



## Agenda Item 8a

March 17, 2014

**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 January 2014 to the present and focuses on CalPERS Five-Year Plan for Emerging Managers, Diversity and Inclusion Initiatives, California Investments, Responsible Contractor Program 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 on Targeted Investment Programs activities. Staff's efforts and accomplishments since the last update in December 2013 are detailed below for the following areas:

- CalPERS Five-Year Plan for Emerging Managers
- Investment Office Diversity and Inclusion
- California Investment Initiatives
- Responsible Contractor Program
- 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 in the following sections.

## **Portfolio Management – Emerging Manager (EM) Program Initiatives**

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

#### *Private Equity*

Three new investments have been made in Private Equity's EM Program managed by Grosvenor Capital Management, Customized Fund Investment Group since the last report.

- Maranon Mezzanine II, Maranon Capital provides senior financing, mezzanine debt and equity co-investments for both private equity-backed as well as entrepreneur-owned middle market transactions.
- Valor Equity III, Valor Equity is an operationally active private equity firm focused on making expansion, growth and buyout investments and is the third minority owned firm selected for the Private Equity EM Program.
- New Heritage Capital Fund LP, New Heritage specializes in growth capital investments and acquisitions.

#### *Real Estate*

In January 2014, the Canyon Catalyst Fund, a California-only program, increased its commitment to Rubicon Point Partners; a San Francisco based woman-owned firm focusing on investment strategies in office and datacenter property sectors primarily in Northern California.

## **External Outreach and Networking Initiatives**

### 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 and RG + Associates, will host the second CalPERS Emerging and Diverse Manager Forum on April 1, 2014.

The theme of this year's event is California public pension funds and their emerging manager initiatives. We are looking to bring together our peers in California to discuss their views on emerging and diverse managers, as well as provide information on the opportunity available to those managers.

#### *Global Equity EM Webinar*

Staff, in collaboration with CalPERS Office of Public Affairs, hosted a webinar focused on Global Equity's EM Program restructuring on February 25, 2014. The webinar discussed the restructuring of the emerging manager program that will result in the commitment of more capital to emerging manager strategies in this asset class. The restructuring is intended to better leverage the skills and resources of CalPERS advisors in identifying, selecting and creating more meaningful relationships with high-performing emerging managers.

#### *Participation in EM-Focused Events*

Staff participated in the following emerging manager events during the last quarter:

- Teacher Retirement System of Texas 2014 Emerging Manager Conference on January 8, 2014.
- National Association of Securities Professionals (NASP) annual conference Kickoff Reception on January 30, 2014.

#### **Investment Office Diversity and Inclusion**

##### *Investment Office Definition of Diversity*

After the December 2013 meeting, the Investment Committee Chair requested staff clarify the definition of “diversity,” asking if the definition is the same across the Investment Office asset classes and business units. The Investment Office approach to diversity is consistent with the CalPERS enterprise approach which is that CalPERS broadly interprets diversity to mean differences such as age, ethnicity, culture, or gender that result in diversity of thinking. The Investment Office seeks diversity of internal staff, corporate boards, and external investment managers in an effort to secure high functioning teams that incorporate different ways of seeing and solving problems. As the Investment Office engages in the financial marketplace, diversity is most often focused on women and minority ownership and participation.

#### **California Investment Initiatives**

##### **Infrastructure Outreach**

##### *West Coast Infrastructure Exchange*

Staff continue to participate in the West Coast Infrastructure Exchange (WCX). Senior Portfolio Manager Laurie Weir has served as the Co-Chair of the WCX Business Standards Committee which released the final “*Infrastructure Project Certification –Principles and Framework*” on January 2, 2014. The principles and project standards are the first-ever attempt by multiple US states to jointly define the types of public infrastructure projects that would be most suitable for engaging private capital. The principles and project standards also lay out a framework for how best to structure such investments to maximize public benefits while addressing the needs of investors.

The WCX has formed a new Advisory Council to provide guidance and market feedback regarding strategy and priorities for the organization. Advisory Council members represent a diverse set of perspectives including pension funds, public sector officials managing public-private investment in states outside the WCX footprint, infrastructure fund managers, labor unions, advisors and attorneys, non-governmental organizations, and think tanks. Laurie Weir represents CalPERS on the new Advisory Council.

### **Responsible Contractor Program**

At the December 16, 2013, Investment Committee meeting, staff presented the first Responsible Contractor Program (RCP) Policy Annual Report under the revised RCP Policy. The report included a brief discussion of issues LiUNA brought to the Investment Committee's attention. Staff engaged with external managers and labor stakeholders to fully understand the issues raised and to discuss the broader question of outcomes and impacts, if any, of the revised RCP and the Neutrality Trial RCP policies.

As part of this effort, in December 2013, staff and Pension Consulting Alliance met with external managers to discuss issues raised by labor representatives, the RCP Policy, and the Neutrality Trial RCP Policy. Subsequently, staff asked external managers to provide written comments on LiUNA's letter, the revised RCP and the Neutrality Trial RCP Policy. In recognition of the importance and complexity of these issues, a number of managers have asked for additional time to research and prepare comments. Staff continues to dialogue with external managers and stakeholders to fully understand all issues.

### **Labor Issues Unrelated to RCP Policy - Caesars Entertainment**

Early in 2013, Unite Here brought upcoming labor contract negotiations with Caesars Entertainment in Las Vegas to CalPERS attention. On March 6, 2013, CalPERS sent letters to TPG and Apollo encouraging them to communicate to Caesars Entertainment the importance of remaining at the negotiating table, and of negotiating in good faith.

In December 2013, Caesars Entertainment and Unite Here went back to the table and came to agreement in January 2014. On January 28, 2014, Caesars workers in Las Vegas voted to ratify a new five-year contract. In all, 97 percent voted in favor of the agreement, which will cover about 13,000 workers in the food and beverage, housekeeping, cocktails, and bell departments.

### **Real Assets Sustainability Initiatives**

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

Laurie Weir represented CalPERS as the Co-Chair of the UNEP FI Property Working Group in 2012 and 2013. 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 Property Working Group annual meeting and presented CalPERS real estate sustainability initiatives.

- Oversaw development of the UNEP FI Investor Briefing *Commercial Real Estate Unlocking the Energy Efficiency Retrofit Investment Opportunity* (Attachment 1). Making a business case for energy efficiency retrofits, the Property Working Group paper was published in February 2014.
- Founded the Property Working Group Advisory Group, a team of industry experts that provide the expertise on work streams, goals and initiatives.

**BUDGET AND FISCAL IMPACTS**

Not Applicable

**ATTACHMENTS**

Attachment 1 – Commercial Real Estate - Unlocking the Energy Efficiency Retrofit Investment Opportunity

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