REPORT

CALPERS INVESTMENT MANAGER AND CONSULTANT DIVERSITY AND INCLUSION SURVEY

June 16, 2014
TABLE OF CONTENTS

SECTION 1: Executive Summary
SECTION 2. Survey Overview and Firm Statistics
SECTION 3. Report of Survey Findings
  A. Workforce Demographics
  B. Key Position Demographics
  C. Governance Function Demographics
  D. Practices, Policies and Programs
  E. Conclusions
SECTION 4: Survey Methodology
EXECUTIVE SUMMARY

In January 2014, CalPERS published the *CalPERS Commitment to Diversity and Inclusion Report for Fiscal Year 2012-13* (D&I Report). The D&I Report highlights CalPERS recent accomplishments and continued commitment to diversity and inclusion.

The *CalPERS Investment Manager and Consultant Diversity and Inclusion Survey Report* (Report) is an important part of CalPERS 2014 Investment Office diversity and inclusion efforts. The Report presents the results of a survey of current investment managers and consultants on the following topics:

- Firm workforce and key position diversity
- Firm governance diversity
- Firm Diversity and Inclusion practices, policies and programs
EXECUTIVE SUMMARY (continued)

In March 2014, CalPERS surveyed 232 current investment managers and consultants. Valid survey submissions were received from 147 companies, representing an aggregate workforce of 51,466 employees.

<table>
<thead>
<tr>
<th>FIRM</th>
<th>SURVEYS SENT TO ELIGIBLE FIRMS</th>
<th>SURVEYS COMPLETED</th>
<th>RESPONSE RATE</th>
<th>NUMBER OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager Firms</td>
<td>203</td>
<td>125</td>
<td>62%</td>
<td>26,372</td>
</tr>
<tr>
<td>Consulting Firms</td>
<td>29</td>
<td>22</td>
<td>76%</td>
<td>25,094</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>147</td>
<td>63%</td>
<td>51,466</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY (continued)

Workforce Demographics

Surveyed firms were asked to provide gender and race/ethnicity for all employees across their entire investment unit.

- Of the workforce, 28% are minorities.
  - 13.5% are minority women
  - 14.3% are minority men

- The percentages of women and minorities mirror broader Equal Employment Opportunity Commission (EEOC) Investment Industry data.
  - 43% women and 57% men
  - 24% minorities and 76% undisclosed
EXECUTIVE SUMMARY (continued)

CalPERS compared Firms surveyed to EEOC Investment Industry Data by Specific Race/Ethnicity.

- Percentages of minorities at Firms surveyed vary by race/ethnicity when compared to Investment Industry data.
EXECUTIVE SUMMARY (continued)

Key Position Demographics

CalPERS surveyed firms on key positions: Executive, Manager, and Associate.

The percentage of women decreases as seniority of key positions increases.

The percentage of minorities decreases as seniority of key positions increases.
EXECUTIVE SUMMARY (continued)

Key Position Demographics

Key Competency Positions Compared to EEOC Investment Sector Data

The percentages of women in key positions mirror or are greater than Investment Industry data.

<table>
<thead>
<tr>
<th>Position</th>
<th>Firms</th>
<th>EEOC Investment Sector Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>45.2%</td>
<td>38.9%</td>
</tr>
<tr>
<td>Mid-level</td>
<td>36.1%</td>
<td>37.3%</td>
</tr>
<tr>
<td>Executive</td>
<td>20.4%</td>
<td>19.1%</td>
</tr>
</tbody>
</table>

The percentages of minorities in key positions are greater than Investment Industry data.

<table>
<thead>
<tr>
<th>Position</th>
<th>Firms</th>
<th>EEOC Investment Sector Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associate</td>
<td>32.2%</td>
<td>25.6%</td>
</tr>
<tr>
<td>Mid-level</td>
<td>24.6%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Executive</td>
<td>13.7%</td>
<td>9.9%</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY (continued)

Key Position Demographics

Key Positions by Gender and Race/Ethnicity

- Of the four cohorts, minority women are least represented at the Manager and Executive-levels.
- Although undisclosed women and minorities account for 61.2% of Associate-level positions, they make up only 30.4% of Executive-level positions.
- As a whole, women represent a large percentage of the Associate-level (45.2%) but a small percentage of the Executive-level (20.2%).
EXECUTIVE SUMMARY (continued)

Key Position Demographics in Firm Functional Areas

Staff analyzed key position data in Investments, Business Development and Operations and found:

- Women are best represented at all levels in Operations.
- Participation of women lags in Investments.
- In the three firm functional areas, percentages of women at firms surveyed mirror or exceed the broader Investment Industry in most key positions.
- As a whole, minorities are best represented in Operations and Investments.
- In the three firm functional areas, percentages of minorities at firms surveyed exceed the broader Investment Industry in almost all key positions, including all Executive-level positions.
EXECUTIVE SUMMARY (continued)

Board and Committee Demographics

• Percentages of women are highest on Hiring (20.2%) and Compensation Committees (19.9%). Women’s participation is lowest on Investment Committees (12.8%).

• Minorities, particularly Asian-Americans, are best represented on Investment Committees (18.5%).

Diversity and Inclusion Practices, Policies and Programs

• Almost all firms with 250+ employees have diversity and inclusion practices, policies and programs.

• Smaller firms are less likely to have diversity and inclusion practices, policies and programs.
SURVEY OVERVIEW AND FIRM STATISTICS
SURVEY OVERVIEW

• The survey was conducted in March 2014 and data was requested as of December 31, 2013.

• RG & Associates was hired to draft the survey and compile the data.

• Participation was voluntary and most questions were optional.

• Firms were asked to respond to the survey on behalf of their investment division only.

• Survey results in this report are aggregated and responding firms are not identified.

• The Report only reflects the firms that elected to respond. It is not intended to be used to draw industry-wide conclusions.
SURVEY OVERVIEW (continued)

Survey Respondents

The data represents 147 firms with an aggregate workforce of 51,466 employees.

<table>
<thead>
<tr>
<th>FIRM</th>
<th>SURVEYS SENT TO ELIGIBLE FIRMS</th>
<th>SURVEYS COMPLETED</th>
<th>RESPONSE RATE</th>
<th>NUMBER OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager Firms</td>
<td>203</td>
<td>125</td>
<td>62%</td>
<td>26,372</td>
</tr>
<tr>
<td>Consulting Firms</td>
<td>29</td>
<td>22</td>
<td>76%</td>
<td>25,094</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>147</td>
<td>63%</td>
<td>51,466</td>
</tr>
</tbody>
</table>
FIRM STATISTICS
Surveyed Firms by Workforce Size

Six firms collectively employ 35,854 employees, representing 69.7% of the total investment workforce.

- Five are managers with a total of 12,336 employees.
- One is a consultant with a total of 23,518 employees.
- These firms disproportionately impact the Report’s workforce and key position demographics.
General Information on Surveyed Firms

• Nearly one third of the surveyed managers have $10 billion or more in assets under management.

• The number of privately held companies (127) significantly exceeds the number of publicly held companies (20).

• There are 27 firms headquartered internationally that employ 3,005 employees subject to U.S. tax law.
WORKFORCE DEMOGRAPHICS

Report of Survey Findings
WORKFORCE DEMOGRAPHICS

Surveyed firms were asked to provide gender and race/ethnicity for all permanent employees across their entire investment unit.

• Based on U.S. Census Data, race/ethnicity was defined as:
  • African American
  • Asian American
  • Hispanic American
  • Native American
  • Multiple Races or Other Minority Not Specified

• If race/ethnicity was not specified, the report uses the term “Undisclosed.” “Undisclosed” likely indicates White/Caucasian, however, may also include employees who declined to state.
WORKFORCE DEMOGRAPHICS (continued)

Gender and Race/Ethnicity

- Of the workforce, 13.5% are minority women and 14.3% are minority men.
WORKFORCE DEMOGRAPHICS (continued)
By Race/Ethnicity

- Asian Americans make up half of minority employees.
- There are significant differences in the percentages of men and women in the undisclosed, African American and Asian American cohorts.
WORKFORCE DEMOGRAPHICS (continued)
Asset Class Demographics by Gender and Race/Ethnicity

- Women comprise approximately 37-44% of the workforce across all asset classes.
- Minority participation ranges from 26-30% across all asset classes.
WORKFORCE DEMOGRAPHICS (continued)

U.S. Investment Industry Demographics

• Staff sought to compare survey results with the broader Investment Industry.
• EEOC collects demographic information from all U.S. companies with over 100 employees.
  • This demographic information is classified into industries under the North American Industry Classification System.
• Almost half of the CalPERS survey respondents report to the EEOC under “Other Financial Investment Activities,” more than any other classification.
• Staff used 2012 EEOC Other Financial Investment Activities data to represent the broader Investment Industry for comparison purposes.
  • This data represents 612 firms and 187,826 employees.
The gender and race/ethnicity data of survey respondents is very similar to the broader Investment Industry data.
WORKFORCE DEMOGRAPHICS (continued)
Firms Compared to EEOC Investment Industry Data by Specific Race/Ethnicity

<table>
<thead>
<tr>
<th>Minority Categories</th>
<th>Firms</th>
<th>EEOC Investment Industry Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Undisclosed</td>
<td>72.2%</td>
<td>75.8%</td>
</tr>
<tr>
<td>Minority</td>
<td>27.8%</td>
<td>24.2%</td>
</tr>
<tr>
<td>African American</td>
<td>4.8%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Asian American</td>
<td>15.3%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Hispanic American</td>
<td>4.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Native American</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Two or more / Other minority</td>
<td>2.8%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

- Percentages of minorities at Firms surveyed vary by race/ethnicity when compared to Investment Industry data.
KEY POSITION DEMOGRAPHICS

Report of Survey Findings
KEY POSITION DEMOGRAPHICS

Key Positions Explained

In addition to women and minority data, CalPERS surveyed firms on key positions across three functional areas.

• For the purposes of the survey, key positions were defined as:
  • Executive/Senior-level Officials (Executives)
  • Mid-level Officials and Managers (Managers)
  • Associate-level and Other Professionals (Associates)

• Firm functional areas included:
  1. Investment and Portfolio Management/Consulting (Investments)
  2. Business Development and Investor Relations (Business Development)
     • If separate from Investments
  3. Operations
     • Includes finance/accounting, legal, compliance and risk management, human resources, IT, procurement, and facility management
The percentages of women and minorities decrease as positions increase in seniority.

There is a significant decrease in the percentages of women and minorities from the Manager to Executive-levels.
• The percentages of women in key positions mirror or are higher than Investment Industry data.
• The percentages of minorities in key positions are greater than Investment Industry data.
Of the four cohorts, minority women are least represented at the Manager and Executive-levels.

Although Undisclosed women and minorities account for 61.2% of Associate-level positions, the three cohorts make up only 30.4% of Executive-level positions.

As a whole, women represent a large percentage of the Associate-level positions (45.2%) but a small percentage of Executive-level positions (20.4%).
KEY POSITION DEMOGRAPHICS (continued)
Women and Minorities in Firm Functional Areas

- Staff analyzed key position and firm functional area data in detail and determined:
  - Women are best represented at all levels in Operations.
  - Participation of women lags in Investments.
  - In the three firm functional areas, percentages of women at firms surveyed mirror or exceed the broader Investment Industry in most key positions.
  - As a whole, minorities are best represented in Operations and Investments.
  - In the three firm functional areas, percentages of minorities at firms surveyed exceed the broader Investment Industry in almost all key positions, including all Executive-level positions.
FIRM GOVERNANCE

Report of Survey Findings
FIRM GOVERNANCE DEMOGRAPHICS

Boards and Management Committees

• In addition to workforce and key position demographics, firms were asked if they had the following governing functions:

<table>
<thead>
<tr>
<th>Governance Function</th>
<th>% Replied Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>39%</td>
</tr>
<tr>
<td>Investment Committee (managers only)</td>
<td>70%</td>
</tr>
<tr>
<td>Hiring Committee</td>
<td>69%</td>
</tr>
<tr>
<td>Compensation Committee</td>
<td>76%</td>
</tr>
</tbody>
</table>

• If answered affirmatively, firms were further surveyed on gender and racial demographics within these governance functions.
FIRM GOVERNANCE DEMOGRAPHICS (continued)
Board and Management Committees by Gender and Race/Ethnicity

Women in Governing Functions

- 15.7% on Board of Directors
- 12.8% on Investment Committees
- 20.2% on Hiring Committees
- 19.9% on Compensation Committees

Minorities in Governing Functions

- 12.4% on Board of Directors
- 18.5% on Investment Committees
- 11.9% on Hiring Committees
- 11.3% on Compensation Committees

- The percentages of women are highest on Hiring and Compensation Committees and lowest on Investment Committees.
- Minorities, particularly Asian Americans, are best represented on Investment Committees.
PRACTICES, POLICIES AND PROGRAMS

Report of Survey Findings
PRACTICES, POLICIES AND PROGRAMS
Surveyed Firms with D&I Practices, Policies and Programs by Size

- Almost all large firms have a Written D&I Policy or Program and most also have other practices, policies and programs including D&I Committees and Targeted Recruiting.
- Smaller firms are less likely to have D&I practices, policies and programs in place.
CONCLUSIONS

• Percentages of women and minorities at surveyed firms mirror or exceed the broader investment industry data for both workforce and key positions.

• Investment industry diversity significantly lags the diversity of the U.S. workforce.

• The low representation of women and minorities and the disparity in the diversity of the investment sector compared to the U.S. workforce raises concerns.
SURVEY METHODOLOGY

Data Collection, Analysis and Definitions
SURVEY METHODOLOGY

Data Collection and Analysis

• The following asset classes were included in the survey: Fixed Income, Global Equity, Private Equity, ARS/Hedge Funds, and Real Assets.

• Each of the asset classes identified a list of current external managers and Fund of Fund (FoF) advisors. Investment Office Staff identified a list of consultants who had performed investment work for CalPERS in the past 36 months.
  • For the purposes of this survey, funds within a FoF were not included.

• Staff coordinated a single point of contact at each firm prior to distributing the survey.

• In March, each company was sent a unique survey link through SurveyMonkey to facilitate tracking of survey responses.
  • All Managers were sent the CalPERS Investment Manager and FoF Advisor Diversity and Inclusion Survey.
  • All consultants were sent the CalPERS Consultant Diversity and Inclusion Survey.
  • CalPERS sent out a follow up email within 24 hours with a PDF of the corresponding survey.
SURVEY METHODOLOGY (continued)
Data Collection and Analysis

• To ensure consistent and accurate responses to questions from respondents, all survey-related questions were handled by RG + Associates.

• Each firm was asked to submit a single survey response despite any multiple relationships with CalPERS.

• Subsidiary firms within a larger, diversified financial services firm were instructed to provide data solely for the investment management unit and not at the parent company level. Managers were instructed to provide data on all employees, including support personnel, whether or not directly involved with CalPERS assets.

• Consistent with EEOC reporting guidelines, respondents were instructed to provide data for all permanent full and part-time employees on the payroll as of December 31, 2013 and subject to U.S. Social Security tax withholdings.
SURVEY METHODOLOGY (continued)

Data Collection and Analysis

- The survey used U.S. Census based definitions for race/ethnicity.
- The survey collected total numbers of men and women and numbers of African American, Asian American, Hispanic American, Native American and Two or More Races/Other Minority.
  - If a race was not specifically stated this report uses the term “Undisclosed.” It is likely that most employees identified as “Undisclosed” are White/Caucasian, however, may also include employees who declined to state.
- EEOC Sector 5239 data from 2012 is used in the Report to represent the broader Investment Industry for comparison purposes.
SURVEY METHODOLOGY (continued)
Data Collection and Analysis

• Key Position definitions are based on those utilized by the U.S. Equal Employment Opportunity Commission (EEOC) to facilitate data collection for survey respondents and CalPERS comparison to EEOC data.

  • *Executive/Senior-Level Officials.* Individuals who establish policies, set strategy and provide overall direction of enterprises/organizations for the development and delivery of products or services. They include, in smaller organizations, only those individuals that report directly to the CEO, and in larger organizations, those individuals within two reporting levels of the CEO.

  • *First/Mid-Level Officials and Managers.* Individuals who serve as managers, other than those who serve as Executive/Senior Level Officials, including those who oversee and direct the delivery of products, services or functions at group, regional or divisional levels of organizations. These managers receive directions from the Executive/Senior Level management and typically lead major business units or key functional areas.

  • *Second/Associate-Level and Other Professionals.* Individuals who are more junior in the organization, but have the academic credentials and are on a path that could lead them to First/Mid-Level positions or the equivalent on a technical career track.

• Consultants were instructed to answer the survey if they had worked for CalPERS in 2013. Investment Office staff reviewed a list of all consultants to verify.
This report reflects the data that was provided by the managers and consultants that chose to participate in the voluntary survey. The data has not been altered, augmented, audited or independently corroborated by CalPERS.

As self-selection biases may be present in the group of firms that chose to respond, CalPERS makes no representations about its entire base of investment partners or the investment management industry as a whole.