

Targeted Investment Programs Update

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December 16, 2013

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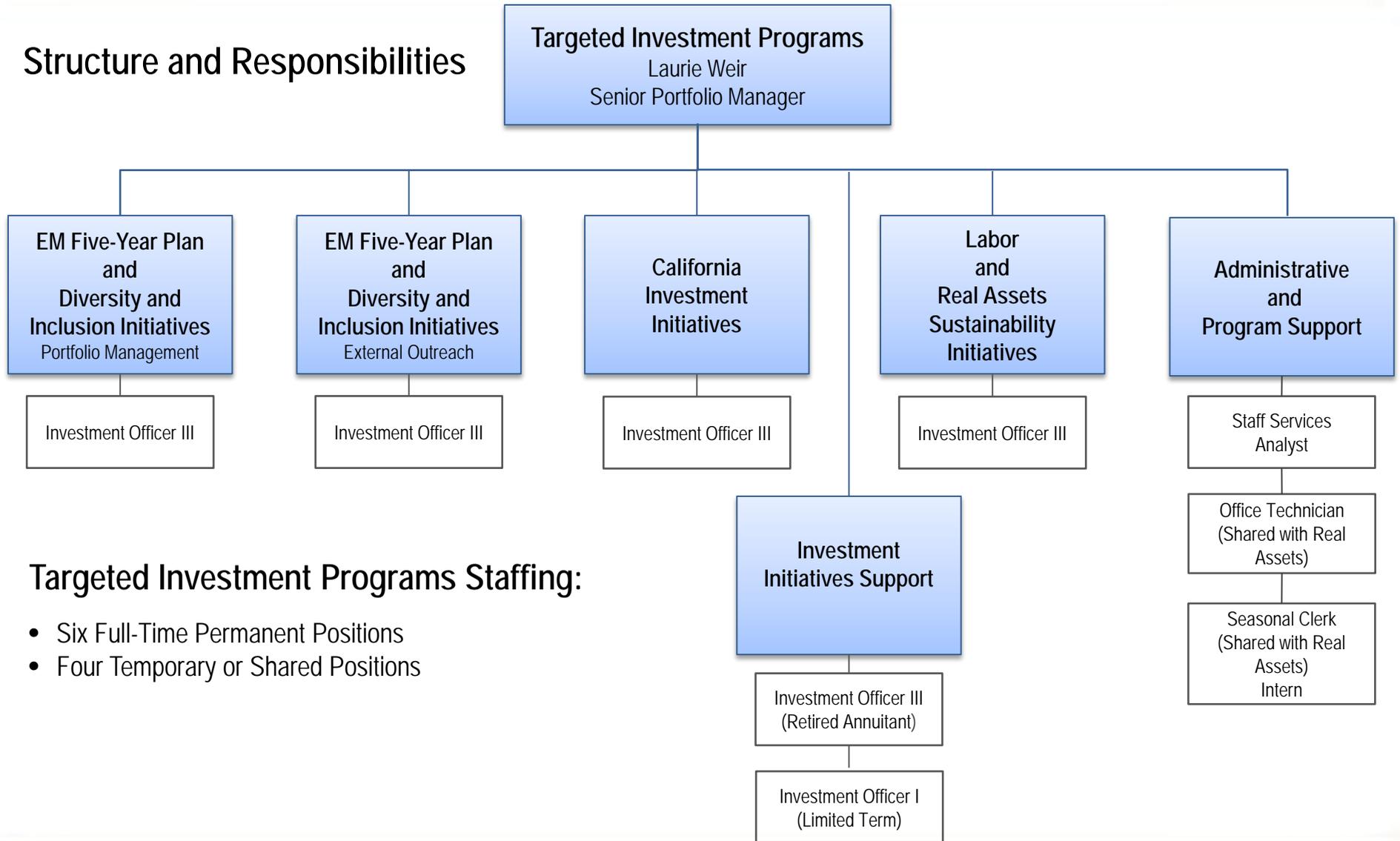
Who We Are: Targeted Investment Programs

- **Total Fund Coordination Across Asset Classes**
 - Establish a total fund strategic approach focused on appropriate risk-adjusted returns for investment programs and policies that are designed to have positive impacts
 - Act as a liaison between the Investment Office and interested stakeholders including elected officials, advocacy groups, and labor organizations
 - Coordinate and report on various legislative and Board mandates and initiatives
 - Develop and implement communications and outreach plans

Who We Are: Targeted Investment Programs

- **Legislative, Board and Investment Office Initiatives**
 - CalPERS Five-Year Plan for Emerging Managers
 - Investment Office Diversity and Inclusion Initiatives
 - California Investment Initiatives
 - Responsible Contractor Program Policies and Labor Issues
 - Real Assets Sustainability Initiatives

Structure and Responsibilities



Targeted Investment Programs Staffing:

- Six Full-Time Permanent Positions
- Four Temporary or Shared Positions

CalPERS Investment Beliefs – Targeted Investment Programs

Investment Belief 3: CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

- As a public agency, CalPERS has many stakeholders who express opinions on investment strategy or ask CalPERS to engage on an issue. CalPERS preferred means of responding to issues raised by stakeholders is engagement.

Investment Belief 4: Long-term value creation requires effective management of three forms of capital: financial, physical and human.

- Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively.

CalPERS Investment Beliefs – Targeted Investment Programs

Investment Belief 8: Costs matter and need to be effectively managed.

- CalPERS will balance risk, return and cost when choosing and evaluating investment managers and investment strategies.

Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

- As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability, that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

CalPERS Investment Beliefs – Targeted Investment Programs

Investment Belief 10: Strong processes, teamwork and deep resources are needed to achieve CalPERS goals and objectives.

- Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.

CalPERS Five-Year Plan for Emerging Managers

Portfolio Management - Work Stream 1: Establish performance, costs, and diversity of existing Emerging Manager (EM) Portfolio

- EM Cost Initiative
 - Report on EM program costs in three categories
 - Investment management fees
 - Staff costs
 - External outreach costs
 - Target completion by March 2014

CalPERS Five-Year Plan for Emerging Managers

Portfolio Management - Work Stream 2: Review Global Equity Manager Development Program and EM Fund of Funds Program

- Communication plan
 - Targeted Investment Programs and Global Equity staff worked closely with advisors and stakeholders
 - Create more meaningful relationships with emerging managers that align with and have impact on the total portfolio

CalPERS Five-Year Plan for Emerging Managers

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

- **Private Equity** – Customized Fund Investment Group finalized commitment to Peak Rock Capital Fund LP. Two additional commitments pending
- **Real Estate** – Canyon Catalyst Fund finalized commitments to (1) Rubicon Point Partners (2) Pacshore Partners (3) Sack Properties and (4) Paragon Commercial Group

CalPERS Five-Year Plan for Emerging Managers

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

- Private Equity EM Program Review
 - Structure of the Review
 - Composition of Review Panel
 - Reviews begin in December 2013
 - Targeted completion by March 2014

CalPERS Five-Year Plan for Emerging Managers

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

- Targeted Investment Programs Web Page
 - Anticipated completion date – December 31, 2013
 - Central location for information about TIP program areas
 - Emerging Managers Investment Programs
 - CalPERS Five-Year Plan for Emerging Managers
 - Investment Office Diversity and Inclusion
 - California Investment Initiatives
 - Labor Policies and Initiatives

CalPERS Five-Year Plan for Emerging Managers

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

- Staff, coordinating with External Affairs, has initiated work on:
 - CalPERS Emerging and Diverse Manager Spring Forum, scheduled April 1, 2014
 - Global Equity EM Webinar, planned for February 2014
- Staff and External Affairs conducted two Legislative Workshops
 - August 8, 2013 and October 9, 2013
 - To share information with legislators and staff on Investment Office issues and policies including Emerging and Diverse Manager efforts

Investment Office Diversity and Inclusion

CalPERS Manager and Consultant Diversity Survey

- Goal of Survey
 - To understand investment manager and consultant workplace diversity and how diversity and inclusion is incorporated into their business practices
- Survey of Job Levels
 - Executive/Senior Level Officials, First/Mid-Level Officials and Managers, Associate-Level/Other Professionals
- Survey of Core Functional Areas
 - Investment and Portfolio Management, Business Development and Investor Relations, Operations

Investment Office Diversity and Inclusion

Global Equity Internal Equity Brokerage

- Target Investment Programs and Global Equity staff established enhancements to the broker selection process
- Semi-annual posting of US Equity Brokerage Roster on CalPERS Website now includes identification of woman and minority owned firms

California Investment Initiatives

Infrastructure Outreach

- **Financial Advisor Roundtable – April 22, 2013**
 - Informed financial advisors of the availability of CalPERS capital for infrastructure projects
 - Discussed non-traditional public private partnership financial structuring of infrastructure procurement and investment
- **INVO Peer Roundtable – Mid-2014**
 - Initial planning to host an infrastructure investment roundtable with CalPERS peers

California Investment Initiatives

West Coast Infrastructure Exchange (WCX)

- Released draft of the *WCX Infrastructure Project Certification – Proposed Principles and Framework*
- British Columbia, California, Oregon and Washington signed Pacific Coast Action Plan on Climate and Energy on October 28, 2013
 - Commits to a comprehensive strategic alignment to combat climate change and promote clean energy
 - Highlighted in press release from California Governor Brown's Office

California Investment Initiatives

CalPERS for California Report

- Jobs Methodology
 - Board requested review of jobs methodology

Changes to *CalPERS for California* Report

2012 <i>CalPERS for California</i> Report (status quo)	2013 <i>CalPERS for California</i> Report (forthcoming)
<ul style="list-style-type: none">• Report features a total jobs supported figure combining estimates for each asset class.• The public markets section of the report contains nuanced language explaining that jobs supported by California-headquartered companies are included in order to demonstrate the breadth of CalPERS impact, not causality.• The report includes case studies for each asset class providing a qualitative examination of CalPERS California investments.• An economic multiplier is utilized to calculate jobs supported in the real estate and infrastructure asset classes.	<ul style="list-style-type: none">• Jobs supported figures for CalPERS public markets investments will be clearly separated from CalPERS private markets investments. These two figures will no longer be totaled in the report.• Stronger language and design will be utilized to more clearly distinguish CalPERS public markets investments from private markets investments.• Case studies for public equities and fixed income will be removed, avoiding attribution issues with CalPERS public markets investments• The economic multiplier will be extended to calculate the total economic impact resulting from private markets investments in California.

Real Assets Sustainability Initiatives

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

- Oversaw development of Energy Efficiency Finance Report to be published in early 2014
- Represented CalPERS at the UNEP FI PWG annual meeting
- Founded PWG Advisory Group

Targeted Investment Programs Update

- Conclusion
- Questions