



# Board of Administration

## Agenda Item 8c

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**September 21, 2022**

**Item Name:** The Diversity in the Management of Investments AB 890 Reporting

**Program:** Board Governance & Sustainability

**Item Type:** Action

### **Recommendation**

The intent of this item is to receive the Board of Administration's (Board) input and approval of the following required by Cervantes; 2021; Assembly Bill 890 (AB 890):

- Emerging Manager Program Objective
- Emerging Manager definition and
- Diverse Manager definition

### **Executive Summary**

AB 890 requires the CalPERS Board to provide reports to the California State Legislature, commencing on March 1, 2023, and annually thereafter, on the status of achieving objectives and initiatives, to be defined by the Board, regarding participation of emerging managers or diverse managers responsible for asset management within CalPERS' investment portfolio.

### **Strategic Plan**

This agenda item supports the Strategic Plan goal to strengthen the long-term sustainability of the pension fund.

### **Investment Beliefs**

This agenda item supports:

- Investment Belief 10: Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives
  - Diversity of talent (including a broad range of education, experience, perspectives, and skills) at all levels (board, staff, external managers, and corporate boards) is important

## Background

For more than 25 years, CalPERS has played a role in developing and implementing emerging manager strategies, investing with emerging managers, directly or through fund of funds. Emerging investment managers are generally described as newly formed or relatively small firms. Each CalPERS asset class participating in this program has separate emerging manager definitions based on Assets Under Management (AUM) and/or length of track record.

It is CalPERS' belief that organizational cultures promoting diversity are vital to improving the long-term performance of our organization, as well as the businesses and markets in which we invest. Our Investment Beliefs state that strong processes, teamwork, and deep resources are needed to achieve CalPERS goals and objectives and highlight the importance of diversity of talent in this process.

In October 2021, AB 890 was signed into law. According to the bill's author, Cervantes, AB 890 is intended to ensure transparency and promote the inclusion of women and minority owned managers in the asset management industry. Known supporters of the bill include the New America Alliance and Association of Asian American Investment Managers. The bill sunsets on January 1, 2028, unless it is deleted or extended.

## Analysis

AB 890 requires the CalPERS Board to define the terms "emerging manager" and "diverse manager." Additionally, AB 890 requires CalPERS staff to submit an annual report, on the status of achieving appropriate objectives and initiatives, as defined by the Board, regarding the participation of emerging or diverse managers responsible for asset management within CalPERS' investment portfolio. The report is based on contracts entered into on and after January 1, 2022, and includes:

- Name of each emerging or diverse manager
- The year these emerging or diverse managers were first engaged or contracted to provide services
- Amount managed by each emerging or diverse manager by asset class
- Total amount allocated by asset class during the year
- Total Assets Under Management (AUM) of each asset class per year

### Emerging Managers Program Objective

CalPERS' mission is to deliver retirement and health care benefits to our members and their beneficiaries. In support of our mission, staff proposes the Emerging Manager Program objective below for the CalPERS Board's approval.

**Objective:** To generate appropriate risk adjusted investment returns by identifying early-stage funds with strong potential for success; accessing unique investment opportunities that may otherwise be overlooked; and cultivating the next generation of external portfolio management talent

### Emerging Manager Definition

Staff proposes “Emerging Manager” be defined based on the overall firm’s Assets Under Management (AUM), length of track record, and the specific fund’s size when applicable. The minimum qualification thresholds may vary across asset classes for reasons related to the nature of respective asset classes (e.g., private vs. public)

### Diverse Manager Definition

In 2013, CalPERS established definitions for women and minority owned firms in order to produce an External Manager Diversity Survey. The definitions were developed with the input of several stakeholder groups including the Association of Asian American Investment Managers, National Association of Securities Professionals, National Association of Investment Companies, New America Alliance, and Toigo Foundation. Staff also reached out to diversity consultants and conducted research into diversity definitions used by peer investors and public agencies.

Applying CalPERS initial definition of diversity as a compass, staff identified four core demographics (i.e., gender, ethnicity, sexual orientation, and other) as diversity identifiers informing the definition. Staff proposes the definition of diverse manager be based on the total percentage of firm ownership or fund economics, and meets one of the following tiered thresholds:

- Substantially Diverse: A firm that is 25% to 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive 25% to 50% of the fund’s carried interest
- Majority Diverse: A firm that is over 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive more than 50% of the fund’s carried interest

Upon the Board’s approval, staff will prepare and submit a report to the California State Legislature commencing on March 1, 2023, and annually thereafter.

### **Budget and Fiscal Impacts**

None.

### **Benefits and Risks**

Benefits:

This item will permit the satisfaction of the legislative requirement that CalPERS submit an annual report on the status of achieving appropriate objectives regarding the participation of emerging or diverse managers responsible for asset management within the CalPERS investment portfolio.

Risks:

None.

Attachment 1: The Diversity in the Management of Investments AB 890 Reporting-PPT

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James Andrus  
Interim Managing Investment Director  
Board Governance & Sustainability

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Nicole Musicco  
Chief Investment Officer

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Marcie Frost  
Chief Executive Officer