

## A CIO ROUNDTABLE DISCUSSION

# Diversity in Institutional Real Estate Investment



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**Diversity and inclusion** are key imperatives within the institutional investment community. For high-level insights into these priorities, both across asset classes and with respect to real estate in particular, PREA spoke with leading chief investment officers who oversee the portfolios of some of the nation's largest pension funds: Chris Ailman of California State Teachers' Retirement System, Doug Brown of Exelon Corporation, Scott Evans of New York City Retirement System, and Vicki Fuller of New York State Common Retirement Fund. ■ The PREA Foundation has partnered with Sponsors for Educational Opportunity (SEO) to develop a first-of-its-kind program to cultivate diverse talent and enhance opportunities for students from underrepresented backgrounds to enter and thrive within the real estate industry. SEO Executive Vice President Julian Johnson spoke with PREA about the ways this program elevates access and inclusion in the real estate field particularly, addressing many of the challenges and opportunities highlighted by the CIO panel.

## VICKI FULLER

New York State Common Retirement Fund



## CHRIS AILMAN

California State Teachers' Retirement System



New York City Retirement System



## SCOTT EVANS

Exelon Corporation



## DOUG BROWN

**Have you seen a noticeable shift in the way the institutional investment industry thinks about and pursues diversity over the past 10, 20, or 30 years?**

The CIOs agreed that, despite a historical lack of diversity in the institutional investment community, prog-

and other institutional investors, as well as in their recruitment of managers. Both groups are ultimately acting on behalf of diverse constituencies of pensioners, students, grant recipients, and other stakeholders and should be fully reflective of the people they serve.



"The group is often smarter than any one individual but only if diverse thinking and debate is fostered. Leadership means empowering different opinions and being open to being challenged."

**Vicki Fuller**, New York State Common Retirement Fund

ress has been made in recent decades. Improvement has been a function of more diverse leadership within investment organizations as well as growing recognition of the investment performance benefits of diverse teams. The effects of these shifts can be seen within the staffs of pension funds, endowments, foundations,

**How do you think about cultivating diversity in practice?**

Roundtable participants shared a wide range of approaches to cultivating diversity. They generally included both inward-looking and externally focused components, the former involving the recruitment and advancement of internal

## Importance of Diversity in the Institutional Investment Community

**Sponsors for Educational Opportunity (SEO)** knows that talent is distributed across all ethnic and socioeconomic backgrounds. However, often the ultimate determining factor in who succeeds is how much preparation has gone into developing an individual's abilities.

With this perspective, not surprisingly, SEO looks for talent not just at the nation's elite colleges but also at campuses across the country. It seeks out and develops candidates starting in freshman year, well before employers even see their résumés. SEO provides more than 100 hours of pre-professional training in soft skills and technical skills through leading industry training partners as well as SEO staff and alumni. SEO participants learn skills that can be universally applied, such as Excel and PowerPoint skills, and skills specific to the real estate investment in-

dustry, such as Argus training. SEO works with young people to ensure they are primed and ready to add value to its corporate partners on day one. SEO training has measurable results—more than 80% of SEO career interns receive a full-time job offer from SEO partners at the end of their internships.

Much of the rigorous pre-professional development SEO does stems from its decades-long experience with investment banks, which are among the most demanding workplaces in the US economy. SEO staff members have developed practices to meet the extremely high standards for entry into such coveted internship opportunities. SEO carries these standards across all it does, which has led to the program's success in working with non-banking partners such as IBM, Johnson & Johnson, and American Express. In building this new program

staff, and the latter involving relationships with consultants, managers, and industry organizations. New York State Common Retirement Fund CIO Vicki Fuller observed her

Minimizing groupthink was widely seen as an inherent advantage of workplaces characterized by high levels of diversity. Groupthink is more likely to be

"What we have to ensure is that all employees feel empowered to speak up and share their perspectives. This is what it means to have an inclusive environment."

**Doug Brown**, Exelon Corporation



organization's efforts to cultivate board and staff diversity within the pension fund's equity and fixed income companies, as well as its commitment to bringing together the growing community of diverse participants in the institutional investment industry at an annual conference it hosts in Albany.

### How can diverse workplaces minimize groupthink and improve decision-making processes?

avoided when teams that possess a wide array of perspectives, talents, and ways of thinking bring those diverse capabilities to bear on the challenges confronting investors. New York City Retirement System CIO Scott Evans pointed out that "a diverse team creates stronger accountability and transparency, more thoughtful analysis, greater rigor, and ultimately better decisions." High-level investment outcomes

focused on the real estate industry, SEO is drawing on more than three decades of experience and success.

One of the reasons SEO leaders think real estate is such an important industry to focus on is that while people coming out of minority communities may not be broadly exposed to other alternative asset classes such as private equity and hedge funds, they most likely have had some exposure to real estate investing at some point in their lives. No matter a person's background, almost everyone has had an aunt or a friend of the family who owned a two-family house where the tenants in effect paid the mortgage and helped the owner build wealth. For most, such real



estate experience is the foundation of the American Dream, if you will. Nonetheless, the real estate industry has not developed a diverse talent pool, perhaps because many real estate companies are family-owned businesses. As a result, the industry has inadvertently left a lot of talent out of the game that could fuel the industry's further growth.

Through its partnership with PREA, SEO looks to create greater awareness of the opportunities that await in the industry and develop a pipeline of talent that can become part of the driving force of the real estate industry's future. ■

**Julian Johnson**

**Executive Vice President**, Sponsors for Educational Opportunity

depend on thorough examinations of the investment options at hand (and their attendant risks and advantages), and careful investigations are in turn a function of inclusive environments that allow multiple points of view to be heard and weighed carefully.

California State Teachers' Retirement System CIO Chris Ailman keyed in on the risk management aspect of diversity, drawing parallels among efforts to "mitigate risk in our ... portfolios" by diversifying not only along the lines of asset class, geography, and other investment characteristics but also with respect

class focus. All input solicited through these channels should be considered respectfully, even if it challenges traditional modes of operation or previously accepted wisdom. Such an approach can be a powerful way to avoid groupthink and uncover previously unconsidered risks and opportunities.

Some roundtable participants stressed that efforts to keep diverse talent engaged should span all segments of a career cycle and include opportunities to "reintegrate" into the industry following a leave of absence or sabbatical.



"We need to prioritize coalition building toward stronger diversity in the institutional investor industry and real estate sector."

**Scott Evans**, New York City Retirement System

to the decision-making process itself. Improving that process can bring to light additional strengths and weaknesses found in specific deals and geographic targets, as well as in broader investment theses, potentially revolutionizing investment decision making at a strategic level.

**Does the process stop once you have the right people in the room? Which policies and practices can help ensure that all voices are being heard and that all perspectives are being shared?**

Roundtable participants saw building diverse teams as necessary but not sufficient. The process begins with recruitment and then extends to strategies intended to put team members in positions in which they feel comfortable sharing their thoughts and opinions openly. As Exelon Corporation CIO Doug Brown described it: "First you put the right people in the room; then you make sure you have an environment where everyone can contribute at his or her greatest potential."

Some investor organizations have institutionalized this objective by designating internal diversity or investment committees that encourage input from all staff members, regardless of background or asset

**What opportunities does the real estate sector have that will enable it to stand out among other asset classes in being forward thinking and driving change?**

Fuller noted that investors often have opportunities to work with real estate partners across a range of deal sizes, allowing them to engage emerging managers on small projects to start, scaling up as opportunity allows. She added that "high-caliber deal and management talent can be accessed" through a variety of structures (commingled funds, joint ventures, and others), a characteristic that distinguishes real estate from some other asset classes. Fuller and other roundtable participants emphasized the many promising employment opportunities available at the entry level of institutional real estate investment, although they saw a need to expand awareness of and access to these opportunities to a broader group of talented prospective employees.

Participants spotlighted the important role the PREA Foundation's partnership with Sponsors for Educational Opportunity (SEO) can play in this regard. This partnership will take the form of a first-ever PREA/SEO Real Estate Track, through which a pool of talented col-



lege students will be cultivated, trained, and afforded direct exposure to the real estate industry.

SEO's Executive Vice President, Julian Johnson, spoke with PREA about the unique opportunities his organization sees in the real estate space and how SEO will leverage its decades of talent-building experience to develop a program focused on the industry. He noted that most young people have some awareness

trywide efforts to recruit, retain, and promote a diverse corps of talented investors. Participants saw these efforts as important elements of in-house human resources practice but as extending equally to partners such as management firms, consultants, vendors, brokers, and service providers. A shared objective was to sustain the improvements that have occurred in recent years and to formalize and intensify

"You have to wonder if the outcome [of the 2008 financial crisis] might have been different if Lehman Brothers [had been] Lehman Family."

**Chris Ailman**, California State Teachers' Retirement System



of the industry as a whole, often through a parent's or family member's experiences owning a home or rental property. The challenge is to increase awareness of and access to employment opportunities in the industry, particularly its institutional side, among the many talented students from diverse backgrounds who have an interest in building a career in the field. Johnson's full statement appears in the sidebar.

**What is your vision for access and inclusion in the institutional real estate investment industry over the next ten years? What kinds of efforts and outcomes would you like to see unfold?**

A conspicuous theme in the visions of roundtable participants was continued improvement in indus-

trywide efforts to recruit, retain, and promote a diverse corps of talented investors. Participants saw these efforts as important elements of in-house human resources practice but as extending equally to partners such as management firms, consultants, vendors, brokers, and service providers. A shared objective was to sustain the improvements that have occurred in recent years and to formalize and intensify the ways in which investors and other industry participants pursue diversity and inclusion. A compelling part of many participants' visions for the future of the institutional real estate investment community was ensuring that the exchange of ideas and best practices around these priorities becomes systematic, achieved through deliberate strategy at the leadership level. ■

PREA would like to thank Chris Ailman, Doug Brown, Scott Evans, Vicki Fuller, and Julian Johnson for sharing their valuable insights with us and engaging in this important dialogue.

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