



Agenda Item 6c

December 16, 2013

ITEM NAME: Targeted Investment Programs and Diversity Initiatives Update

PROGRAM: Targeted Investment Programs

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

This agenda item provides a status report on Targeted Investment Programs activities. This update covers the period of March 2013 to the present and focuses on CalPERS Five-Year Plan for Emerging Managers, Diversity and Inclusion Initiatives, California Investments, and Real Assets Sustainability Initiatives.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goals to improve long-term pension and health benefit sustainability and engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs.

BACKGROUND

This agenda item is a regularly scheduled update to the Investment Committee (IC) on Targeted Investment Programs activities. Staff's efforts and accomplishments since the last update in March 2013, are detailed below for the following areas:

- CalPERS Five-Year Plan for Emerging Managers
- Investment Office Diversity and Inclusion Initiatives
- California Investment Initiatives
- Real Assets Sustainability Initiatives

ANALYSIS

CalPERS Five-Year Plan for Emerging Managers

Progress on CalPERS Five-Year Plan for Emerging Managers ("Five-Year Plan") initiatives is provided below.

Portfolio Management – Emerging Manager (EM) Program Initiatives

Work Stream 1: Establish performance, cost, and diversity of existing EM Portfolio

EM Cost Initiative

Staff initiated work to establish the cost of EM programs. Staff expects to develop a comprehensive report highlighting EM program costs in the three major expenditure

categories across the Investment Office; investment management fees, staff time and external outreach. Staff anticipates this project will be complete in the first quarter of 2014.

Work Stream 2: Global Equity Manager Development Program and EM Fund of Funds Program

Global Equity EM Program Restructure

Global Equity staff is making progress restructuring the Manager Development and EM Fund of Funds Programs. This effort is intended to integrate the work of EMs with the overarching investment strategy of the asset class. Staff's work has focused on ensuring a high level of communication between CalPERS staff, strategic advisors and stakeholders as the transition to the new program structure occurs.

Work Stream 3: Manage, track, and report progress of Private Equity (\$100 million) and Real Estate (\$200 million) EM programs

Private Equity

One new investment has been made in Private Equity's EM Program managed by Customized Fund Investment Group.

- Customized Fund Investment Group finalized a commitment to Peak Rock Capital Fund L.P, which is the second diverse and emerging manager selected for this Program. Two additional investments are pending final approval by Customized Fund Investment Group.

Real Estate

Four new joint venture investments have been made in Real Estate's EM Program since it commenced in September 2012, three of which have been to women or minority-owned firms.

- The Canyon Catalyst Fund, a California-only program, finalized investment commitments to the following four EMs:
 - Rubicon Point Partners - San Francisco based woman-owned firm focusing on investment strategies in office and datacenter property sectors primarily in Northern California
 - Pacshore Partners – Los Angeles based minority-owned firm focusing on investment strategies in the office and mixed-use property sectors primarily in Southern California
 - Sack Properties – San Francisco based woman-owned firm focused on investment strategies in the multifamily property sector primarily in Northern California
 - Paragon Commercial Group – El Segundo based firm focused on investment strategies in the multifamily property sector throughout California.

Work Stream 4: Criteria for new capital investments in EM Programs

Private Equity EM Program Review

As announced in the August IC meeting, CalPERS Investment Office will review and examine outcomes of CalPERS Private Equity EM investments (“Review”). This Review (previously referred to as “Task Force”) is a follow-up to a recommendation and a series of findings regarding Private Equity’s EM program in a report by Crosswater Realty Advisors dated June 6, 2013. The purpose of this review is for CalPERS to identify lessons learned and adopt best practices for evaluating investment managers and potential commitment of new capital to EMs. Additional information about the review is included below:

- Cambridge Associates has been selected as the consultant to provide an in-depth review of approximately 10-12 EMs from the CalPERS Private Equity Portfolio in order to identify characteristics that contribute to an EM's success.
- Cambridge will present their findings to a panel of senior staff, consultants, and industry experts selected by the Investment Office. Reviews will be presented to the panel in a workshop environment, allowing participants to discuss and challenge findings and ultimately seek consensus on best practices.
- The panel will be comprised of Investment Office staff including Theodore Eliopoulos, Réal Desrochers, Laurie Weir, Christine Gogan, Sarah Corr, Scott Jacobsen; Allan Emkin and Mike Moy of Pension Consulting Alliance Inc. (PCA); and the following external market participants:
 - Matt Barger, Former General Partner, Hellman Friedman
 - Maria Contreras-Sweet, Executive Chairwoman, ProAmerica Bank
 - Holly Holtz, Managing Director, Shinrun Advisors
 - John McLaren, Senior Advisor, Monument Group
 - Hilda Ochoa-Brillembourg, CEO & CIO, Strategic Investment Group
 - Paul Rice, Senior Advisor, Mesirow Financial
 - Howard Sanders, Managing Director, Auldbrass Partners
 - Roger Sit, CEO and Global CIO, Sit Investment Associates
 - Ambassador Linda Tsao Yang, Asian Development Bank

The panel is scheduled to conduct their first review and analyze the first set of consultant reports on December 17, 2013. Subsequent reviews will be presented as Cambridge’s in-depth reports are provided. A report will be delivered to the IC in March 2014. We expect to include the findings of this review on the agenda of the CalPERS Emerging and Diverse Manager Spring Forum, April 1, 2014.

EM Research

External Outreach - Work Stream 1: Improve EM proposal tracking and communication

Peer Benchmarking

Staff has made significant progress on the Peer Benchmarking initiative. Project outcomes will help CalPERS understand our EM investment exposures in comparison with our peers, how other programs are implemented, and provide insight into best practices of our peers. To date, staff and Callan Associates Inc. drafted and forwarded a survey to eleven of our pension peers. Thus far, five pension systems have responded. Staff anticipates reporting survey results to the IC in March 2014.

External Outreach and Networking Initiatives

External Outreach - Work Stream 1: Improve EM proposal tracking and communication

IPTS Improvement

Staff is working with the Investment Proposal Tracking System (IPTS) Steering Committee to enhance and improve the web based submittal process. IPTS improvements will include the ability to save, exit, and return to the proposal submittal process. Staff has also created templates within the IPTS that will capture emerging and diverse manager data for improved Board reporting and manager communications. Staff is formulating new response guidelines for proposal submittals, as well as identifying outreach opportunities to improve communication with external managers seeking commitments and feedback from CalPERS.

EM Communications Initiative

Staff began the EM Communications Initiative to strengthen communications with emerging and diverse managers and stakeholder groups, as well as to facilitate a better understanding of the investment proposal submittal and review process. PCA is providing consultant services and is helping lead this important initiative. The Initiative includes the following:

- Review and update procedures and communications strategies utilized for working with emerging and diverse managers, and determine appropriate communication methods and content.
- Improve the overall outputs of the Investment Proposal Tracking System (IPTS) and ensure the documentation generated properly reflects the internal processes for each asset class.
- Establish heightened communication with emerging and diverse managers to discuss and provide input on why investment proposals are declined.
- Improve communications to facilitate stronger working relationships and improve CalPERS reputation with emerging and diverse managers across all asset classes.

- The anticipated deadline for this effort is March 2014.

External Outreach - Work Stream 2: Improve EM information and resources on CalPERS website

Targeted Investment Programs Web Page

Staff, in collaboration with CalPERS Office of Public Affairs, created a new Targeted Investment Programs webpage on the CalPERS website. The webpage will be a central location for interested parties to find information on EM investment programs, CalPERS Five-Year Plan, Investment Office diversity and inclusion initiatives, California investments initiatives, and labor policies. This project is expected to be completed by December 31, 2013.

Networking - Work Stream 1: Identify, host, and/or participate in EM-focused events

CalPERS Emerging and Diverse Manager Spring Forum 2014

Staff, in collaboration with External Affairs, will host the second CalPERS Emerging and Diverse Manager Forum on April 1, 2014. The Forum will allow CalPERS to report its progress under the Five-Year Plan and provide background on initiatives and work streams that have led to key policy improvements, plans and reports. Staff expects to make several presentations that may include the following:

- First Annual Report to the Legislature on the progress of the Five-Year Plan
- Real Estate and Private Equity EM commitments
- Peer Benchmarking Project
- Global Equity EM Program Restructure
- Private Equity EM Program Review
- IPTS Improvement
- Targeted Investment Programs Website

Global Equity EM Webinar

Staff, in collaboration with CalPERS Office of Public Affairs, will host a webinar focused on Global Equity's EM Program Restructuring. The webinar is under development and expected to occur in February 2014.

CalPERS Legislative Workshop

Staff hosted two Legislative Workshops providing opportunities to share information with key legislative staff on Investment Office issues, procedures and policies. The workshops also provided opportunity to communicate Investment Office efforts related to Emerging and Diverse Manager initiatives.

Participation in EM-Focused Events

- Staff hosted New America Alliance (NAA) 2013 National Tour on May 8, 2013 at CalPERS.

- Staff was a featured speaker at the Consortium 2013 hosted by RG & Associates and the National Association of Securities Professionals (NASP) Annual Conference.
- Staff was a featured speaker at the New America Alliance (NAA) Annual Wall Street Summit on October 9-10, 2013.
- Staff were featured speakers at the Association of Asian American Investment Managers (AAAIM) annual conference on October 21-22, 2013.
- Staff also attended:
 - Capital Access Funds Networking event co-hosted by Bank of America Merrill Lynch;
 - National Association of Securities Professionals (NASP) annual conference; and
 - National Association of Investment Companies (NAIC) annual meeting and convention.

Networking - Work Stream 2: Improve communication with EMs and professional associations

Staff hosted a series of conversations with the New America Alliance (NAA) and the National Association of Investment Companies (NAIC) to discuss and provide updates on CalPERS commitment to emerging and diverse managers. Staff intends to hold additional conversations to assure clear and open communication and to reiterate CalPERS commitment to emerging and diverse managers.

Investment Office Diversity and Inclusion Initiatives

Diversity and Inclusion Manager and Consultant Survey

Staff, in collaboration with RG & Associates, is developing a process to survey CalPERS external managers and consultants on the diversity of key competency positions within their organizations, as well as to request information on diversity and inclusion policies and programs they may have. The goal of this survey is to understand investment manager and consultant workplace diversity, and how diversity and inclusion is incorporated into their business practices. Staff anticipates this project will be complete in the first half of 2014.

Global Equity Internal Equity Brokerage

Within CalPERS Global Equity program, approximately 82% of the assets are managed by internal staff. A significant activity associated with internally managed strategies is the execution of equity trades. This trading activity is implemented through a number of brokerage relationships comprising the Internal Equity Brokerage Roster. The brokerage community can apply for potential selection to the roster through a web based questionnaire available on CalPERS external website. The roster is assessed and established by Global Equity staff on a semiannual basis.

Targeted Investment Programs staff worked with Global Equity staff and Mosaic Investment Advisors (Mosaic) to establish enhancements to the broker selection process to better identify and report women and minority-owned brokerage firms in the U.S. Equity Brokerage Roster. CalPERS definition of a diverse equity brokerage business was developed by staff and Mosaic, along with a series of voluntary questions to improve identification and reporting of consistent information about women and minority ownership of brokerage firms.

In the past, Global Equity staff made the list of selected brokers available to the public when requested. Targeted Investment Programs and Global Equity staff established semiannual posting of the U.S. Equity Brokerage Roster on CalPERS external website, which now includes identification of women and minority-owned brokerage firms.

California Investment Initiatives

Infrastructure Outreach

Financial Advisor Roundtable

In April 2013, CalPERS hosted *CalPERS Investment Office Discussion with Financial Advisors*.

This meeting was an open discussion between CalPERS Infrastructure and Targeted Investment Programs staff and financial advisors working on California infrastructure projects. CalPERS goal was to inform financial advisors of the availability of CalPERS capital for infrastructure projects and discuss non-traditional public private partnership structuring of infrastructure procurement and investment. Staff also heard from the financial advisors about potential infrastructure projects and how CalPERS capital might play a role in the development of some projects.

Over 40 people attended the event including fifteen financial advisors, CalPERS Board members, Investment Office staff, and other interested parties. The discussion highlighted the need for infrastructure investment in California. The Treasurer's Office indicated there is a forecasted funding gap of \$450 billion over the next decade for infrastructure projects in California. It was suggested that new funding sources, i.e., pension investment and endowment funds, could be critical to augment existing tax-exempt bonds and dwindling federal resources.

Peer Roundtable

CalPERS is planning to host an infrastructure roundtable with CalPERS peers in mid-2014. The goal of this discussion will be to learn and exchange information on investment in infrastructure in the institutional investor community.

West Coast Infrastructure Exchange

CalPERS staff continue to assist the West Coast Infrastructure Exchange (WCX). Senior Portfolio Manager Laurie Weir is the co-chair of the WCX Business Standards Committee which recently released a draft *Infrastructure Project Certification - Proposed Principles and Framework*. The purpose of this document is to establish project certification principles, a framework for infrastructure investment partnerships, and performance-based infrastructure solutions.

The leaders of California, Oregon, Washington and British Columbia signed the Pacific Coast Action Plan on Climate and Energy on October 28, 2013, committing their governments, and a region that represents the world's fifth largest economy, to a comprehensive and far-reaching strategic alignment to combat climate change and promote clean energy.

In a 10/28/2013 news release from California Governor Brown's office, the WCX was highlighted in reference to making infrastructure climate-smart and investment-ready. The news release stated "The West Coast Infrastructure Exchange is demonstrating how to attract private capital for infrastructure projects while increasing climate resilience through best practices and certification standards."

CalPERS for California Report

Jobs Methodology

In August 2012, staff presented the *2012 CalPERS for California* report to the IC. Staff was asked to re-visit the methodology used in the report to document jobs created or supported by CalPERS investment. In particular, several IC members questioned the current methodology for jobs in Global Equity and Fixed Income, which includes all company jobs in California regardless of the size of the CalPERS investment. In an effort to provide additional clarity, and best articulate the economic impacts resulting from CalPERS investments in California, Pacific Community Ventures (PCV) and staff have determined it is appropriate to make the following changes to the forthcoming *2013 CalPERS for California* report. A summary of the changes identified in PCV's November 5, 2013 memo (Attachment 2) to the IC is detailed below.

- Delineate more clearly between jobs supported in the public markets versus the private markets by presenting these figures separately and eliminating the total jobs supported figure that combines estimates from all asset classes;
- Incorporate stronger jobs methodology language and design elements distinguishing between public markets investments and private markets investments;
- Remove case studies from the Global Equity and Fixed Income asset classes to avoid confusion surrounding the attribution of economic impacts resulting from CalPERS public markets investments; and

- Extend the use of an economic multiplier model to estimate the total economic impact resulting from CalPERS Private Equity and Real Assets investments in California.

California Investment Outreach

Staff engaged in significant outreach efforts to communicate the outcome and impact of CalPERS investment in California as well as to learn about the efforts of stakeholders that are interested in increased investment in California. Over the past nine months, staff participated in the following events:

- California Green Summit
- Capitol Region Economic
- The Sierra Nevada Innovation Challenge, a California Business Challenge Event
- The Central Valley Venture Forum
- California Economic Summit
- The Agriculture, Food, and Beverage Leadership Conference.

Real Assets Sustainability Initiatives

United Nations Environmental Programme Finance Initiative (UNEP FI) Property Working Group (PWG)

Laurie Weir serves as the Co-Chair of the UNEP FI PWG. The Co-Chair position is a leadership role on all the UNEP work relating to property, and also serves on the UNEP Investment Committee. Staff's efforts included the following:

- Represented CalPERS at the UNEP FI PWG annual meeting where staff presented CalPERS real estate sustainability initiatives.
- Oversaw development of energy efficiency retrofit and valuation work stream papers, which will be published and distributed to real estate professionals globally.
- Founded PWG Advisory Group, a group of industry experts that provide the PWG with expertise on work streams, goals and initiatives.

Outreach

- On May 1-2, 2013, staff represented CalPERS at the annual Ceres Conference. Staff gave a presentation on CalPERS Real Assets' sustainability initiatives.
- Staff represented CalPERS at the Green California Summit in Sacramento on April 18-19, 2013.

BUDGET AND FISCAL IMPACTS

Not Applicable

ATTACHMENTS

Attachment 1 – Targeted Investment Programs Presentation

Attachment 2 – Pacific Coast Ventures Public Markets Memo

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