



Agenda Item 9

March 14, 2012

ITEM NAME: Diversity Report

PROGRAM: Diversity Outreach Program and Investment and Legal Offices

ITEM TYPE: Information Item

EXECUTIVE SUMMARY

This agenda item provides an overview of the 2011-12 CalPERS Business Plan's diversity and inclusion initiatives and the status of the Diversity Outreach Program (CDOP), the Investment (INVO), and Legal Office's diversity and inclusion (D&I) efforts.

BACKGROUND

As a global investor, public employer, and provider of retirement and health benefits services within the nation's most ethnically and culturally diverse state, CalPERS recognizes diversity and inclusion (D&I) as a competitive advantage that calls for the broadest possible pool of talent, experience, skill, and perspective. The CalPERS Board of Administration acknowledged this by including D&I as an element in the Strategic Plan.

The integrated diversity and inclusion strategy for the Investment Office focuses resources on Portfolio Management and External Outreach initiatives. In Portfolio Management, we develop, implement, and evaluate programs that utilize new and emerging investment managers and related financial service provider firms. External Outreach efforts, through attendance at externally hosted conferences and hosting similar events focused on educational and professional development, promote innovative ideas and increase the pipeline of new and emerging manager opportunities. Talent management initiatives include efforts to increase diversity among the Investment Office workforce.

The Legal Office's Diversity Project seeks to increase diversity within the pool of outside counsel with which CalPERS contracts for legal services so that the pool reflects California's diverse population, provides a broad spectrum of experience, talent, viewpoints and strategies, and elevates the professional expertise available to the CalPERS system through contracting opportunities.

Diversity Outreach Program – Internal Operations

CDOP is on target to achieve the 2011-12 CalPERS Business Plan for Objective 3.2, Enterprise Priority 3, Building Internal Strength. Staff has developed, implemented, or participated in various organization-wide initiatives to enhance appreciation for D&I.

Fifty-five senior leaders completed the Executive D&I Leadership Development Journey in January 2012 and thirty-five others will complete their Journey on March 27th. The training increases Leadership's D&I skills to lead CalPERS in a culturally competent way.

In addition, all staff were invited to attend CDOP's Quarterly Brown Bag Luncheon Series – *Work Shouldn't Hurt – Bullying in the Workplace*. The topic focused on how an abusive work environment can impact our organization and how to identify and address bullying. The event reinforced CalPERS Core Values of Respect, Accountability, Integrity, and Openness.

In April, in partnership with the Human Resources Division and the Office of Public Affairs, CDOP will host a leadership workshop entitled "*What a Difference a Generation Makes*". This workshop will provide insight for leaders, managers, and supervisors on how to foster a productive workplace, develop management flexibility that is more interpersonal and how to communicate better with multi-generational teams.

CDOP currently has two new web-based tools under development, the D&I Leadership Toolkit and the Employee Online D&I Training. The target for the launch, enterprise-wide, is by fiscal year end.

Investment Office

CalPERS investments portfolio includes emerging investment manager programs across all equity asset classifications. Activity highlights for new initiatives and in current work streams during this fiscal year include:

Five-Year Plan for Emerging Manager Participation – SB 294: Staff developed a working document establishing the cross asset class team, timelines, and outline of the Five-Year Plan. This working document will be submitted for review and approval to the Investment Office senior leadership team. Once approved, staff will initiate the draft of the Five-Year Plan. Staff anticipates presenting the draft Five-Year Plan to the Investment Committee in June and delivering to the legislature in August.

New Real Estate Emerging Manager Program: Staff recently selected the Mentoring Manager from a field of four seasoned CalPERS real estate investment managers. The Mentoring Manager will be responsible for sourcing, selecting, and overseeing downstream emerging managers. Staff intends to enter into contract negotiations with the selected Mentoring Manager in the coming weeks. Staff anticipates completion of negotiations and finalizing the management agreement with the selected manager by the end of the fiscal year.

Expansion of Alternative Investment Management (AIM) Program Emerging Domestic Private Equity Manager Program: Staff finalized the due diligence report for the selected candidate to manage a new investment vehicle. Staff intends to enter into contract negotiations and anticipates completion of contract negotiations by the end of the third quarter of the current fiscal year. Once the advisory relationship is fully established, the advisor will be responsible for sourcing, selecting, and overseeing capital commitments to emerging domestic private equity sponsors.

Restructure of Global Equity Emerging Manager Programs: Staff reviewed the characteristics of the existing Global Equity Manager Development Program and Emerging Manager Fund of Funds for consistency with the asset class capital allocation model. This review was discussed with the Investment Office senior leadership team. A proposal for the future direction of the programs will be created by the end of the third quarter of fiscal year 2011-12. Next steps include refining this proposal to incorporate the required conditions for transitioning emerging managers into a direct relationship with CalPERS.

Investment Diversity Consultant Services Spring Fed Pool: Staff developed a scope of services outlining areas of assistance needed to complete four key projects aligned with 2011-12 Roadmap objectives and SB 294 legislation. The four project objectives are:

- Assist with the development of the Five-Year Plan for emerging manager participation
- Develop diversity and emerging manager program outreach initiatives
- Evaluate information about the Investment Office diversity and emerging manager programs on the CalPERS external website
- Build a catalogue of research on emerging manager investment and diversity programs within the financial services industry

Completion of negotiations and finalizing the work agreements with the selected consultants is anticipated to occur by the end of the third quarter of fiscal year 2011-12.

Development of Enhancements to the Investment Proposal Tracking System (IPTS): Staff, assisted by the project consultant LP Capital, developed and presented recommendations to the IPTS Steering Committee for enhancements and new data fields in an effort to improve reporting of proposal submissions by diverse and emerging investment management firms. Next steps include developing an implementation plan and budget for approved changes to submission forms.

Participation in Externally Hosted Outreach Events: Staff presented an update on CalPERS Investment Office emerging manager and diversity initiatives to the Joint Informational Hearing and Town Hall hosted by California State Senator Curren Price and California Public Utilities Commissioner Timothy Simon. This January meeting is the third in a series of events examining perceived and real barriers to procurement opportunities for diverse and emerging management firms in public pensions and utility companies.

Talent Management Initiative: Staff organized and hosted “*Toigo: Day at CalPERS*” event on February 13, 2012. Participants included eleven current Toigo Fellows attending various MBA programs across the US. This event provided an overview of the Investment Office culture, investment philosophy, investment portfolios, and future plans. During the closing session, students met with Investment Office human resources staff to learn more about current and upcoming employment opportunities and how to complete the State of California application process.

Legal Office

The efforts of the Legal Office in meeting D&I initiatives are two-fold. First, the Legal Office has expanded its external legal counsel contracts by creating pools in five new specialty areas and by entering into contracts with firms reflective of California’s diverse population in each of these pools. The next step will be to direct business to these firms as the need for external legal services arises, and to monitor and evaluate the services provided by the firms so that we can recommend any necessary process changes to increase participation and engagement of the firms. In addition, we need to continue our outreach efforts through professional organizations so that we may continue to expand the diversity of the outside counsel pools.

Second, the Legal Office will continue our outreach efforts to all of our contracted law firms so that we enforce with them CalPERS commitment to diversity and inclusion, and so that we ensure that they share our commitment. To this end, we have sent a survey to all of the law firms we have under contract to gather statistics on each firm’s woman and minority representation and information on their diversity and inclusion programs and initiatives. Responses to the survey are due April 20, 2012. Once we have analyzed the survey results, the Legal Office will report them to you, along with our plans to engage any firms that fail to demonstrate a strong commitment to diversity and inclusion.

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