



Investment Committee

Item Number 8 Open Session

Subject: Diversity in the Management of Investments (“DIMI”): Work Plan

Presenter(s): Scott Chan, June Kim, Shifat Hasan, and LaShae Badelita

Item Type: Information

Date & Time: May 1, 2024 – 15 minutes

Attachment(s): None

PowerPoint(s): Staff Recommendation - DIMI Long Term Action Plan

Item purpose

At the [May 2023](#) committee meeting, the Investment Committee (the committee) directed staff to present education on diversity, equity, and inclusion (DEI) best practices and specifically requested to hear from industry leaders and investment managers. The first educational session, presented at the [November 2023](#) committee meeting focused on DEI best practices from a broad industry perspective. In [January 2024](#), the second educational session focused on DEI best practices presented by three of CalSTRS investment partners.

The purpose of this item is for staff to propose strategic goals to enhance the DIMI work plan as a natural next step and obtain the committee’s support and feedback.

Executive summary

CalSTRS DIMI strategy is made of [three core pillars](#): (1) internal staff, (2) industry and portfolio company engagement, and (3) portfolio management. To continue the momentum of DIMI’s three strategic pillars, staff is seeking the Committee’s support to include three long-term goals to the DIMI workplan. The goals are aligned with best practices and overall strategic goals of the total portfolio.

Background

CalSTRS places a strong emphasis on diversity as a core value recognizing the importance of embracing a variety of ideas and individuals to ensure the sustainability of the System. CalSTRS efforts to expand diversity in the management of investments began over 30 years ago in 1989, with the fund’s first commitment to emerging managers.

In 2022, the Investment Branch established the “Big Three Initiatives”: (1) Collaborative Model (*Identify opportunities to lower costs and be a partner of choice*); (2) Net Zero Pledge (*Net Zero GHG portfolio emissions by 2050 or sooner*); and 3) DIMI Strategy (*Expand diversity across the*

total fund). For more details on the evolution of DIMI, its history and major milestones, please refer to CalSTRS webpage: [DIMI](#).

Staff recommendations

As part of our progress and to continue the momentum of DIMI’s three strategic pillars *and* to complement the strategy’s current underlying initiatives, staff seek the Committee’s support and feedback of the following long term strategic goals to be adopted in the DIMI workplan. Unless otherwise stated, the long-term strategic goals will be applied across the total portfolio. Staff would pursue the proposed strategic goals over the next 2-3 years beginning fiscal year 2024/2025.

Strategic Goal A: Impacting overall DIMI Strategy

*The Investments Branch to enhance data collection and measurement to further improve strategy development and decision-making through technology. **Data collection may include but not limited to internal staff statistics and external manager statistics.***

Rationale: Workforce diversity brings advantages to organizations through increased profitability, enhanced creativity, stronger governance and problem-solving abilities. Data collection and review is enhanced and more efficient using technology. Data is not only a tool for greater understanding but also in introducing strategic opportunities and accountability in managing the internal team and investments. Meeting specific DEI targets is not the objective; rather, the objective is to help identify if decision makers (internal & external) are positioned to source diverse ideas and avoid the pitfalls of “group think”. The desired outcome is that through data collection, staff can better understand the real, long-term behavioral and organizational shifts within the Investment Branch, managers, and partners and if needed, reassess the strength of processes and update them.

Strategic Goal B: Impacting DIMI Pillar 1 – Internal Staff

The Investments Branch to develop internal programs that will provide growth opportunities to create a diverse workforce; and continue partnering with investment industry organizations towards improving the industry’s sourcing, hiring and retention practice

Rationale: Research shows that increased diversity on a team and at decision making levels produces better results. This can lead to better risk management, which helps improve a portfolio’s long-term results. Investment Branch believes that cognitive diversity – the diversity of thought that goes beyond skin-deep is critical, specially where the work involves being able to predict, forecast and understand the path of the capital markets and its various indicators. This effort will demonstrate CalSTRS commitment to DEI which is expected to drive innovation and prudent decision making.

Strategic Goal C: Impacting DIMI Pillar 2 – Industry & (Internal) Portfolio Company Engagement and DIMI Pillar 3 – (External) Portfolio Management

The Investments Branch to: (a) enhance DEI assessment as part of its initial due diligence of investments; and (b) develop an external manager engagement framework that universally offers opportunities encouraging a two-way dialogue with existing investment managers that may influence action and change.

Rationale: Promoting DEI in asset management is imperative to meeting the overall strategic goals of CalSTRS asset classes and the total portfolio. According to various studies and from the educational sessions, it has been proven that diverse and equitable team/managers are more likely to enhance performance and better manage risks (loss avoidance). Due diligence and on-going engagement to ensure alignment with industry best practices are proven to impact organizational performance. Engagement, through meetings, letters, shareholder proposals, investor coalitions and/or proxy voting

is applied to (a) improve the financial market landscape for long-term investors, (b) cultivate better relationships and (c) impact outcomes across global industries.

Overall alignment

Staff views these recommendations as collectively aligned with:

- **CalSTRS fiduciary duties** and consistent with the risk and return objectives of CalSTRS.
- **CalSTRS’ commitment to setting best practice precedents**, implementing innovative DEI principles, improving investment markets, and positioning CalSTRS as a partner of choice.
- **Investments’ “Big-3 Initiative” objective** to expand diversity across the total fund.
- **DIMI’s strategic objective** via its underlying three pillars: (1) internal team, (2) industry/portfolio company engagement and (3) portfolio management.
- **Industry’s best practices** that are practical and relevant as it covers five distinct areas of innovation and influence: (1) data collection, (2) engagement, (3) measurement, (4) monitoring and (5) reporting.

Next steps

With the Board’s support, The Investment branch will develop and implement a detailed plan for each long-term strategic goal. This implementation plan will outline the specific actions that the organization will take to achieve each goal, including the initiatives involved, timeline for completion, measurement criteria, monitoring processes, and reporting mechanisms. Staff is committed to providing regular updates to the Committee on the progress of the work plan, with the first update scheduled for 2025 during the May Committee meeting. By keeping the Committee informed of the implementation and progress of the plan, staff aims to ensure ongoing engagement and collaboration between staff and the committee in order to successfully achieve the overarching strategic objective of expanding diversity across the total fund.

Strategic Plan Linkage:

- [CalSTRS Enterprise Core Values](#)
- [CalSTRS Enterprise 2022-25 Strategic Plan](#): *“Goal 1: Trusted stewards – DEI efforts drive organizational outperformance.”*
- [CalSTRS Enterprise 2023-24 Business Plans](#): *“4-D-6 – Incorporate diversity, equity and inclusion across all CalSTRS practices.”*

Board Policy Linkage:

- [CalSTRS Investment Policy and Management Plan](#)
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Optional Reference Material: *(prior board items, supplemental educational materials, etc.)*

- CalSTRS Investments Core Values: *“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.”*
- [CalSTRS Investments Diversity Statement](#)
- [CalSTRS Investments 2023-24 Business Plans](#)
- CalSTRS Bill Analysis, AB 890 (Cervantes) – Emerging Managers Report: [May 2021](#)
- CalSTRS Investment Committee, DIMI Annual Updates: [May 2022](#) & [May 2023](#)
- CalSTRS Teachers Retirement Board, Update on Incorporating DEI across the Enterprise: [March 2023](#)
- CalSTRS Investment Committee, DEI Education - Best Practices: November 2023 ([Part A](#) & [Part B](#))
- CalSTRS Investment Committee, DEI Education - Best Practices: January 2024 ([Part A](#) & [Part B](#))