



HARVARD Kennedy School

**THE HAUSER INSTITUTE
FOR CIVIL SOCIETY**

at the Center for Public Leadership

Diversity and Inclusion: The Business Case for Investors

Moderator:

Erin Shackelford, Trustee Leadership Forum for Retirement Security,
Initiative for Responsible Investment, Harvard Kennedy School

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



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Agenda

- **Opening Remarks**

Erin Shackelford, Trustee Leadership Forum for Retirement Security, IRI, Harvard Kennedy School

- **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**

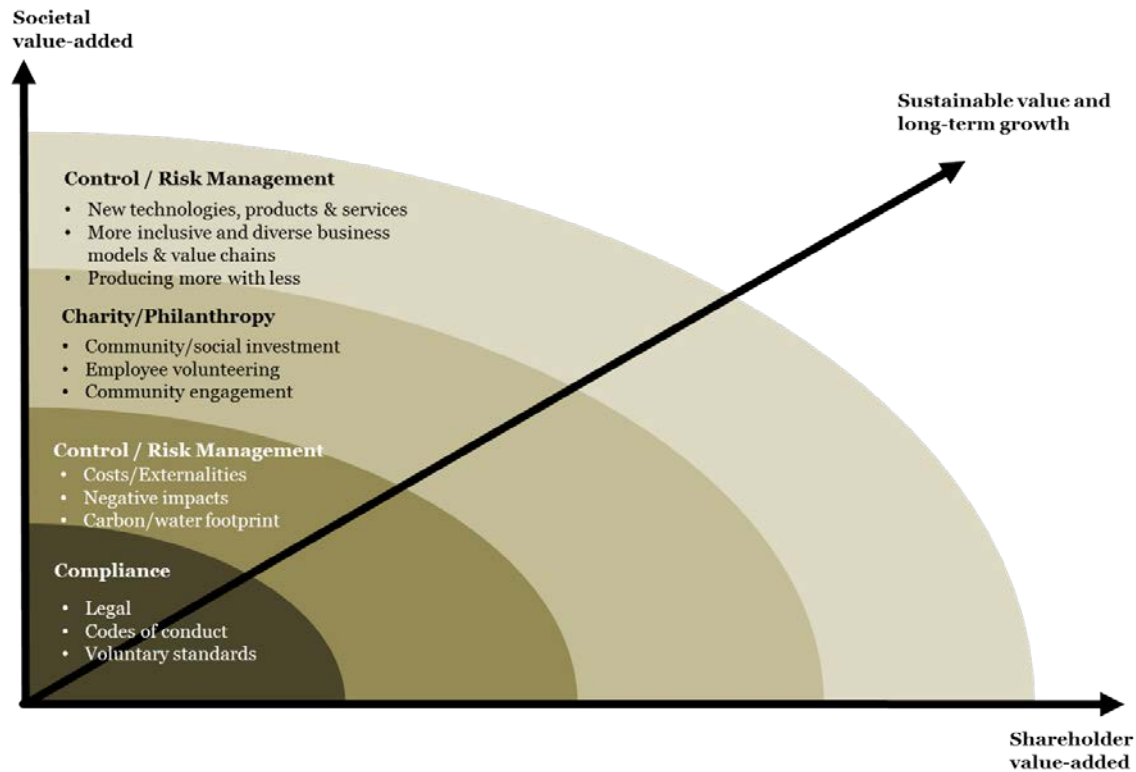
Erin Shackelford, Trustee Leadership Forum for Retirement Security, IRI, Harvard Kennedy School

- **Conclusion**

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

Michael Porter, *Harvard Business Review*, January 2011

Approaches to Creating Shared Value



Adapted from [Values-Based Performance: Seven Strategies for Delivering Profits with Principles](#), by Ira Jackson and Jane Nelson, December 2004 and [The Inclusion Imperative: How Real Inclusion Creates Better Business and Builds Better Societies](#), by Stephen Frost, 2014

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.”

- *“The Business Case for Racial Equity”, by the Altarum Institute and the W. K. Kellogg Foundation, 2013*

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”*



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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.

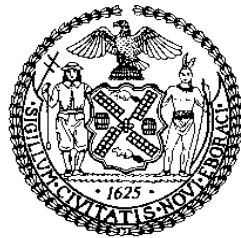
CTPF invests in emerging managers through direct mandates and a Manager-of-Managers program (MoMs). Currently the fund has direct relationships with 24 MWDBE firms who manage 33 portfolios. The fund has a MoMs relationship with an additional 22 firms who manage 28 portfolios. Managers who perform well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

A copy of CTPF's 2014 Diversity report is available at www.ctpf.org.

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



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER

2015 Shareowner Initiatives on Diversity

- Board Diversity
- Workforce Diversity Disclosure
- Supplier Diversity Disclosure

BUSINESS DAY

Effort Begins for More Say on Directors

By GRETCHEN MORGENSON NOV. 5, 2014

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.



Board Diversity Focus Companies

Alexion Pharmaceuticals

Alliance Data Systems

AvalonBay Communities

Cabot Oil & Gas

CF Industries Holdings

Cimarex Energy

Cloud Peak Energy

eBay

Fidelity National Financial

FleetCor Technologies

Level 3 Communications

Monster Beverage

Nabors Industries Ltd.

NVR

PACCAR

Precision Castparts Corp.

Priceline Group The

Regeneron Pharmaceuticals

Roper Industries

SBA Communications

Urban Outfitters

VCA

Visteon

Whiting Petroleum

THE WALL STREET JOURNAL.

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

Supplier Diversity

- 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

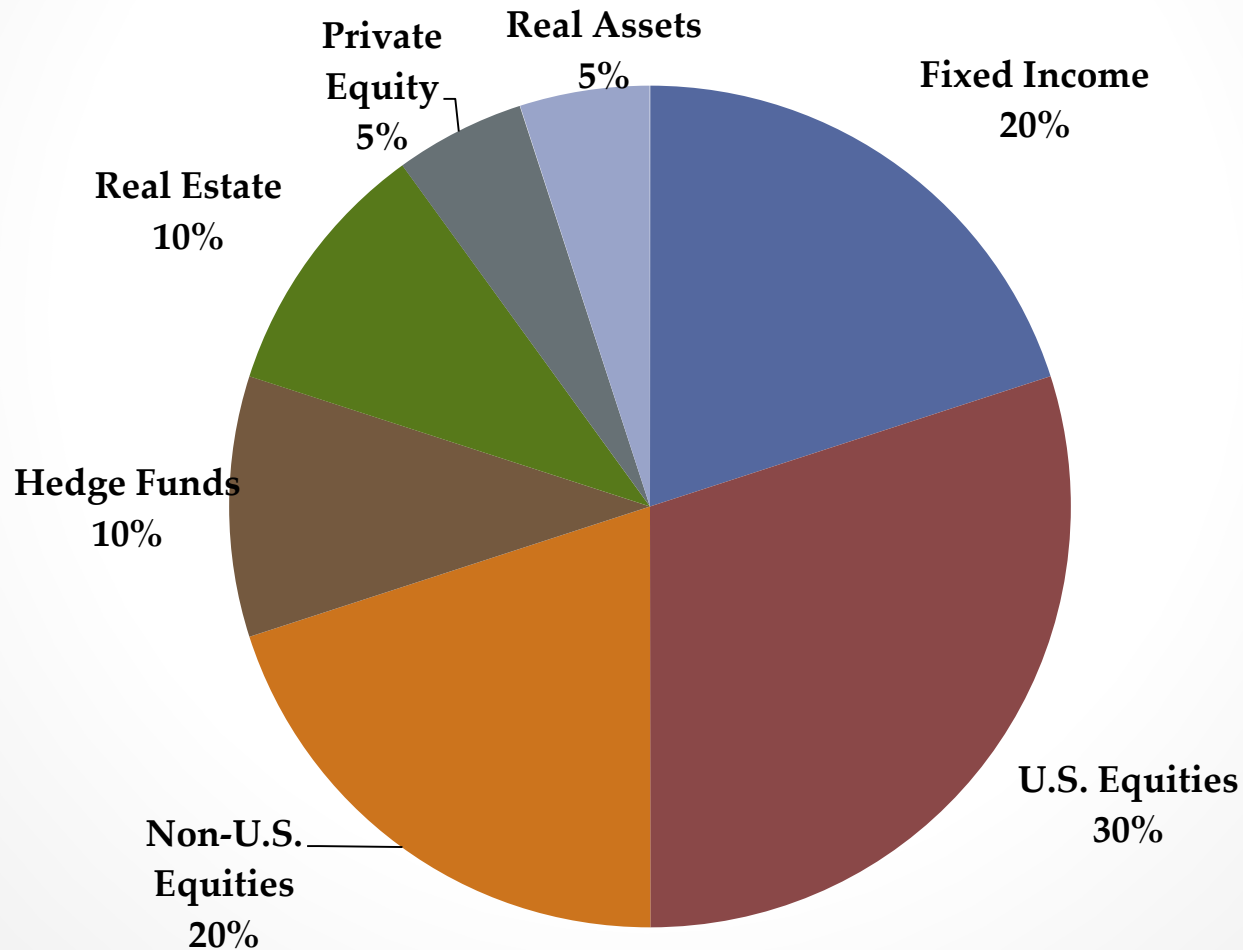
March 19, 2015

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



Emerging Manager Committee

- Created 2005
- Responsibilities
 - Emerging managers
 - Minority/Female owned managers
 - MBE/FBE Brokerage
- Five members
- Senator James Clayborne, Chair

Minority Brokerage Utilization

June 30, 2014

Asset Class	Actual % Utilization	% Goal
Domestic Equity	44%	30%
International Equity	25%	20%
Domestic Fixed Income	36%	20%
International Fixed Income	0%	0-5%

Emerging Manager

- 40 Ill. Comp. Stat. § 5/1-109(4):
-
- 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.

Private Markets Emerging & Minority Composite

June 30, 2014

Manager	Asset Class	Commitment	Ownership
Castile III	Venture Capital Private Equity	\$15,000,000	Emerging
Clearlake Capital III	Opportunistic Private Equity	20,000,000	Emerging
Levine Leichtman V	Multi-Strategy Private Equity	20,000,000	Emerging
Valor II	Buyout Private Equity	25,000,000	Emerging
Valor III	Growth Equity Private Equity	20,000,000	Emerging
MacFarlane Urban Real Estate Fund II	Opportunistic Real Estate	30,000,000	Emerging
TOTAL:		\$130,000,000	

Public Markets Emerging & Minority Composite

June 30, 2014

Manager	Asset Class	Market Value	Ownership
LM Capital	Core Fixed Income	\$471,232,981	Emerging
Garcia Hamilton	Core Fixed Income	158,997,763	Emerging
Decatur Capital Mgmt	Large-Cap Core	18,334,687	Emerging
Channing Capital Mgmt	Small-Cap Value	62,783,299	Emerging
Fiduciary Mgmt Assoc.	Small-Cap Value	78,150,903	Emerging
Opus Capital Mgmt	Small-Cap Value	124,436,708	Emerging
Ariel Investments	Micro-Cap Value	25,589,177	Emerging
Ariel	Non-U.S. Large Cap Core	116,231,856	Emerging
Lombardia	Non-U.S. Large Cap Core	79,892,502	Emerging
GlobeFlex Capital	Non-U.S. Small-Cap Value	68,214	Emerging
Herndon Capital Mgmt	Large-Cap Core	119,874,757	Minority
TOTAL:		\$1,255,592,847	

Emerging & Minority Manager Program

June 30, 2014

	2013	2012	2011	2010	2009	2008	2007	2006
Emerging & Minority Composite	24.6%	13.4%	1.5%	14.3%	23.8%	-26.8%	5.2%	10.8%
<i>Benchmark</i>	23.5%	13.1%	-0.5%	14.6%	25.6%	-30.1%	5.7%	14.4%
Emerging Manager Composite	16.1%	9.5%	0.7%	11.9%	16.9%	-19.7%	8.0%	12.0%
<i>Benchmark</i>	14.0%	8.6%	-3.5%	11.2%	26.2%	-35.2%	4.4%	16.5%

RockCreek Group

June 30, 2014

Date	January 1, 2006	June 30, 2014
Value of ISBI Allocation	\$100,000,000	\$553,641,772
Firm AUM	\$1,900,000,000	\$10,300,000,000

Herndon Capital Management

June 30, 2014

Date	April 25, 2005	June 30, 2014
Value of ISBI Allocation	\$29,611,223	\$119,874,757
Firm AUM	\$255,290,621	\$10,277,533,355

Going Forward

- September, 2014
 - Emerging real estate allocation
- December, 2014
 - Emerging hedge fund allocation
- 2015
 - Continued focus on alternative assets—Real estate, private equity, and hedge funds



ABFE

A Philanthropic Partnership for Black Communities

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

**SMART
Investing**

Produce directory of minority- and women-owned investment firms

Engage managers through ABFE's Industry Partner affiliation

SHARING KNOWLEDGE

The cover features a large graphic of colorful, curved bands in shades of blue, orange, and red. Below this is a small photograph of a man in a suit speaking at a podium. The ABFE logo is positioned to the left of the title.

ABFE
A Philanthropic Partnership for Black Communities

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

The cover features a photograph of modern glass skyscrapers reaching towards a blue sky with clouds. The title is at the top, and the author information is at the bottom.

Investment Manager Diversity
The Hardest Taboo to Break

February 2014

By **Ernest G. Carow, Ph.D.**, Chief Executive Officer, Silver Valley Community Foundation
& **Michael Hines**, Managing Director, Counsel Consulting, LLC

The cover features a photograph of five silhouetted figures standing in a row against a background of a financial data screen with various numbers and percentages. The title and subtitle are on the left, and the author and date are on the right.

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

A case study of the **W.K. Kellogg Foundation**
By **Thurman V. White, Jr.**, in cooperation with
ABFE: A Philanthropic Partnership for Black Communities
September 2014

PROGRESS INVESTMENT MANAGEMENT COMPANY

ABFE
A Philanthropic Partnership for Black Communities

SMART INVESTING DIRECTORY



Profit Investments

Data as of: 30 Sept 2013

7500 Old Georgetown Road, Suite 700
Bethesda, MD 20814
United States
www.profitfunds.com

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: \$2.1BN
- Fund AUM: \$N/A

Performance (Since Inception of 04/01/1996):

- 9.9% Ann. Return
- 22.6% YTD Ann. Return
- N/A Volatility
- 4.7% Benchmark Return


Ownership Diversity:

- 51+% Minority


Primary Contact:

Carlotta J. Oliver
Managing Director, Business
Development
(301) 650-0059
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



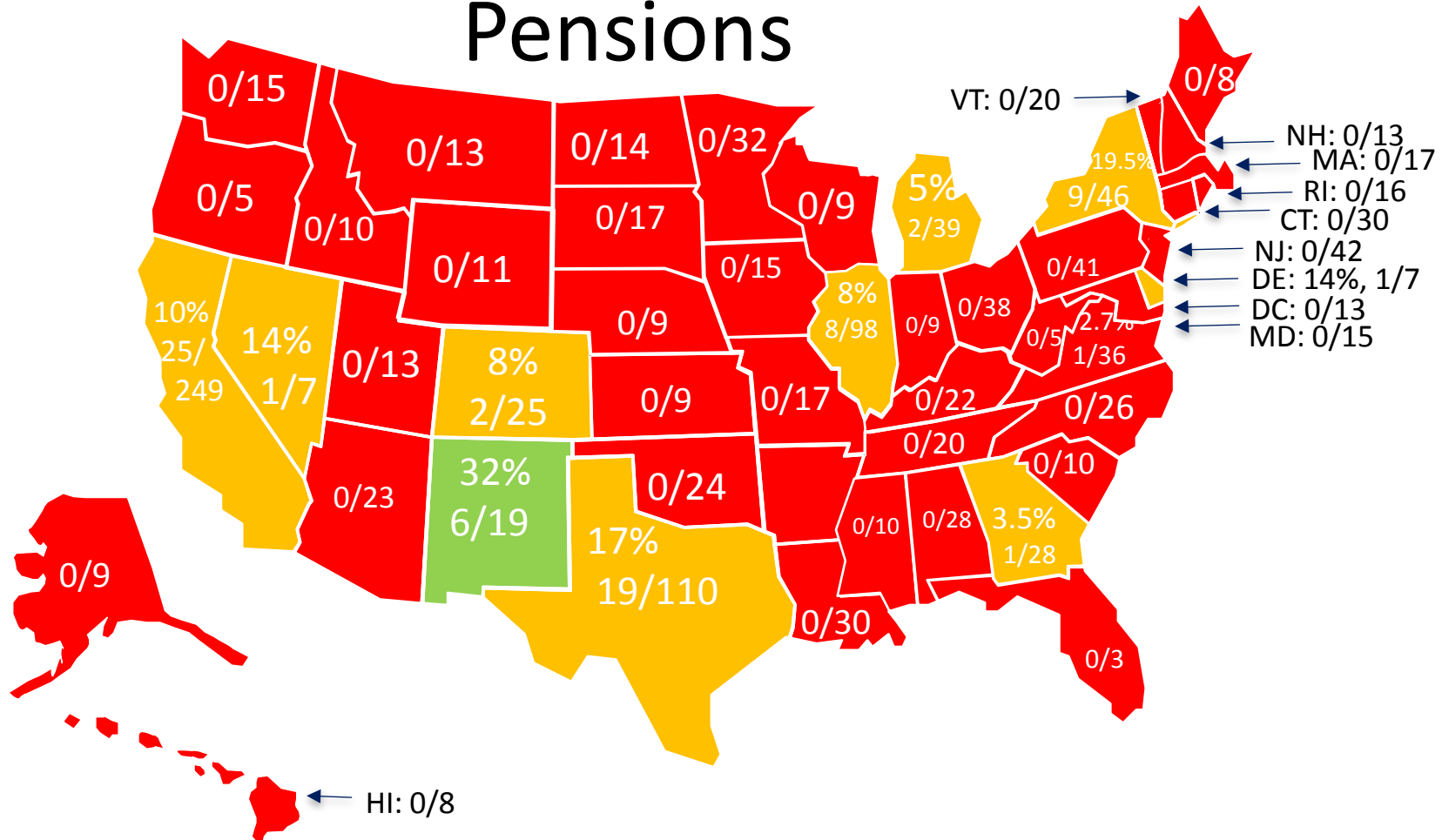
Income Inequality

- 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 managers and service providers throughout the fund.

Latino Trustees at Largest Public Pensions



Who we work with

- National Association of Security Professionals
www.nasphq.org
- New America Alliance www.naaonline.org
- Hispanic Heritage Foundation
www.hispanicheritage.org
- Association of Asian American Investment Managers 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