private Equity	\$47.3	\$625.0	Riverwood Capital	2/02/2022	No	Yes	\$125.0
			Advent International	1/27/2022	No	Yes	\$400.0
			Oak HC/FT	5/11/2022	No	Yes	\$100.0
Real Estate	\$49.2	\$350.0	Belay Investment Group	1/13/2006	Yes	Yes	\$350.0

<sup>1</sup> Emerging manager: Definition varies across asset classes and is based on investment stage. Information is reflective of CalSTRS' emerging manager investment programs.

<sup>2</sup> Diverse manager: Definition is the same across asset classes and is based on firm ownership. Information is reflective of self-identification as a diverse manager, as defined by CalSTRS.

#### NOTES

- This report is based on contracts entered into January 1, 2022, to June 30, 2022.
- Asset under management data reflects quarter ending June 30, 2022.
- Pursuant to the California Constitution, Article I, Section 31, the “State shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity or national origin in the operation of public employment, public education or public contracting.”
- Amount managed by managers reflects amount committed to manager in fiscal year ending June 30, 2022.



Find more information about our emerging and diverse manager definitions on our **diversity in the management of investments** webpage.

