

# Diversified Returns in 2021:

Being Intentional about Diversity,  
Equity and Inclusion

A Report by UC Investments

# Table of Contents

<b>CIO Statement .....</b>	<b>1</b>
<b>Our Commitment.....</b>	<b>7</b>
<b>The Diversified Returns Program .....</b>	<b>8</b>
<b>Engaging as an Employer .....</b>	<b>9</b>
Demographic Data .....	10
<b>Engaging as an Investor .....</b>	<b>12</b>
2021 Initiatives .....	12
Diversity Drives Results: Partners in Alternatives .....	13
Investment Partner Demographic Survey .....	15
Demographic Survey Results.....	16
Business Partners .....	23
<b>Engaging as a Shareholder .....</b>	<b>24</b>
Proxy Voting .....	25
Direct Engagement.....	25
<b>Conclusion: The Journey Ahead .....</b>	<b>27</b>
<b>APPENDIX .....</b>	<b>28</b>

## Table of Charts

Chart 1: Surveyed Assets Managed by Diverse Partners: All Products .....	2
Chart 2: Surveyed Assets Managed by Diverse Partners: Pension .....	2
Chart 3: Surveyed Assets Managed by Diverse Partners: Endowment .....	3
Chart 4: Breakdown of Surveyed Assets .....	6
Chart 5: Diversified Returns: Helps Deliver Centennial Performance .....	8
Chart 6: Diversified Returns: FY20-21 Program Goals & Metrics .....	9
Chart 7: Diversified Returns: FY20-21 Program Results .....	9
Chart 8: UC Investments Workforce Diversity Trends – Gender .....	10
Chart 9: UC Investments Workforce Diversity Trends – Race .....	11
Chart 10: UC Investments Workforce Demographics by Job Type .....	11
Chart 11: Diversified Returns: FY20-21 Program Results .....	12
Chart 12: Overview of 2021 Survey Results .....	16
Chart 13: Surveyed Assets Managed by All Diverse Partners .....	17
Chart 14: Surveyed Assets Managed by Women-Owned Partners .....	18
Chart 15: Surveyed Assets Managed by Asian/Pac.-Islander-Owned Partners .....	19
Chart 16: Surveyed Assets Managed by Black-Owned Partners .....	19
Chart 17: Surveyed Assets Managed by Latinx-Owned Partners .....	20
Chart 18: Surveyed Assets Managed by “Multi-Racial” Owned Partners .....	20
Chart 19: Surveyed Assets Managed by Veteran-Owned Partners .....	21
Chart 20: Surveyed Assets Managed by LGBTQ-Owned Partners .....	21
Chart 21: Surveyed Assets Managed by Disabled-Owned Managers .....	22
Chart 22: Diversity & Inclusion at our Business Partners, 2021 .....	23
Chart 23: Diversified Returns: FY20-21 Program Results .....	24
Chart 24: Votes on Diversity-Related Shareholder Proposals .....	25
Chart 25: Shareholder Engagement, 2021 .....	26
Chart 26: Surveyed Assets Managed by All Diverse Partners .....	30
Chart 27: Passively & Actively Managed Surveyed Assets .....	31

## From the Desk of Chief Investment Officer Jagdeep Singh Bachher: Being Intentional about DEI

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What do we mean at UC Investments when we say we are intentional about increasing diversity, equity, and inclusion within our organization and in the financial industry as a whole?

Here's what we do *not* mean: that we fill quotas, lower our return expectations, and check enough boxes to pat ourselves on the back and revert to business-as-usual. With this, our third annual Diversified Returns report, we offer an in-depth look at our progress in advancing diversity, equity and inclusion and how we continue to widen the aperture on our investment lens to let in more light – and more opportunity for the University of California.

By the end of the 2020-2021 fiscal year, we had invested almost \$19 billion with firms 25% or more owned by people of color and/or women, or nearly 36 percent of our total actively managed assets.

UC Investments also increased - by roughly 50% - our allocation to several 50% or more Black and Latino-owned investment partners, due to their outstanding recent returns and our confidence in their future performance.

**Chart 1**

## Surveyed Assets Managed by Diverse Partners: All Products

	25%	50%	Greater than 25%
36 All Diverse-Owned Partners	21.5%	14.1%	35.6%
12 Women-Owned Partners	12.3%	2.2%	14.5%
12 Asian-Owned Partners	5.3%	5%	10.3%
8 Multi Racial-Owned Partners	5.9%	2.6%	8.5%
2 Latinx-Owned Partners	0%	2.8%	2.8%
3 Black-Owned Partners	0%	2.6%	2.6%
3 Veteran-Owned Partners	0.9%	0.1%	1.0%
1 LGBTQ-Owned Partners	0.4%	0%	0.4%
1 Disabled-Owned Partners	0.3%	0%	0.3%

**Chart 2**

## Surveyed Assets Managed by Diverse Partners: Pension

	25%	50%	Greater than 25%
34 All Diverse-Owned Partners	10.5%	14.7%	25.2%
12 Women-Owned Partners	2.6%	2.9%	5.4%
11 Asian-Owned Partners	5.9%	5.8%	11.7%
6 Multi Racial-Owned Partners	4.5%	2.3%	6.8%
2 Latinx-Owned Partners	0%	2.4%	2.4%
3 Black-Owned Partners	0%	3%	3%
3 Veteran-Owned Partners	0.2%	0%	0.2%
1 LGBTQ-Owned Partner	0.4%	0%	0.4%
1 Disabled-Owned Partner	0.2%	0%	0.2%

**Chart 3**

**Surveyed Assets Managed by Diverse Partners: Endowment**

	25%	50%	Greater than 25%
27 All Diverse-Owned Partners	19%	19%	38%
8 Women-Owned Partners	0.5%	1%	1.5%
8 Asian-Owned Partners	5.4%	5%	10.4%
8 Multi Racial-Owned Partners	13.6%	4.8%	18.4%
2 Latinx-Owned Partners	0%	5.3%	5.3%
1 Black-Owned Partner	0%	2.6%	2.6%
3 Veteran-Owned Partners	3.7%	0.6%	4.3%
1 LGBTQ-Owned Partner	0.7%	0%	0.7%
1 Disabled-Owned Partner	0.5%	0%	0.5%

But while we are certainly keeping score, we are not charging toward an artificial finish line. We will never be “done” with diversity, equity, and inclusion or forget that connecting with a wide array of people and opportunities sets us up for success. Embedding the value of DEI into all that we do at UC Investments makes us a better, more high-performing team and we are excited about what’s ahead.

To that end, in January 2022 we launched our Diversity Drives Returns initiative in partnership with the National Association of Investment Companies, a Washington, D.C. based trade organization that aims to increase the flow of capital to high-performing diverse investment managers often overlooked by institutional investors.

We set a six-month goal of meeting with 100 firms led by women and/or people of color. By April 2022, our group of professionals from across UC Investments had met with 101 such firms – which is in addition to the 190 meetings we held with different diverse firms over the past year. We have already committed millions to five of these funds.

Another new initiative, the UC Investments Academy, takes on the challenge of what we hear often in the financial industry – that the pipeline of women and diverse investment professionals is too narrow. But at the University of California, with our 10 world-class campuses, we are in the pipeline business.

Started this spring semester at UC Merced, our newest and most diverse campus, the UC Investments Academy offers free professional training in all areas of the financial industry – the same courses used by Wall Street firms – as well as mentorship, industry speakers, and internship opportunities. The response from the initial cohort of some 150 students at Merced and UC Irvine has been overwhelmingly positive and we plan to scale the Academy to some 10,000 students system wide within three years.

This year also marks the third for the highly competitive UC President’s Lindau Nobel Laureate Meetings Fellowship, conceived of and funded by UC Investments, which sends an extraordinarily accomplished and diverse group of UC graduate students and postdoctoral fellows to the annual gathering of Nobel laureates in Lindau, Germany. There the fellows attend invitation-only seminars and lectures by Nobel Prize winners and connect with some 600 international peers.

At UC Investments, we invest for the long-term – in financial assets, of course, but in people, too. That is why I am proud of the progress we have made in our Diversified Returns program, as outlined in this report.

We have seen first-hand how diversity can help us perform better, how inclusion makes us stronger, and that equity lays the foundation for long-term success.

In our inaugural report on diversity and inclusion in 2019, we committed to “taking action, measuring our results and sharing our work with the public.”<sup>1</sup> In our third annual report, we recommit to those goals.

We share our progress in the hope that our transparency can help demonstrate that diverse and inclusive teams can translate into higher performance and better investment returns.

In that same spirit of transparency, we also share the methodology underlying our quantification of the demographic diversity of our investment partners. For the third year in a row, UC Investments undertook a demographic survey<sup>2</sup> of our investment partners in every asset class. There is no industry standard approach to measuring and assessing demographic diversity in the asset management industry.

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<sup>1</sup> See, [https://www.ucop.edu/investment-office/files/diversity\\_report](https://www.ucop.edu/investment-office/files/diversity_report)

<sup>2</sup> Rigorous, comprehensive demographic data on our investment partners is still not readily available from third party sources, so we conduct our own survey to gather it. There is momentum, however, towards better data on ownership of investment managers. See, for example: <https://philanthropynewsdigest.org/news/kresge-macarthur-partnering-to-diversify-investment-industry>

In alignment with the landmark 2019 “Knight Foundation report,” and its 2021 update,<sup>3</sup> we seek to answer two questions:

1. What percentage of our assets under management is managed by firms owned or led by women or diverse populations?
2. How many of our investment partners are firms owned or led by women or diverse populations?

We used the same survey methodology in 2021 that we did in 2020 and 2019, as noted below and described in greater detail in the Appendix. Unless otherwise noted, all data is as of June 30, 2021, the end of our fiscal year.

To determine the percentage of actively managed assets, we calculate the numerator (AUM managed by diverse owned firms) and denominator (actively managed AUM).

For the purposes of determining the numerator, our survey covers both privately and publicly owned investment partners. For privately owned firms, we asked about the demographics of their ownership, broken down by individual ownership percentages. For publicly owned firms, we asked about the demographics of the decision-makers on the team managing UC’s investments.

When a manager’s survey response indicates that an individual is “diverse” in more than one way, our approach is as follows: a Black woman veteran would be “counted” three times – in the gender, Black and veteran charts. But she is only “counted” once in the chart reflecting overall diverse ownership.

If a manager failed to respond to our demographic survey in 2021, we used their responses from 2019 or 2020 if available.

We do not survey investment partners headquartered outside the United States or partners that UC Investments intended to redeem in calendar year 2021 or early 2022.

For the purposes of determining the denominator, we exclude:

- passively managed assets
- assets that UC Investments manages internally
- investment partners headquartered outside the United States
- partners that UC Investments intended to redeem in 2021 or early 2022
- assets managed by partners that did not respond to the survey

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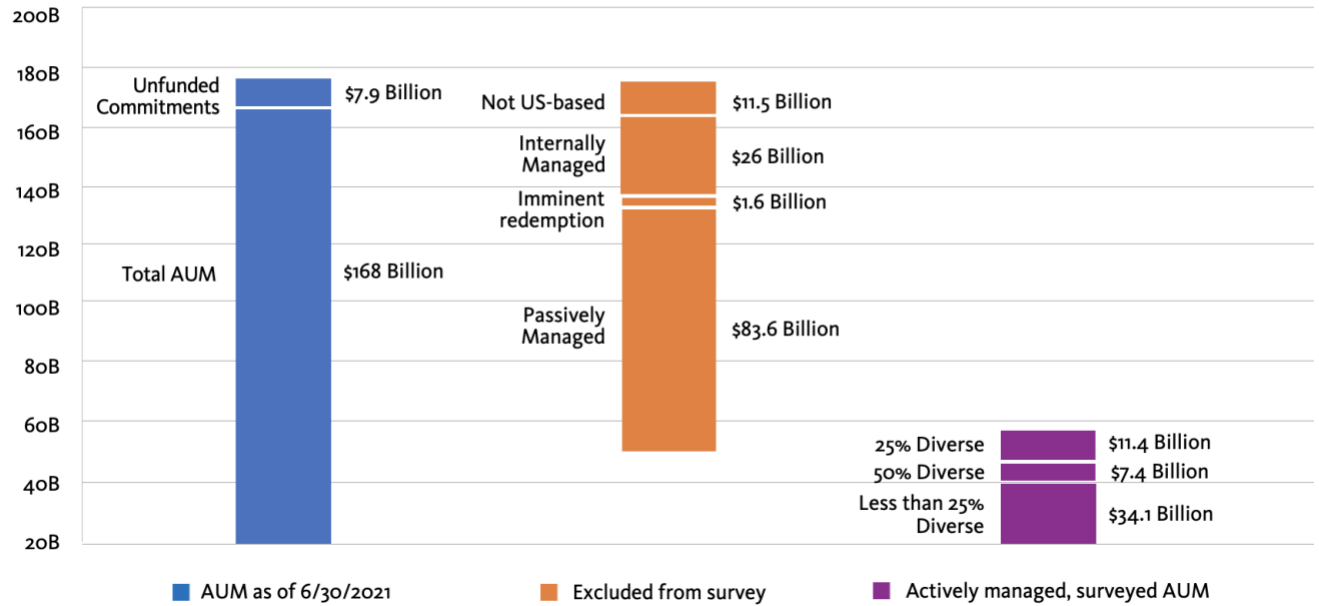
<sup>3</sup> See, “Diversifying Investments: A Study of Ownership and Performance in the Asset Management Industry,” Lerner, Josh et al., 2019; See also, “Knight Diversity of Asset Management Series: Industry,” Bella Private Markets, 2021.



Thus, as shown in Chart 4, starting from an overall AUM of ~\$168 billion, we arrived at the denominator of ~\$53 billion in surveyed assets.

**Chart 4**

## Breakdown of Surveyed Assets



In conclusion, our clients – the students, faculty, staff, foundations, and retirees of the University of California – trust us to implement investment strategies that will ensure the vibrancy and excellence of the best public research university in the world, at least for the next 100 years.

That means we still have critical work to do on diversity, equity, and inclusion and that it will never stop. Our performance will ultimately validate the measure of our success.

## Our Commitment

As part of the University of California, UC Investments is fully committed to diversity and inclusion. While we recognize there are many dimensions of demographic diversity, UC Investments defines “diverse” as including: female, Black, Latinx, Asian, Native American, veteran, LGBTQ+, gender non-conforming and disabled. UC Investments’ “Statement on Diversity, Equity and Inclusion” is the foundation of our commitment to incorporate diversity, equity and inclusion into our investment processes.<sup>4</sup>

### UC Investments

#### Statement on Diversity, Equity and Inclusion

The Office of the Chief Investment Officer of the Regents (UC Investments) embraces the University of California’s Board of Regents’ policy on diversity (Policy 4400), which articulates the value of diversity to the University at large.

As investment professionals, we believe that diverse teams achieve higher performance and better results and that accessing the full range of top talent is critical to managing risk.

Fostering diversity - in experience, thought and background—on our team, among our investment partners and within our investee companies is key to achieving superior operational and investment performance. The many dimensions of demographic diversity, including gender, race and ethnicity, age, veteran status, gender identity and sexual orientation and disability status, are a part of the rich tapestry of lived experience that informs cognitive diversity.

Through our Diversified Returns program, UC Investments incorporates diversity, equity and inclusion into our investment and operations processes in furtherance of our mission to sustain the University of California financially for the next 100 years.

We are committed to engaging with intentionality on diversity, equity and inclusion. We will collaborate with - and learn from - others and share our progress along this journey.

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<sup>4</sup> Our statement builds upon the “Regents Policy 4400: Policy on University of California Diversity Statement,” Board of Regents of the University of California, 2010. Available at <https://regents.universityofcalifornia.edu/governance/policies/4400.html>

# The Diversified Returns Program

Through our Diversified Returns program, we harness the power of diversity, equity and inclusion (“DEI”) to enable us to be better at what we do: manage financial risk and add value to our portfolios. UC Investments engages on DEI comprehensively and intentionally across our three spheres of influence, as an employer, an investor, and a shareholder.

## CHART 5




### Diversified Returns: Helps Deliver Centennial Performance



In FY20-21, we established annual goals and metrics for the Diversified Returns program, as shown in Chart 6.

**CHART 6**

**Diversified Returns: FY20-21 Program Goals & Metrics**


 Investor	 Employer	 Shareholder
<p><b>GOALS</b></p> <ol style="list-style-type: none"> <li>1. New manager selection processes consider a qualified diverse pool of potential managers. Tracking systems in place.</li> <li>2. Systems in place to track all inquiries from - and follow-up meetings with - prospective managers.</li> </ol> <p><b>METRICS</b></p> <ol style="list-style-type: none"> <li>1. Percentage of new investment partner selections filled that had a diverse slate of qualified potential partners</li> <li>2. 90%+ response rate to annual demographic survey</li> <li>3. Number of meetings taken to expand networks</li> </ol>	<p><b>GOALS</b></p> <ol style="list-style-type: none"> <li>1. Open positions consider a qualified diverse applicant pool. Tracking system in place. Hiring panels include representative diversity.</li> <li>2. Leaders accept managing DEI as one of their responsibilities. Toolkit to support leaders in place.</li> </ol> <p><b>METRICS</b></p> <ol style="list-style-type: none"> <li>1. Percentage of positions filled that had a diverse slate of qualified applicants</li> <li>2. Percentage of leaders who meet quarterly learning goal</li> </ol> <p><i>Annual D&amp;I report sharing our results publicly</i></p>	<p><b>GOALS</b></p> <ol style="list-style-type: none"> <li>1. New shareholder engagement strategy in place to advance diversity on US corporate Boards and workforces of our investee companies.</li> </ol> <p><b>METRICS</b></p> <ol style="list-style-type: none"> <li>1. Number of annual engagements re: diversity with investee companies</li> <li>2. Percentage of investee companies that take action to advance board &amp; workforce diversity annually</li> </ol>

In the sections below, we report our performance against these goals and metrics.

**Engaging as an Employer**

**CHART 7**

**Diversified Returns: FY20-21 Program Results**

 Employer	
Build Knowledge	
<p><b>METRIC:</b> Percentage of positions filled that had a diverse slate of qualified applicants</p>	<p><b>RESULT:</b> Met.</p> <p><b>NOTES:</b> 100% of new hires resulted from a process that had a diverse slate of qualified applicants and a diverse interview panel. Due to hiring freeze, only one position was filled.</p>
<p><b>METRIC:</b> Percentage of leaders who meet quarterly learning goal</p>	<p><b>RESULT:</b> Partially met.</p> <p><b>NOTES:</b> All asset class leaders incorporated DEI learning into their work, but not all kept robust records.</p>

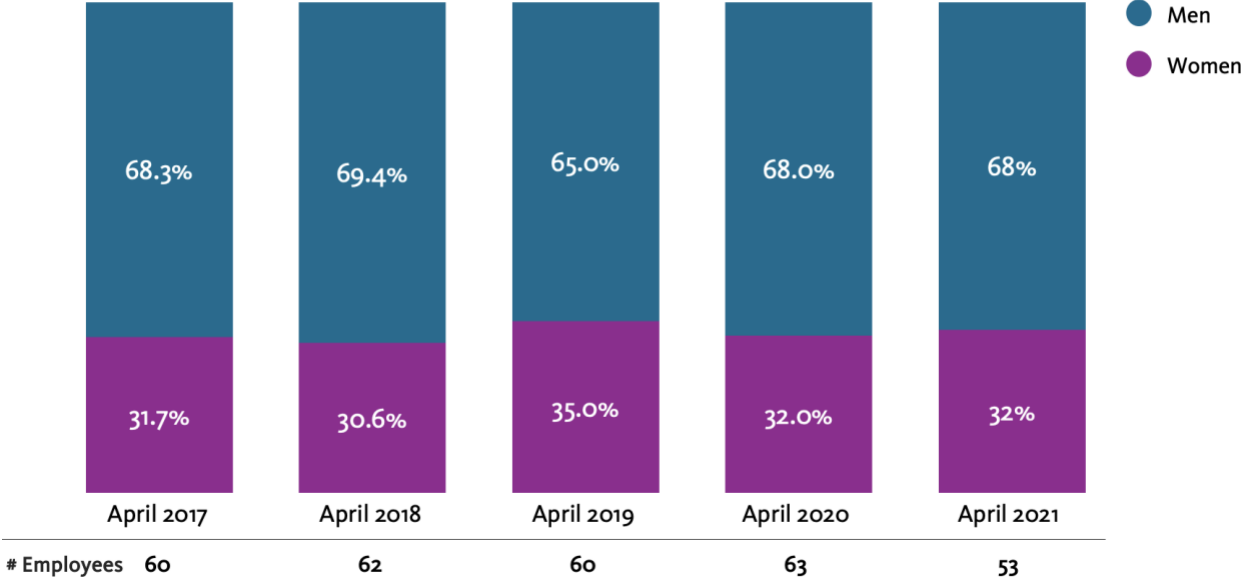
Across all asset classes, our team embraced the collective goal to deepen UC Investments’ understanding of diversity, equity and inclusion. We also implemented our “diverse slate rule” process with the only new hire of the fiscal year.<sup>5</sup>

**Demographic Data**

UC Investments’ staff are roughly evenly split between investment professionals and those who work in Operations and Risk. During FY20-21, the five-person UC Treasury team shifted out of UC Investments to another department and five other employees either retired or left to pursue other opportunities. Our workforce demographic statistics as of April 2021 (by gender and race) are summarized in charts 8-10 below.

**CHART 8**

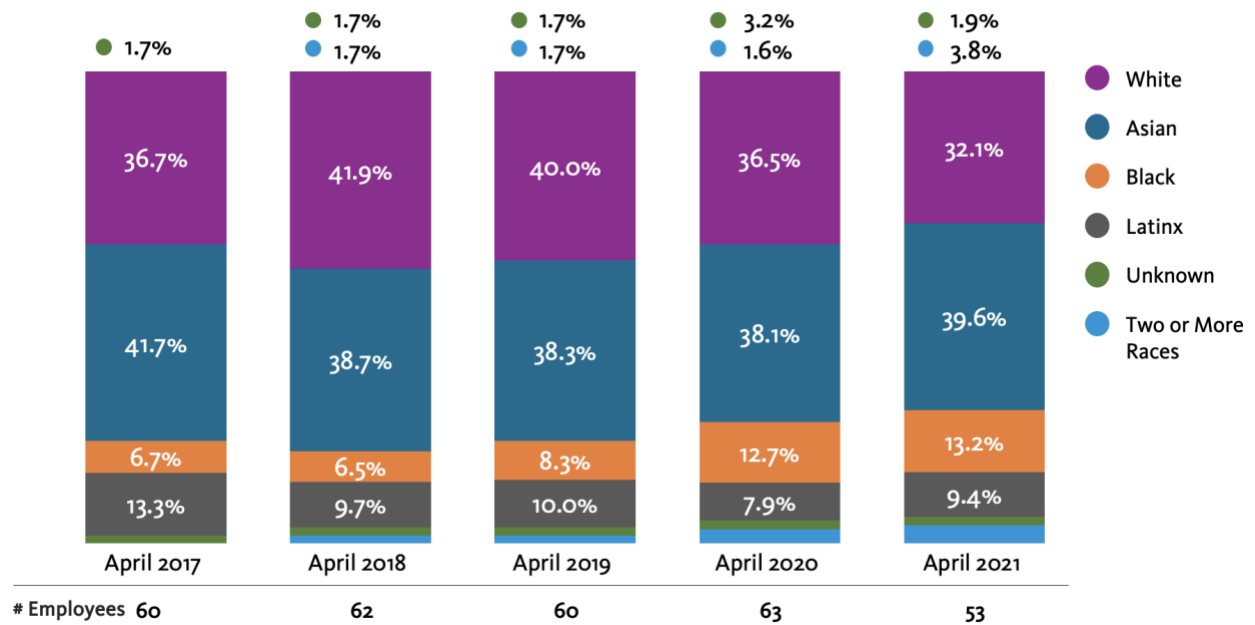
**UC Investments Workforce Diversity Trends - Gender**



<sup>5</sup> A “diverse slate rule” as implemented by UC Investments means that we post all open positions with generic job sites, as well as with job sites geared toward targeted demographic segments, with the goal of yielding a bigger potential pool of qualified applicants. If the pool of qualified applicants lacks diversity, we will re-initiate the recruitment process.

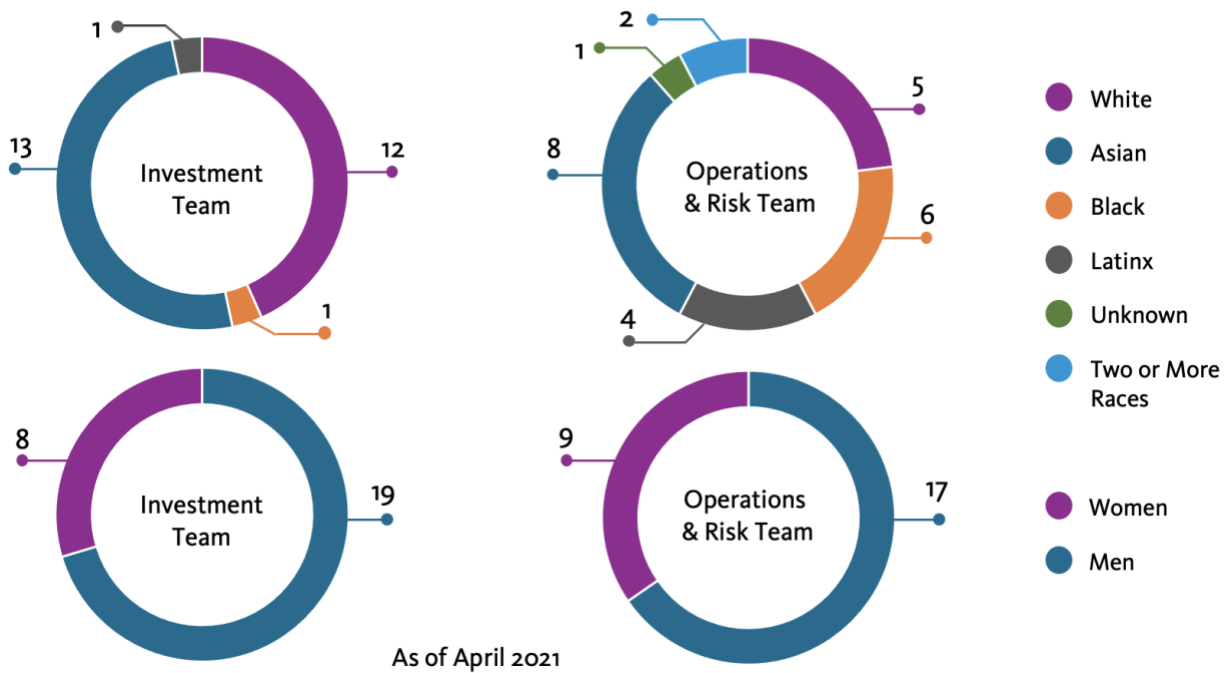
**CHART 9**

### UC Investments Workforce Diversity Trends - Race



**CHART 10**

### UC Investments Workforce Demographics by Job Type



# Engaging as an Investor

CHART 11

## Diversified Returns: FY20-21 Program Results



Investor Team Up	
METRIC: Percentage of new US-based manager selections filled that had a diverse slate of qualified potential partners	RESULT: 100% NOTES: We added one new US-based manager across all asset classes.
METRIC: 90%+ response rate to annual demographic survey	RESULT: Exceeded goal. NOTES: 91% response rate from investment partners.
METRIC: Number of meetings taken to expand networks	RESULT: Asset class teams held roughly 190 meetings with diverse fund managers, resulting in new professional relationships.

### 2021 Initiatives

In FY20-21, UC Investments met its Diversified Returns program goals as an investor, as shown above in Chart 11. We also launched new initiatives to continue expanding the scope and depth of our engagement around diversity, equity and inclusion. The initiatives below are premised on the link between diverse and inclusive teams and increased performance:

- In the fall of 2021, Chief Investment Officer Jagdeep Singh Bachher announced a new collaboration with the National Association of Investment Companies (NAIC) designed to super-charge our efforts to find the most promising investment firms from all backgrounds. By committing to meet with at least 100 managers, largely sourced by NAIC, in the first six months of 2022, we aim to increase opportunity for UC Investments.<sup>6</sup>
- UC Investments significantly increased our due diligence of existing and potential new investment partners with regard to diversity, equity and

<sup>6</sup> For more information on NAIC, the largest network of diverse-owned private equity firms and hedge funds, see: <https://naicpe.com/>

inclusion. Our DEI due diligence process now includes questions around whether and how asset managers encourage diversity and inclusion at their portfolio companies and how asset managers incorporate DEI into their recruiting and promotions processes.

- As a signatory to the Institutional Limited Partner Association's (ILPA) Diversity in Action program, UC Investments is actively engaged to support the advancement of diversity, equity and inclusion in the alternative investments space.<sup>7</sup> UC Investments' director of ESG integration served as an active member of the working group ILPA assembled to update its due diligence questionnaire and metrics around DEI. ILPA released the new questionnaire and related documents in November, 2021.<sup>8</sup>

### **Diversity Drives Results: Partners in Alternatives**

UC Investments is pleased to shine the spotlight on a few of our managers in the alternatives investment space who are achieving great results in part due to their embrace of diversity and inclusion.<sup>9</sup>



Led by Orlando Bravo, Thoma Bravo is one of the leading software investors in the United States and Europe. To date, UC Investments has deployed more than \$2 billion in commitments across five funds and six co-investments. Overall, the relationship has performed extremely well; our confidence in Thoma Bravo's ability to continue delivering outstanding returns for the University of California is why they are now the second largest partner in our private equity program.

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<sup>7</sup> See: [https://ilpa.org/ilpa\\_diversityinaction/](https://ilpa.org/ilpa_diversityinaction/)

<sup>8</sup> For more information, see: <https://ilpa.org/due-diligence-questionnaire/>

<sup>9</sup> For a robust review of diversity, equity and inclusion in private markets, see, McKinsey & Co., "A year of disruption in the private markets: McKinsey Global Private Markets Review, 2021," 2021 at 48-51.





While approximately 75% of our private equity investments are in funds, we selectively invest in great businesses directly. One notable example is the SpringHill Company, the entertainment company that LeBron James and Maverick Carter lead. They are at the forefront of producing content created by leading Black artists and athletes. In 2021, they received 12 nominations and awards from a variety of organizations for their projects. UC Investments made its initial \$25 million investment in SpringHill in 2020. In short order, the value of our equity doubled and we participated in the fundraise increasing our ownership of the business to 10%. We are excited about the vote of confidence provided by these two strategic investors, whom we believe will continue to build a true content empire.



With over \$1.5 billion in UC Investments' equity, Blue Owl Capital is our largest private credit investment partner. Formed by the merger of Owl Rock and Dyal, Blue Owl aims to be the leader in diversity, equity and inclusion among alternative investment managers. UC Investments has engaged with Blue Owl's leadership over the past three years around, among other issues, the value of building a diverse and inclusive board of directors and workforce. Blue Owl's comprehensive DEI policy makes clear that becoming a more diverse, equitable and inclusive firm is a "strategic priority" that is "relevant to all areas of the firm's business." Its \$5 million community loan program provides interest-free loans to U.S. small businesses, with a particular emphasis on minority-owned businesses affected by Covid-19 and other social and economic crises.



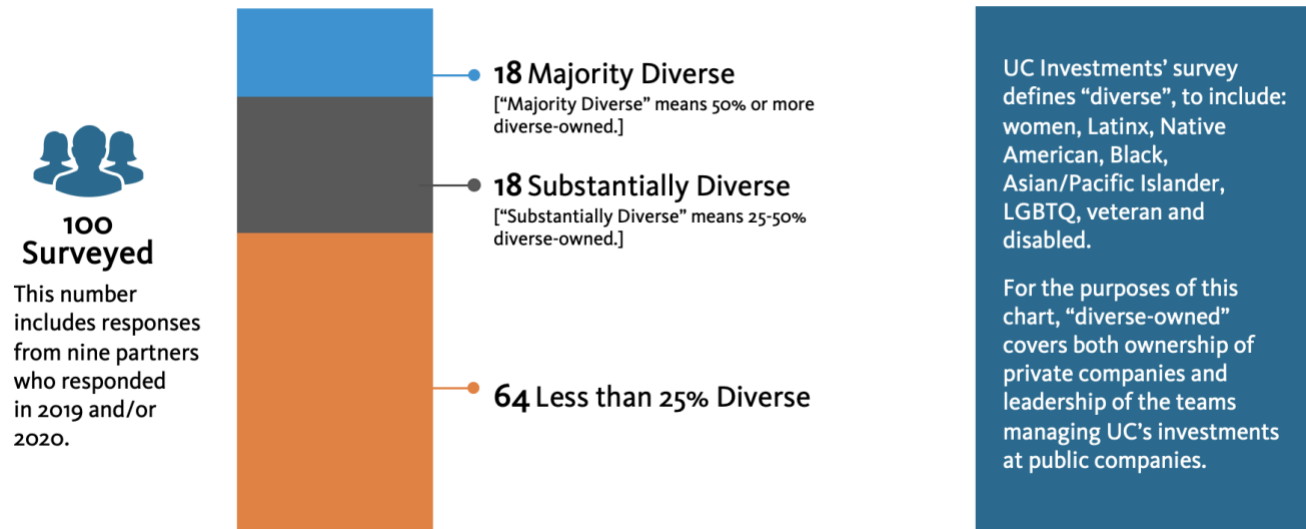
Led by Founder Katie Rae, the Engine is a leading “tough tech” venture fund focused on industrializing technologies to solve important global challenges across climate change, human health, and advanced systems & infrastructure. UC Investments, which was one of the inaugural investors in 2017, has committed \$65 million across two fund commitments and one co-investment. The Engine is off to a great start, with a portfolio of 37 companies that harness breakthrough science and technology, often from top research institutions. We are excited about their contribution to the university innovation ecosystem and the transformational companies they add to our portfolio.

## Demographic Survey Results

In 2021, we surveyed 100 investment partners. Of those, 91 responded, yielding a 91% response rate, down from last year's 96% response rate. Chart 12 provides an overview of the survey results.

### CHART 12

## Overview of 2021 Survey Results



The charts below compare our 2021 demographic survey results to those of our 2019 and 2020 surveys.<sup>10</sup> To understand the year over year changes, it is important to bear in mind that a number of factors are at play, specifically:

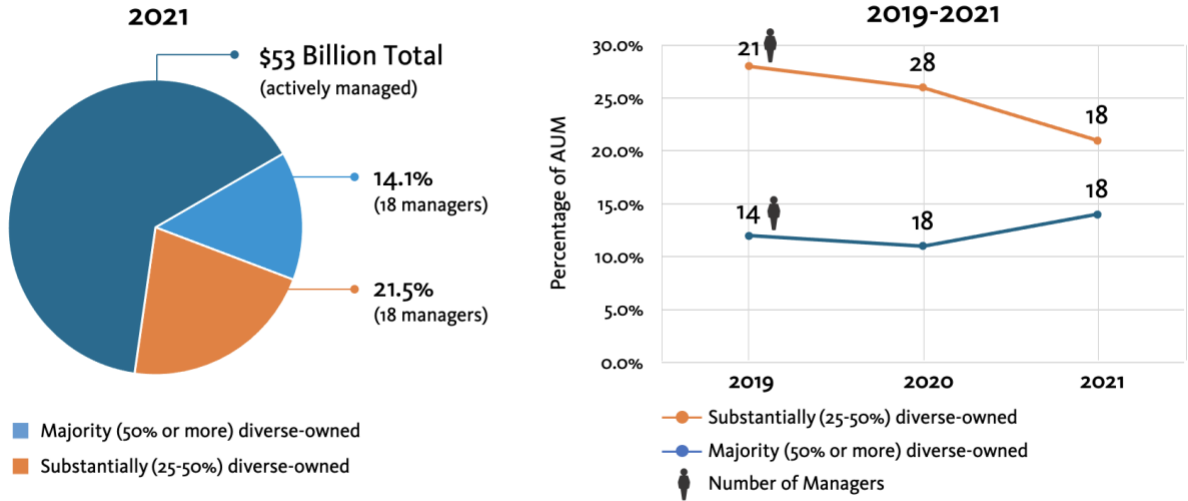
- UC Investments added one new U.S.-based manager.
- UC Investments fully or partially redeemed 23 managers, including several diverse-owned managers.
- UC Investments significantly increased allocations to several existing managers, including diverse-owned managers.
- UC Investments' survey administrator overrode responses from several existing managers because their responses conflicted with publicly available information on the demographic diversity of their ownership.

<sup>10</sup> Information on the percentage of diverse owned actively and passively managed assets is in the Appendix.

- Some managers responded differently to our 2021 survey than they did in 2020 due to personnel additions or departures, an increased or decreased willingness to share demographic data, or some other reason.

**CHART 13**

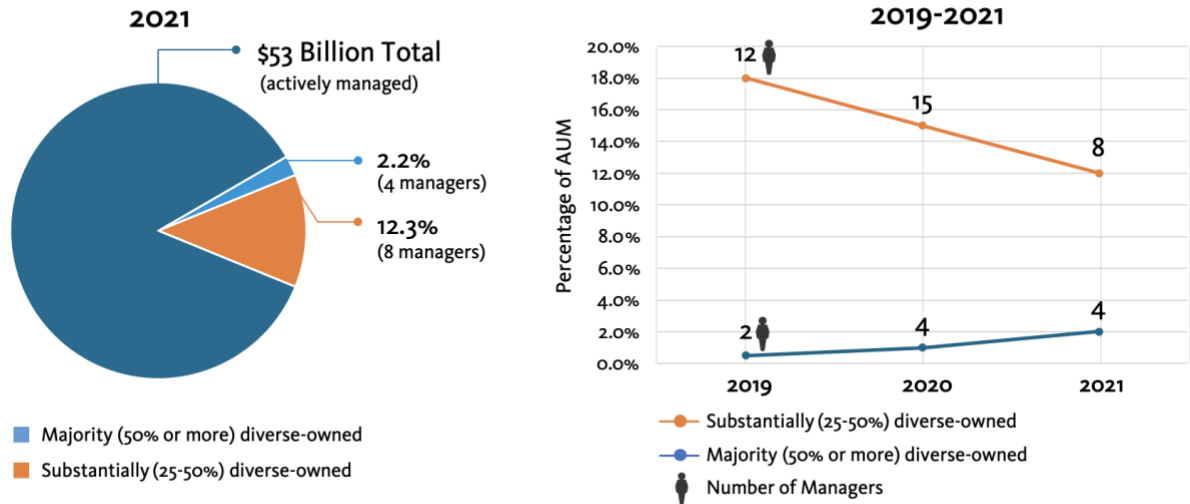
**Surveyed Assets Managed by All Diverse Partners**



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

**CHART 14**

**Surveyed Assets Managed by Women-Owned Partners**

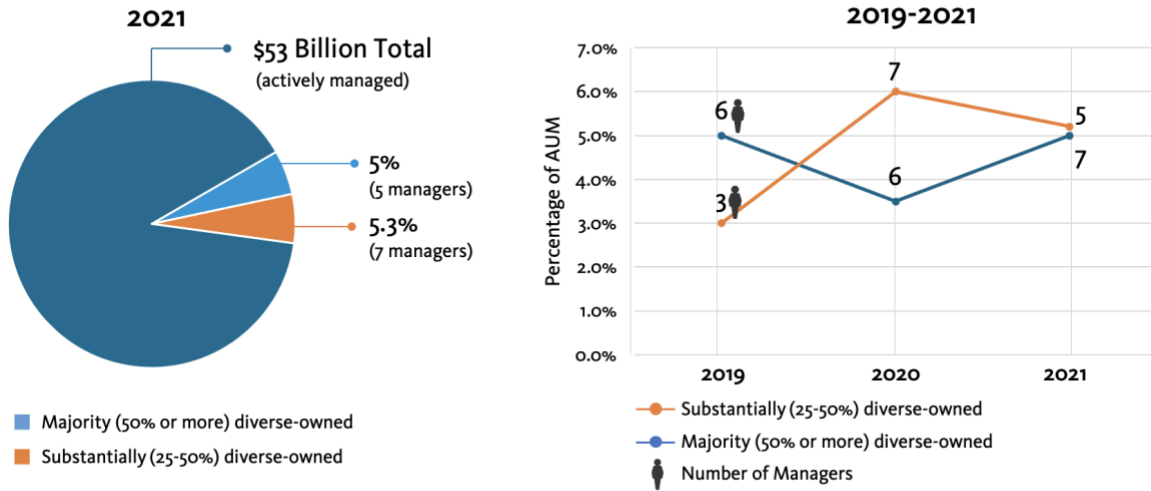


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

Chart 14 indicates a drop in AUM managed by women-owned investment partners in 2020 compared to 2019. This drop in AUM is explained by the fact that three investment partners had reported being substantially women owned in 2019 and 2020, which was inaccurate. Starting in 2020, our survey administrator did not "count" these three partners as substantially women owned; the 2019 baseline was unchanged.

**CHART 15**

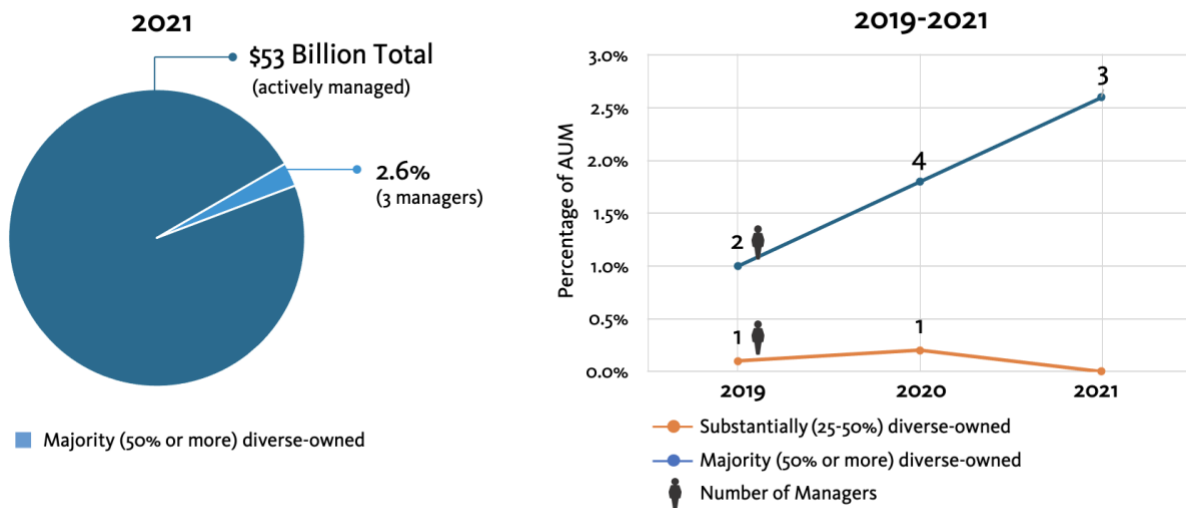
**Surveyed Assets Managed by Asian/Pacific-Islander-Owned Partners**



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

**CHART 16**

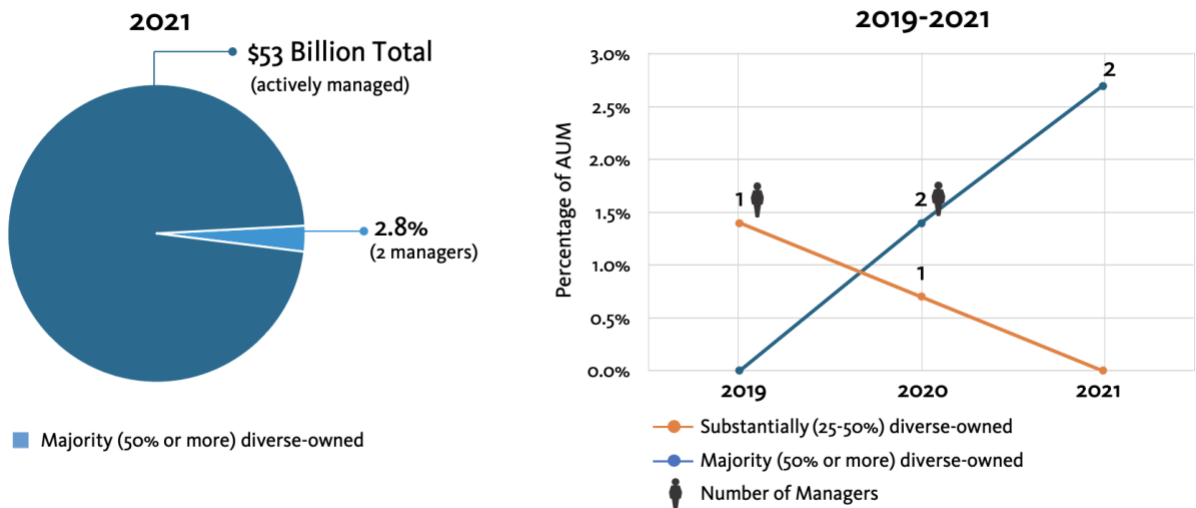
**Surveyed Assets Managed by Black-Owned Partners**



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

**CHART 17**

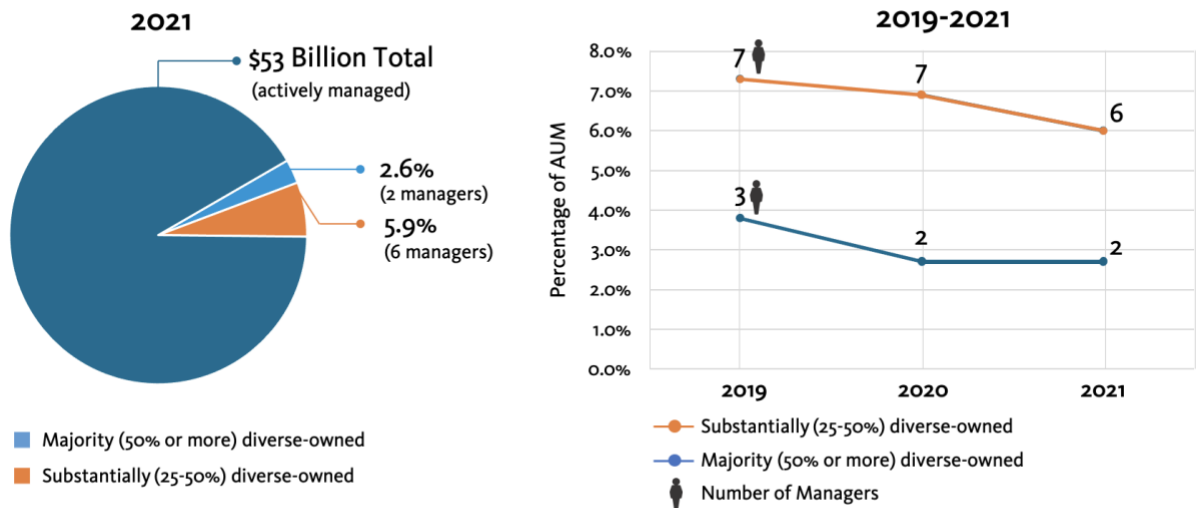
## Surveyed Assets Managed by Latinx-Owned Partners



For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

**CHART 18**

## Surveyed Assets Managed by “Multi-Racial” Owned Partners

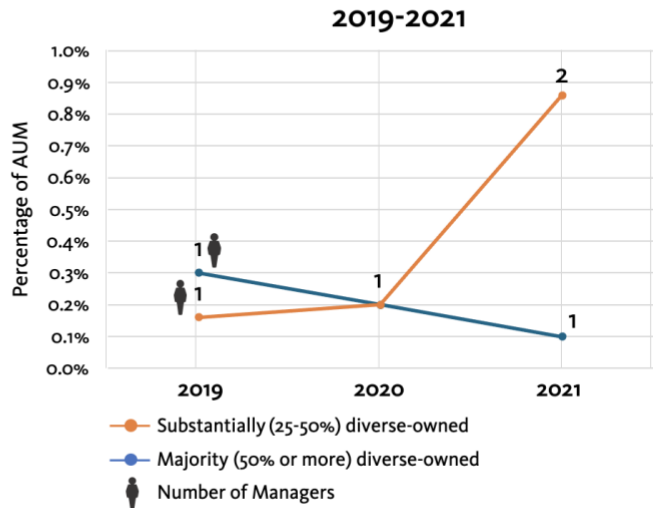
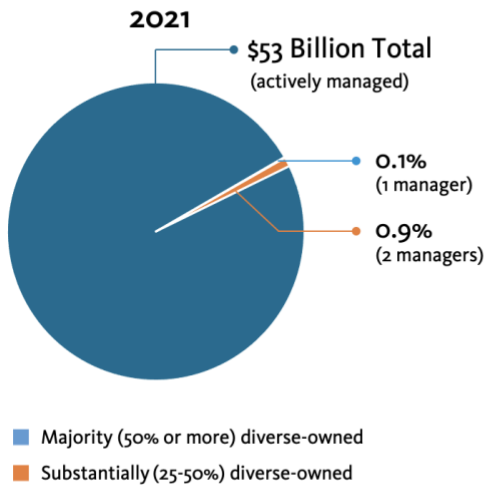


In the context of this report, “Multi-Racial” describes ownership of firms with individuals reporting as multi-racial at a level above the 25% or 50% threshold and/or individuals reporting races other than white that in combination exceed the 25% or 50% threshold.

For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies.

**CHART 19**

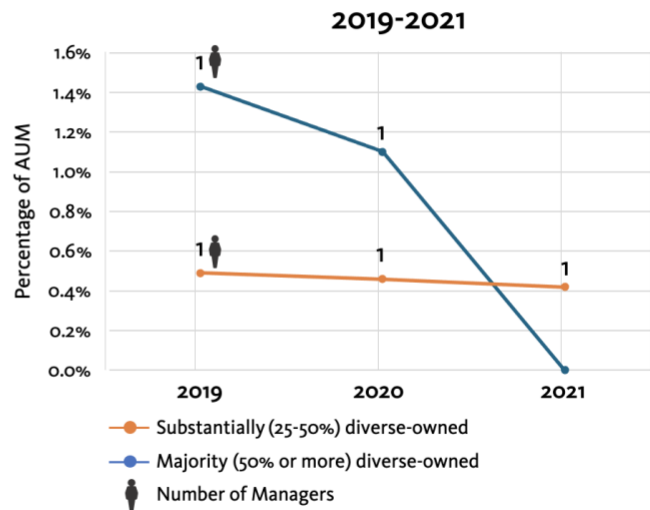
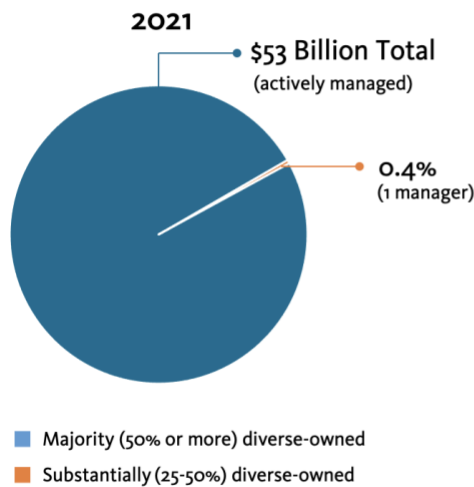
**Surveyed Assets Managed by Veteran-Owned Partners**



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

**CHART 20**

**Surveyed Assets Managed by LGBTQ-Owned Partners**

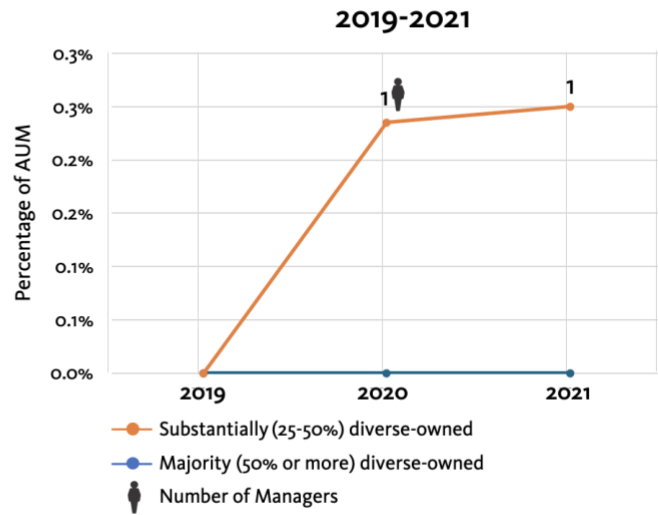
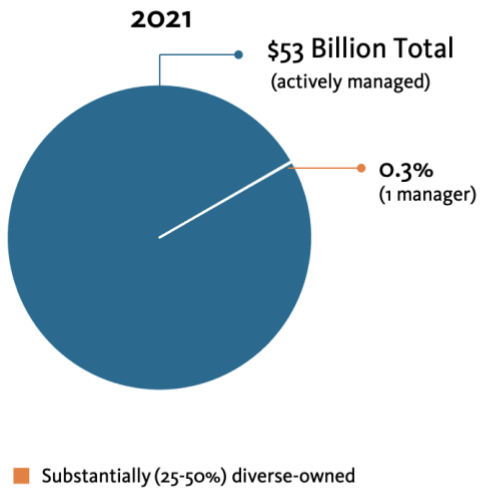


For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.



**CHART 21**

# Surveyed Assets Managed by Disabled-Owned Managers



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

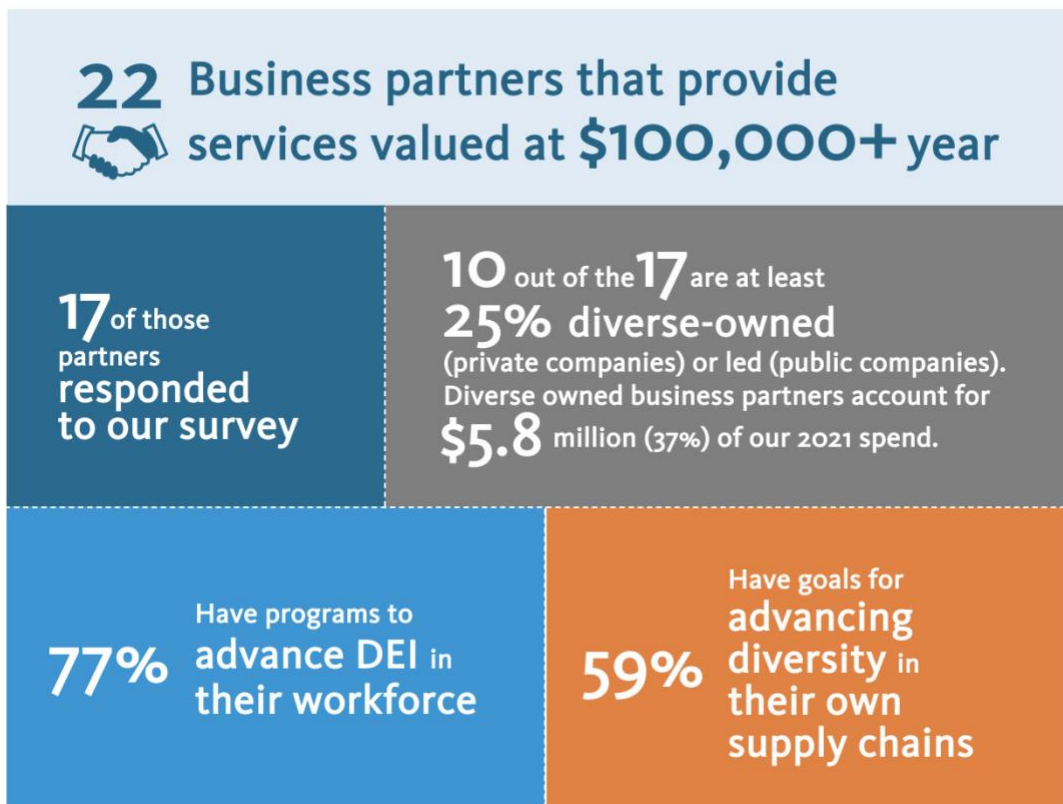
## Business Partners

UC Investments' business partners – the companies that provide us with professional services such as valuation, investment consulting, and ESG and risk data – are critical to our success.

Our business partner survey, now in its second year, asks about our business partners' demographic composition and their engagement on diversity, equity and inclusion.<sup>11</sup> UC Investments' "spend" with diverse-owned business partners dropped by 1% year over year – from 38% in 2020 to 37% in 2021. Chart 22 below provides more information.

### CHART 22

## Diversity & Inclusion at our Business Partners, 2021



<sup>11</sup> Due to lack of data, we are not able to include UC Investments' spending on outside legal counsel in this year's report.

# Engaging as a Shareholder

CHART 23

## Diversified Returns: FY20-21 Program Results



Shareholder Risk Matters	
METRIC: Number of annual engagements re: diversity with investee companies	RESULT: 222 engagements with 178 companies. Baseline established.
METRIC: Percentage of investee companies that take action to advance board & workforce diversity annually	RESULT: Partially met. NOTES: Of the 222 engagements, 21 resulted in measurable milestones – almost 10%. Baseline established.

UC Investments met its Diversified Returns program goals as a shareholder in FY20-21, as Chart 23 above shows.

With roughly \$92 billion invested in passively and actively managed public equities around the world (as of June 30, 2021), UC Investments has a significant interest in corporate governance at the companies we own. Sound corporate governance is essential to creating long-term value; one measure of sound corporate governance is the composition of its board of directors. Like other institutional investors, UC Investments is persuaded by the extensive research linking demographic diversity on a board of directors to long-term financial performance.<sup>12</sup> The benefits of demographic diversity on a corporate board of directors can include a larger candidate pool from which to pick top talent, better understanding of consumer preferences, a stronger mix of leadership skills, and improved risk management.

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<sup>12</sup> See, e.g., Vivian Hunt et al., “Delivering through Diversity,” McKinsey & Co. 13 (Jan. 2018), [https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/delivering%0through%20diversity/delivering-through-diversity\\_full-report.ashx](https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/delivering%0through%20diversity/delivering-through-diversity_full-report.ashx) (“We found that companies with the most ethnically/culturally diverse boards worldwide are 43% more likely to experience higher profits.”); and Jason Thomas & Megan Starr, Carlyle Group, “From Impact Investing to Investing for Impact,” 2020, [https://www.carlyle.com/sites/default/files/202002/From%20Impact%20Investing%20to%20Investing%20for%20Impact\\_022420.pdf](https://www.carlyle.com/sites/default/files/202002/From%20Impact%20Investing%20to%20Investing%20for%20Impact_022420.pdf)

## Proxy Voting

UC Investments' proxy voting guidelines seek to advance diversity, equity and inclusion at the companies we own and to increase their disclosure of demographic information.<sup>13</sup> In the 2021 "proxy season," UC Investments voted in roughly 16,000 director elections. Of those, UC Investments voted against roughly 3,200 (or 20%) due in whole or in part to a lack of demographic diversity. In addition, we voted on numerous diversity-related shareholder proposals, as summarized below in Chart 24.

### CHART 24

## Votes on Diversity-Related Shareholder Proposals

Theme	For	Against
Enact Policy to Share Equal Employment Opportunity Data	3	0
Conduct Racial Equity Audit	13	0
Disclose Pay & Promotion Data	8	0
Disclose Demographic Data	14	0
Other	3	0
<b>Total votes</b>	<b>41</b>	<b>0</b>

Source: ISS, 2021

## Direct Engagement

In 2021, UC Investments actively engaged with senior management of 178 public companies whose shares we owned regarding diversity and inclusion. In particular, we encouraged the leadership of the 100 US or Canada headquartered companies to:

- institutionalize a commitment to diversity in their nominating committee charter;
- commit to including women and minority candidates in every pool from which board nominees are chosen, a practice commonly referred to as the "diverse slate rule"; and

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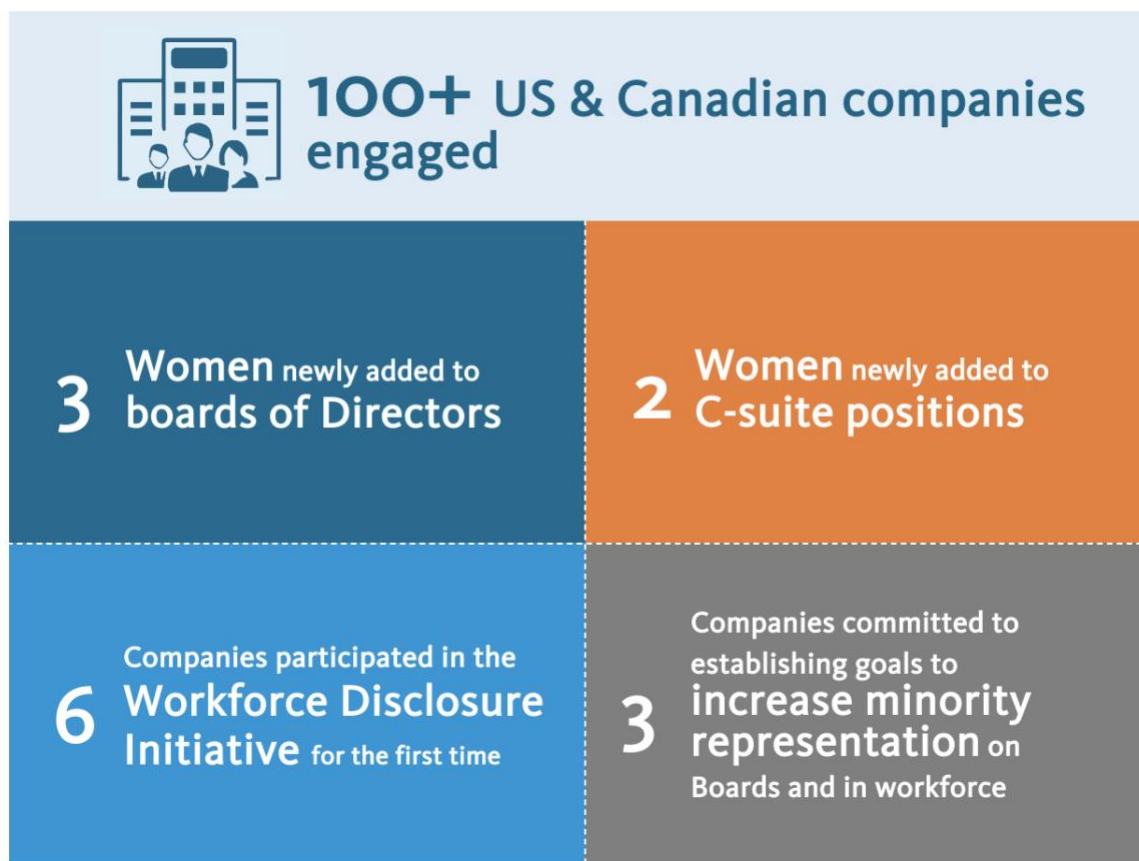
<sup>13</sup> See, <https://www.ucop.edu/investment-office/sustainable-investment/active-ownership/custom-proxy-guidelines.pdf>

- publicly disclose the demographic composition of their board and their workforce.

To maximize our influence, we collaborated with other institutional investors through the Thirty Percent Coalition<sup>14</sup> and through the “responsible engagement overlay” consulting service of the Bank of Montreal Global Asset Management.<sup>15</sup> Chart 25 below summarizes the results of our engagement efforts.

**CHART 25**

## Shareholder Engagement, 2021



In 2022, we will continue to engage directly with select Russell 3000 companies on diversity and inclusion. UC Investments is the lead investor for 10 such companies within the Thirty Percent Coalition’s annual “Adopt a Company” campaign, which

<sup>14</sup> The Thirty Percent Coalition is a collaboration among corporations, investors and advocacy groups whose mission is to advocate for diversity on corporate boards and promoting women and people of color. See: <https://www.30percentcoalition.org/>

<sup>15</sup> In late 2021, Columbia Threadneedle acquired BMO Global Asset Management’s “responsible engagement overlay” team.

engages with U.S. companies that have no women and/or no people of color on their boards of directors.<sup>16</sup>

## **Conclusion: The Journey Ahead**

We are excited about the journey ahead as we continue to fulfill the goals we established for the Diversified Returns program in 2020. By the end of FY21-22, UC Investments will have held more than 100 meetings with managers largely sourced by NAIC as part of our intentional approach to finding superior opportunities from managers who may have been overlooked. Knowing that diversity and inclusion drive better results, we will continue to engage with our investment partners – both diverse and non-diverse owned – to learn, to share best practices, and to galvanize progress. On our own team, with the Covid-19 induced hiring freeze lifted, we have begun the hiring process to fill important roles. We are optimistic that we will attract and hire the best people, especially now that we are using a diverse slate approach systematically.

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<sup>16</sup> See: <https://www.30percentcoalition.org/who-we-are>

# APPENDIX

## I. **Investment Partner Survey Methodology**

There is no industry standard approach to measuring and assessing demographic diversity in the asset management industry. UC Investments broadly hews to the approach – focused on ownership - established by the landmark 2019 “Knight Foundation report,” and its 2021 update.<sup>17</sup> Specifically, we seek to answer two questions:

1. What percentage of our assets under management is managed by firms owned or led by women or diverse populations?
2. How many of our investment partners are firms owned or led by women or diverse populations?

**Survey Administration:** Because we were not satisfied with the mainstream institutional investor approach to collecting the data needed to answer these two questions, we developed our own approach. To gather high quality, comprehensive data, we needed to achieve a high response rate, which in turn meant we needed to eliminate obstacles to responding, including potential respondents’ concerns about privacy.

Therefore, we designed the survey to be anonymous and confidential. A third-party survey administrator, Alphapipe, compiled the survey responses and aggregated the data across diversity dimensions and asset classes, per our instructions.

**Definitions:** UC Investments’ definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status.

In reporting and aggregating the data, we tracked the same two ownership/leadership thresholds – 25% and 50% - tracked by the 2019 “Knight Foundation report.”

**Scope:** To gather comprehensive data, we designed our survey to cover both privately and publicly owned investment partners. For privately owned firms, we asked about the demographics of their ownership, broken down by individual ownership percentages.

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<sup>17</sup> See, “Diversifying Investments: A Study of Ownership and Performance in the Asset Management Industry,” Lerner, Josh et al., 2019; See also, “Knight Diversity of Asset Management Series: Industry,” Bella Private Markets, 2021 <https://knightfoundation.org/reports/diversifying-investments-a-study-of-ownership-diversity-and-performance-in-the-asset-management-industry/>

For publicly owned firms, we asked about the demographics of the decision-makers on the team managing UC's investments.

Excluded from the survey were products and asset classes that UC Investments manages internally (e.g., the Short-Term Investment Pool). Furthermore, we excluded firms headquartered outside of the U.S. due to foreign data privacy laws and different definitions of "diversity" outside of the United States. We did not survey investment partners whose relationship with UC Investments was scheduled to end in 2021 or early 2022.

We surveyed our U.S.-based investment partners across all asset classes and covering the following investment products: General Endowment Pool, UC Retirement Program, UC Retirement Savings Plan and the Total Returns Investment Pool.

To calculate the assets under management for the purposes of this report, we include both the net asset value and the unfunded capital allocated to each manager. We do not include the AUM of assets managed by firms for which we do not have survey data.

**Data Aggregation:** Survey responses include demographic information from 100 firms across 1354 anonymized individuals. Percentages for these responses are based on counts of individuals identified as diverse by category (not weighted by ownership level). Separate ownership-weighted disclosures for privately owned firms are not available given most firms were reluctant to disclose ownership by anonymized individual owner.

In instances where data reported multiple demographic dimensions of diversity, we took the following approach: a Black woman veteran is "counted" in the gender, Black and veteran charts. But she is only "counted" once in the chart reflecting overall diverse ownership.

Diversity for some firms may be understated because individuals who responded "Information not Available" or "Prefer not to Disclose" were included in the respective firm totals used as the denominator for percentage calculations. In such instances, individuals were presumed to be straight, white, male, not disabled and not veterans.

In the context of this report, "Multi-Racial" describes ownership of firms with individuals reporting as multi-racial at a level above the 25% or 50% threshold and/or individuals reporting races other than white that – only in combination, not alone – exceed the 25% or 50% threshold.



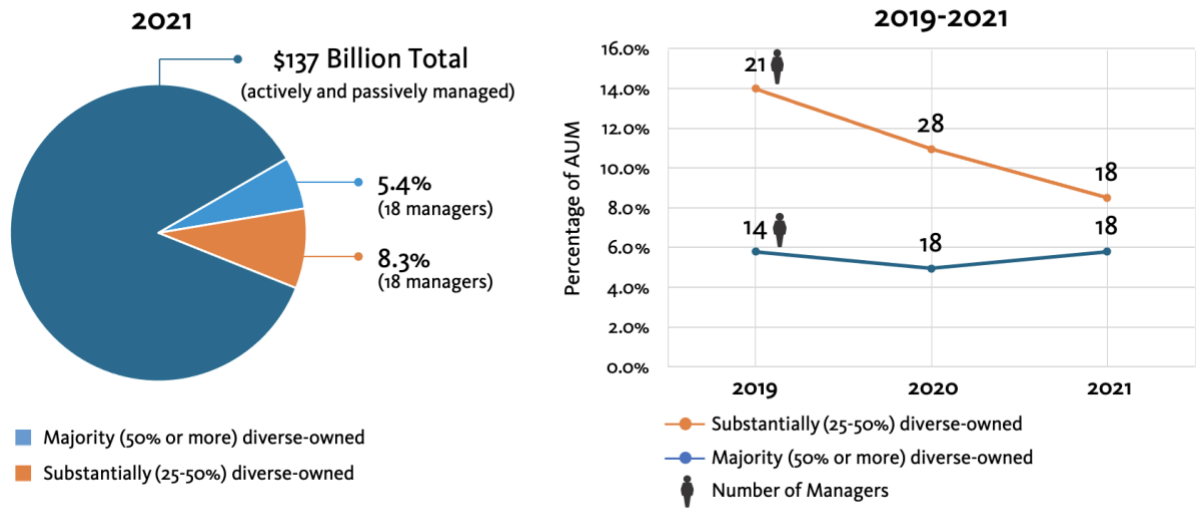
In most instances, we accepted the data as reported. As we did in 2020, our survey administrator conducted a calibration of reported data against publicly available data for certain partners. This calibration usually - but not always - resulted in a reduced number of diverse-owned managers, compared to the survey data. If a manager failed to respond to our demographic survey in 2021, we used their responses from 2019 or 2020 if available.

**Disclaimer:** While we and our survey administrator endeavored to design the survey and gather and aggregate the data in a way that would eliminate inaccuracies, there may be slight data imperfections.

**II. Investment Partner Demographic Survey Results Calculated Using Both Actively and Passively Managed Assets**

**CHART 26**

**Surveyed Assets Managed by All Diverse Partners**



For the purposes of this chart, "diverse-owned" covers both ownership of private companies and leadership of the teams managing UC's investments at public companies.

**CHART 27**

**Surveyed Assets Managed by Diverse Partners** (Passively & Actively Managed)

AUM=\$137 billion	25%	50%	Greater than 25%
36 All Diverse-Owned Partners	8.3%	5.4%	13.7%
12 Women-Owned Partners	4.8%	0.8%	5.6%
12 Asian-Owned Partners	2%	1.8%	3.8%
8 Multi Racial-Owned Partners	2.3%	1%	3.3%
2 Latinx-Owned Partners	0%	1.1%	1.1%
3 Black-Owned Partners	0%	1%	1%
3 Veteran-Owned Partners	0.3%	0.1%	0.4%
1 LGBTQ-Owned Partners	0.2%	0%	0.2%
1 Disabled-Owned Partners	0.1%	0%	0.1%

For the purposes of this chart, “diverse-owned” covers both ownership of private companies and leadership of the teams managing UC’s investments at public companies. This chart is calculated using UC Investments’ US-based, actively and passively managed assets as of June 30, 2021.

**Business Partner Survey**

We surveyed the business partners that provide us services valued at \$100,000 or more annually, comprising a total of 22 companies. We developed our business partner survey to cover both quantitative demographic information as well as qualitative program information.

**Survey Administration:** We designed the survey to be anonymous and confidential. A third-party survey administrator, Alphapipe, compiled the survey responses and aggregated the data, per our instructions.

**Disclaimer:** While we and our survey administrator endeavored to design the survey and gather and aggregate the data in a way that would eliminate inaccuracies, there may be slight data imperfections.

**Definitions:** UC Investments’ definition of diverse spans multiple demographic dimensions: gender and gender identity, race and ethnicity, sexual orientation, veteran status, and disability status.

Our survey asked respondents to indicate whether their respective diverse owners (privately owned) or senior leaders (publicly owned) constituted 25% or more.

**Scope:** To gather comprehensive data, we designed our survey to cover both privately and publicly owned business partners. All data is as of June 30, 2021, the end of our fiscal year.



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