



Investment Committee

Agenda Item 5b

November 14, 2022

Item Name: Assembly Bill 890: Diversity in the Management of Investments 2021-22 Fiscal Year

Program: Sustainable Investing

Item Type: Action

Executive Summary

The intent of this agenda item is to present to the Investment Committee CalPERS' first Diversity in the Management of Investments Report mandated by Assembly Bill (AB) 890 to be submitted to the California State Legislature (Legislature).

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

In October 2021, AB 890 was signed into law requiring CalPERS and the California State Teachers' Retirement System (CalSTRS) to submit a report to the Legislature commencing on March 1, 2023, and annually thereafter. The bill sunsets on January 1, 2028. 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.

In September 2022, staff provided their recommendation to the CalPERS Board to approve the objective of the Emerging Manager Program and define the terms emerging and diverse manager.

Emerging Manager Definition

The term emerging manager was approved based on the firm's overall Assets Under Management (AUM), length of track record, and the specific fund's size when applicable. The minimum qualification thresholds vary across asset classes for reasons related to the nature of respective asset classes (e.g., private vs. public).

Diverse Manager Definition

Staff identified four core demographics (i.e., gender, ethnicity, sexual orientation, and other) as diversity identifiers. The definitions of diverse manager were approved based on the total percentage of firm ownership or fund economics as follows:

- **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

Emerging Manager Program Objective

The following objective for the Emerging Manager Program was also approved by the Board:

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

It is important to note that California state law (enacted through the passage of Proposition 209 in 1996) prohibits state agencies from discriminating against or granting preferential treatment to any individual or group based on race, sex, color, ethnicity, or national origin in public contracting. As such, CalPERS cannot establish any participation goals for, or provide preferential treatment to, external managers based on race, sex, color, ethnicity, or national origin. Similar restrictions exist under federal law and the US Constitution. CalPERS may, however, collect data and other information regarding diverse characteristics for annual reports to the Legislature.

Analysis

The proposed Assembly Bill 890: Diversity in the Management of Investments 2021-22 Fiscal Year Report contains information related to CalPERS investments with emerging and diverse managers and among other things, provides the manager's name and commitment amount of each emerging and diverse manager. This first report contains emerging and diverse manager activity from January 1 through June 30, 2022. The activity is displayed by each asset class and across CalPERS' Total Fund.

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 under contract to provide services
- Amount managed by each emerging or diverse manager by asset class at the end of the prior fiscal year
- Total amount allocated by CalPERS in the applicable asset class during the fiscal year
- Total Assets Under Management (AUM) of each asset class

During the reporting period, CalPERS allocated funds to 7 managers that met the emerging manager definition, across 3 different asset classes, for a total allocation of \$480.5 million. And for the same reporting period, CalPERS allocated funds to 12 managers that met the definition of diverse manager, for an allocation of approximately \$3.2 billion. Both categories included investments made directly and via fund of funds.

The significant majority of the investments with diverse managers during this reporting period were made in Private Equity, totaling over \$3 billion with diverse managers, and \$175 million with emerging managers.

The Assembly Bill 890: Diversity in the Management of Investments 2021-22 Fiscal Year Report will be submitted to the Legislative no later than March 1, 2023.

Budget and Fiscal Impacts

None. CalPERS has team members that manage the emerging and diverse manager program and the mandated legislature reporting program.

Benefits and Risks

Benefits:

This item satisfies the California State Legislature reporting requirement.

Risks:

None.

Attachment 1: Assembly Bill 890: Diversity in the Management of Investments 2021-22 Fiscal Year-PPT

Attachment 2: Assembly Bill 890: Diversity in the Management of Investments 2021-22 Fiscal Year Report

James Andrus
Interim Managing Investment Director
Sustainable Investing

Nicole Musicco
Chief Investment Officer