Diversity and Inclusion: The Business Case for Investors

Moderator:


Presenters:

Michael Garland, Assistant Comptroller for Corporate Governance and Responsible Investment, Office of the New York City Comptroller;
William R. Atwood, Executive Director of the Illinois State Board of Investment;
Erika Seth Davies, Director of External Affairs at ABFE;
Renaye Manley, SEIU Capital Stewardship, and
Jay Rehak, Trustee at the Chicago Teachers’ Pension Fund
Agenda

• Opening Remarks

• Presentation: How Funds are Leading on Diverse Investments and Supporting Diverse Boards
  Michael Garland, Assistant Comptroller, Corporate Governance and Responsible Investment, Office of the New York City Comptroller
  William R. Atwood, Executive Director, Illinois State Board of Investment

• Presentation: Partners for Change
  Erika Seth Davies, Director of External Affairs, AFBE: A Philanthropic Partnership for Black Communities
  Renaye Manley, Coordinator, SEIU Capital Stewardship Department

• Trustee Voices: How Chicago Teachers Pension Fund Trustees Lead the Way on Diversity
  Jay Rehak, Trustee, Chicago Teachers Pension Fund

• Questions and Comments

• Next Steps: Resources for Talking About Diversity and Inclusion at Your Fund

• Conclusion
Shared Value is “creating economic value in a way that also creates value for society by addressing its needs and challenges.”


The Price of Unfairness

“Unfairness costs U.S. employers $64 billion on an annual basis—a price tag nearly equivalent to the 2006 combined revenues of Google, Goldman Sachs, Starbucks and Amazon.com or the gross domestic product of the 55th wealthiest country in the world.”

- “The Cost of Employee Turnover Due Solely to Unfairness in the Workplace”, 2007 Report by the Level Playing Field Institute
Growth Potential

“. . . closing the minority income gap was estimated to potentially increase GDP in 2050 by 20%, or about an additional 0.5% growth per year, which would materially raise long-term GDP projections.”

**Diverse Boards’ Return on Equity**

A 2007 study found that Fortune 500 companies in the top quartile for female board representation outperform those in the lowest quartile by at least 53 per cent return on equity.

- from “The Bottom Line: Corporate Performance and Women’s Representation on Boards” by Catalyst
Role of Investment Consultants

“. . . diversifying investment managers is difficult in that the oversight of the investment portfolio requires specialized expertise that neither the CEO nor the average board member is likely to possess. As a result, board members and senior staff are likely to defer to the recommendations of the external investment consultant about identifying and selecting the best investment managers for the foundation’s portfolio.”

“. . . foundations should regularly ask their investment consultant firm to report on how many diverse investment management firms they have recommended to all of their clients, including the foundation.”

- “Investment Manager Diversity: The Hardest Taboo to Break”
Role of Trustees

Rod Gillum, a trustee for the W.K. Kellogg Foundation, underscores that trustees and directors play a critical role in enabling foundation staff to go beyond business-as-usual to make their investment processes more inclusive.

“We do set a tone,” he says. “It is incumbent upon those of us in the room to ask the question: Aren’t there people of color and women who can manage and invest foundation assets? And if staff needs some help from board members to identify qualified candidates, we are willing to assist in this regard.”

- “Who Manages the Money? How Foundations Should Help Democratize Capital”
Agenda

- **Opening Remarks**

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- **Next Steps: Resources for Talking About Diversity and Inclusion at Your Fund**

- **Conclusion**
Chicago Teachers' Pension Fund remains leader among pension funds in MWDBE efforts

CHICAGO, Jan. 6, 2015 /PRNewswire/ -- As part of two fiscal year-end reports, the Chicago Teachers' Pension Fund (CTPF) today announced that it invested more than $3.6 billion in assets or approximately one-third of total fund assets with Minority, Women and Disadvantaged Business Enterprise (MWDBE) firms, a 2 percent increase over fiscal year 2013 investments. The fund's work was highlighted during October testimony at an Illinois Senate Committee hearing on Pensions and Investments and in a December report provided to the Illinois Governor's office.

"Our pension fund has a longstanding commitment to a diverse investment base and has recognized the benefits of investing with MWDBE owned funds since the early 1990s," said Jay C. Rehak, president of the Chicago Teachers' Pension Fund Board of Trustees. "Our MWDBE program has been instrumental in our long-term success. We believe diversity of managers makes fiscal sense in a global market."

The recently submitted reports are required by a 2009 Illinois law, PA 96-006, encouraging the trustees of public pension funds to use emerging investment managers in managing their system's assets. The law also encourages funds to take affirmative steps to remove any barriers to the full participation of emerging investment managers in investment opportunities.

A breakdown of assets by status as of June 30, 2014, includes $1.44 billion managed by women-owned firms; $1.29 billion managed by African American-owned firms; $823.7 million managed by Latino-owned firms; $54.2 million managed by Asian American-owned firms; and $10.8 million managed by Persons with a Disability-owned firms.

Over the past twenty years, CTPF has seen dramatic growth in MWDBE investments. The fund invested 6% of assets in MWDBE-owned funds in 1993. Today the total investment has grown to 33.4%.

"We look forward to continuing our partnership with the more than 40 MWDBE-owned firms and continuing to invest in these productive relationships," said Rehak.

CTPF invests in emerging managers through direct mandates and a Manager-of-Managers program (MoMs). Currently the fund has direct relationships with 24 MWDBE firms who manage 33 portfolios. The fund has a MoMs relationship with an additional 22 firms who manage 28 portfolios. Managers who perform well under the MoMs program graduate to direct mandates with the fund. Since the program’s inception, six firms have graduated.


ABOUT CTPF
Established by the Illinois state legislature in 1895, the Chicago Teachers' Pension Fund manages members' assets and administers benefits. The $10.9 billion pension fund serves more than 63,000 active and retired educators, and provides pension and health insurance benefits to 27,700 beneficiaries.
NYC Pension Funds’ Shareowner Initiatives on Diversity
2015 Shareowner Initiatives on Diversity

- Board Diversity
- Workforce Diversity Disclosure
- Supplier Diversity Disclosure
The effort by the New York City pension funds will focus on companies that have been unwilling to change practices in three areas: board diversity, climate change and executive compensation. Companies with no women as directors or those with little or no ethnic diversity were identified, along with companies whose shareholders had recently expressed dissatisfaction with executive pay practices but had done nothing to address them. On climate change, more than a third of the companies identified by the shareholder group are in the energy industry.
<table>
<thead>
<tr>
<th>Alexion Pharmaceuticals</th>
<th>Nabors Industries Ltd.</th>
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<tbody>
<tr>
<td>Alliance Data Systems</td>
<td>NVR</td>
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<td>AvalonBay Communities</td>
<td>PACCAR</td>
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<td>Cabot Oil &amp; Gas</td>
<td>Precision Castparts Corp.</td>
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<td>CF Industries Holdings</td>
<td>Priceline Group The</td>
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<td>Cimarex Energy</td>
<td>Regeneron Pharmaceuticals</td>
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<td>Cloud Peak Energy</td>
<td>Roper Industries</td>
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<td>eBay</td>
<td>SBA Communications</td>
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<td>Fidelity National Financial</td>
<td>Urban Outfitters</td>
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<tr>
<td>FleetCor Technologies</td>
<td>VCA</td>
</tr>
<tr>
<td>Level 3 Communications</td>
<td>Visteon</td>
</tr>
<tr>
<td>Monster Beverage</td>
<td>Whiting Petroleum</td>
</tr>
</tbody>
</table>
BUSINESS

In Shift, Firms Give Investors New Clout Over Board Seats

Move rattles some as proxy access could give pension funds, unions greater influence over firms’ strategic choices

By ANDREW ACKERMAN and JOANN S. LUBLIN
March 16, 2015 7:55 p.m. ET

WASHINGTON—Several big U.S. companies are poised to hand activist investors the keys to their boardrooms following intense shareholder pressure and a regulatory shift that disrupted firms’ ability to block investor initiatives.

At least 14 companies, including Yum Brands Inc., Citigroup Inc. and General Electric Co., have agreed in recent weeks to support giving shareholders the ability to nominate their own directors for corporate ballots.
Workforce Diversity Disclosure

• Proposal calls for disclosure of EEO-1 report provided annually to the U.S. Department of Labor detailing composition of U.S. workforce by race and gender across major job categories, including senior management.

• Focus on financial services and advertising industry, both of which are characterized by pervasive and persistent underrepresentation of women and minorities, especially in senior management.

• Three Focus Companies:
  ▪ American Express
  ▪ Charles Schwab
  ▪ Omnicom Group
April 2014 the Comptroller sent letters to 20 companies requesting public disclosure of quantitative performance of their supplier diversity program.

Focus list included the largest S&P 100 companies that:
1. Have a supplier diversity program in place (over 90% do)
2. Do not disclose quantitative information on program performance

We asked that they disclose:
- Annual spend ($ and % of total spend) with diverse suppliers
- Quantitative performance goals and progress towards these goals
- Board and senior management oversight
- Compensation incentives
Supplier Diversity: Significant Outcomes

- Altria Group – will disclose goals and progress
- United Technologies – will disclose $ spent
- 3M – considering disclosure of spend, goals and progress
- Qualcomm – considering best metrics to track/report
- ConocoPhillips – reviewing quantitative data to report
- Amgen – additional qualitative info on supplier diversity program
- Bristol-Myers Squibb – additional qualitative information
Illinois State Board of Investment

TLF Webinar on Diversity and Inclusion
William Atwood
March 19, 2015
Illinois State Board of Investment (ISBI)

- Created in 1969
- Fiduciary for Pension Assets of SERS, JRS, GARS, and Illinois Power Agency
- State of Illinois 457 Plan
- Nine Members
  - 5 Appointed by the Governor
  - 4 By Statute
    - Chairs of SERS, JRS, and GARS, and State Treasurer
- $15.1 Billion in defined benefit assets
- $4.1 Billion in defined contribution assets
ISBI Portfolio

• $15.1 Billion in assets
• Asset Allocation

- Fixed Income: 20%
- U.S. Equities: 30%
- Non-U.S. Equities: 20%
- Hedge Funds: 10%
- Real Estate: 10%
- Real Assets: 5%
- Private Equity: 5%
- Private Equity: 5%
Emerging Manager Committee

• Created 2005
• Responsibilities
  o Emerging managers
  o Minority/Female owned managers
  o MBE/FBE Brokerage
• Five members
• Senator James Clayborne, Chair
# Minority Brokerage Utilization

**June 30, 2014**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Actual % Utilization</th>
<th>% Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>44%</td>
<td>30%</td>
</tr>
<tr>
<td>International Equity</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Domestic Fixed Income</td>
<td>36%</td>
<td>20%</td>
</tr>
<tr>
<td>International Fixed Income</td>
<td>0%</td>
<td>0-5%</td>
</tr>
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</table>
Emerging Manager


- For the purposes of this Code, "emerging investment manager" means a qualified investment adviser that manages an investment portfolio of at least $10,000,000 but less than $10,000,000,000 and is a "minority owned business", "female owned business" or "business owned by a person with a disability" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.
<table>
<thead>
<tr>
<th>Manager</th>
<th>Asset Class</th>
<th>Commitment</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Castile III</td>
<td>Venture Capital Private Equity</td>
<td>$15,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td>Clearlake Capital III</td>
<td>Opportunistic Private Equity</td>
<td>20,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td>Levine Leichtman V</td>
<td>Multi-Strategy Private Equity</td>
<td>20,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td>Valor II</td>
<td>Buyout Private Equity</td>
<td>25,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td>Valor III</td>
<td>Growth Equity Private Equity</td>
<td>20,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td>MacFarlane Urban Real Estate Fund II</td>
<td>Opportunistic Real Estate</td>
<td>30,000,000</td>
<td>Emerging</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td></td>
<td><strong>$130,000,000</strong></td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td>Asset Class</td>
<td>Market Value</td>
<td>Ownership</td>
</tr>
<tr>
<td>--------------------------</td>
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<td>---------------</td>
<td>-----------</td>
</tr>
<tr>
<td>LM Capital</td>
<td>Core Fixed Income</td>
<td>$471,232,981</td>
<td>Emerging</td>
</tr>
<tr>
<td>Garcia Hamilton</td>
<td>Core Fixed Income</td>
<td>158,997,763</td>
<td>Emerging</td>
</tr>
<tr>
<td>Decatur Capital Mgmt</td>
<td>Large-Cap Core</td>
<td>18,334,687</td>
<td>Emerging</td>
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<tr>
<td>Channing Capital Mgmt</td>
<td>Small-Cap Value</td>
<td>62,783,299</td>
<td>Emerging</td>
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<tr>
<td>Fiduciary Mgmt Assoc.</td>
<td>Small-Cap Value</td>
<td>78,150,903</td>
<td>Emerging</td>
</tr>
<tr>
<td>Opus Capital Mgmt</td>
<td>Small-Cap Value</td>
<td>124,436,708</td>
<td>Emerging</td>
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<tr>
<td>Ariel Investments</td>
<td>Micro-Cap Value</td>
<td>25,589,177</td>
<td>Emerging</td>
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<tr>
<td>Ariel</td>
<td>Non-U.S. Large Cap Core</td>
<td>116,231,856</td>
<td>Emerging</td>
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<tr>
<td>Lombardia</td>
<td>Non-U.S. Large Cap Core</td>
<td>79,892,502</td>
<td>Emerging</td>
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<tr>
<td>GlobeFlex Capital</td>
<td>Non-U.S. Small-Cap Value</td>
<td>68,214</td>
<td>Emerging</td>
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<tr>
<td>Herndon Capital Mgmt</td>
<td>Large-Cap Core</td>
<td>119,874,757</td>
<td>Minority</td>
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<tr>
<td><strong>TOTAL:</strong></td>
<td></td>
<td><strong>$1,255,592,847</strong></td>
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Emerging & Minority Manager Program
June 30, 2014

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Emerging &amp; Minority Composite</td>
<td>24.6%</td>
<td>13.4%</td>
<td>1.5%</td>
<td>14.3%</td>
<td>23.8%</td>
<td>-26.8%</td>
<td>5.2%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>23.5%</td>
<td>13.1%</td>
<td>-0.5%</td>
<td>14.6%</td>
<td>25.6%</td>
<td>-30.1%</td>
<td>5.7%</td>
<td>14.4%</td>
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<tr>
<td>Emerging Manager Composite</td>
<td>16.1%</td>
<td>9.5%</td>
<td>0.7%</td>
<td>11.9%</td>
<td>16.9%</td>
<td>-19.7%</td>
<td>8.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>14.0%</td>
<td>8.6%</td>
<td>-3.5%</td>
<td>11.2%</td>
<td>26.2%</td>
<td>-35.2%</td>
<td>4.4%</td>
<td>16.5%</td>
</tr>
</tbody>
</table>
## RockCreek Group
### June 30, 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>January 1, 2006</th>
<th>June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of ISBI Allocation</td>
<td>$100,000,000</td>
<td>$553,641,772</td>
</tr>
<tr>
<td>Firm AUM</td>
<td>$1,900,000,000</td>
<td>$10,300,000,000</td>
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</tbody>
</table>
## Herndon Capital Management
### June 30, 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>April 25, 2005</th>
<th>June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of ISBI Allocation</td>
<td>$29,611,223</td>
<td>$119,874,757</td>
</tr>
<tr>
<td>Firm AUM</td>
<td>$255,290,621</td>
<td>$10,277,533,355</td>
</tr>
</tbody>
</table>
Going Forward

• September, 2014
  o Emerging real estate allocation

• December, 2014
  o Emerging hedge fund allocation

• 2015
  o Continued focus on alternative assets—Real estate, private equity, and hedge funds
ABOUT ABFE

❖ Founded in 1971 to promote effective & responsive philanthropy in Black communities.

❖ Membership-driven organization reaching over 300 individuals (staff and trustees) in philanthropy

❖ Core Competencies:
  • Advocacy
  • Networking & Convening
  • Knowledge, Training & Technical Assistance
  • Professional Development
SMART INVESTING

- Produce and distribute relevant information
- Host or facilitate education and networking forums with foundation decision makers
- Produce directory of minority- and women-owned investment firms
- Engage managers through ABFE’s Industry Partner affiliation
SHARING KNOWLEDGE

Investment Manager Diversity
The Hardest Taboo to Break

Who Manages The Money?
How foundations should help "democratize capital"

Foundation Investment Management Practices:
Thoughts on Alpha and Access for the Field
Profit Investments

FIRM HISTORY & PROFILE
Profit Investments was founded in April of 1996 to manage growth portfolios for institutional clients; initially registered with the SEC in July 29, 1996. As of September 30, 2013, Profit Investments manages approximately USD $2.1B for institutional clients investing in U.S. equities. Profit is an African American owned firm and we are certified in Maryland as a Minority Business Enterprise.

Eugene A. Profit, who founded the firm, is the leading shareholder and is responsible for the overall operations of the firm. Mr. Profit has been the portfolio manager of the Profit Equity portfolios since its inception date and there are no predecessor firms.

DESCRIPTION OF FUND INVESTMENT
Profit Investments Style process capitalizes on the fact that, after one adjusts for market and industry group influences and temporary market effects, successful stocks share common characteristics. Profit Investments buys a security when 1) the valuation is low compared to the earnings growth of the stock and 2) a rationale for the stock market mispricing of the security can be identified and corrected.

The firm's internal research is done in a highly disciplined, fundamental bottom-up process. We combine fundamental market knowledge with technology to identify stocks with the characteristics that drive equity returns.

Using our in-house proprietary screening model, we are able to screen efficiently across the over 9,500 securities trading on the U.S. stock exchanges and make a workable list of the companies with which we would like to have more familiarity.

Manager Highlights:
- Long-Only
- Large Growth
- Firm AUM: $2.1B
- Fund AUM: SN/A

Performance (Since Inception of 06/01/1996):
- 9.5% Ann. Return
- 22.6% YTD Ann. Return
- N/A Volatility
- 4.7% Benchmark Return

Ownership Diversity:
- 51% Minority

Primary Contact:
Carol J. Oliver
Managing Director, Business Development
(301) 550-0059
coliver@profitfunds.com
BARRIERS TO OPPORTUNITY

• Policies and practices prevent connection to qualified minority managers
• Misperception among foundations and consultants of higher risk
• Limited access to minority investment talent in different asset classes
• Limited marketing resources among investment firms of color
• Long-term relationships with familiar names
• Implicit bias
• Consultants as gatekeepers
RECOMMENDATIONS FOR INCREASING OPPORTUNITY

• Intentional and explicit policies for inclusion
• Connect effort to performance appraisal for staff and/or consultants
• Explore platforms that offer exposure to minority and women managers
• Monitor relationships with consultants to ensure their process includes identifying and tracking minority and women managers for ALL clients
• Get to know the organizations that support minority and women managers, i.e., AAAIM, NASP, NAIC, New America Alliance, 100 Women in Hedge Funds, etc.
• Attend conferences and events that engage minority and women managers
• Encourage collaborative business models and partnerships between traditional consulting firms and managers
WHAT WE ARE LEARNING

• Appetite for learning more about the opportunity to invest with diverse talent
• Start with the facts and use data
• Engage in respectful conversation in safe space
• Inequities are systemic but implicit bias effects individual decision making
• Identify your allies and preach to the choir
• Engage colleagues and peers with greatest level of influence
• Make it someone’s job to focus on inclusive practices
• Cultivate new leadership around the work
Racial Equity and Investments
Income Inequality

• There are different ways to talk about income inequality, especially
  
• o What the top gets relative to the rest
  
• o The level of prosperity or poverty for the 99% or broad middle
  
• o Structural inequalities due to race, ethnicity, and gender

• It is important to know which of these we are dealing with, because they imply potentially different approaches. Failure to pay attention to structural inequalities like race will mean that existing inequalities will tend to be reinforced.
Diversity and Inclusion

• One important step toward meeting the fiduciary obligations and potential as a driver of broad economic prosperity is to ensure pension funds investment approaches are inclusive and representative of the diversity in our society and of members’ whose dollars they steward.

• We believe pension funds cannot appropriately meet their fiduciary duty without addressing this lack of opportunity for people of color and women in the investment process. We believe a robust economy that works for everyone includes diversity—plain and simple.

• **Goals:** Understand the role of minority and other “emerging” managers can have on the investment portfolio. Adopt fund policies that encourage the use of minority managers. Engage local union membership in developing potential trustees for elected and appointed trustee positions in collaboration with the broader labor movement. Increase the utilization of minority mangers and service providers throughout the fund.
Who we work with

- National Association of Security Professionals [www.nasphq.org](http://www.nasphq.org)
- New America Alliance [www.naaonline.org](http://www.naaonline.org)
- Hispanic Heritage Foundation [www.hispanicheritage.org](http://www.hispanicheritage.org)
- Association of Asian American Investment Managers [www.aaim.org](http://www.aaim.org)
Our proposals

• Racial Equity is key component of our trustee training curriculum

We are reviewing:

- Corporate Board Diversity
- Trustee Candidate Recruitment
- Pension Fund Policies for Emerging Managers
- Measures to increase asset allocation to underrepresented groups