

EMERGING AND DIVERSE MANAGER COMMUNICATION INITIATIVE

California Public Employees Retirement System

March 2014



Agenda

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Section 1: Introduction

Introduction - Objectives

- Improve the Investment Proposal Tracking System (“IPTS”) user experience
 - Provide stakeholders, including emerging and diverse managers, with accurate information about CalPERS asset classes and investment opportunities
 - Generate improved internal and external communication deliverables from IPTS
- Strengthen asset class communication efforts with stakeholders including emerging and diverse managers outside of IPTS
- Overall, make CalPERS more approachable to investment managers

Introduction - Tasks

- Review and update IPTS and website content for individual asset classes
- Review and improve IPTS communication output sent to all investment managers
- Collect feedback from staff and Emerging Manager Advisors
 - Overall IPTS system experience
 - Challenges within IPTS
 - Recommended enhancements

Section 2: IPTS Findings and Recommendations

IPTS Findings

Staff Feedback

- Overall IPTS works well and provides the proper functionality
- IPTS support staff are attentive and have consistently developed practical solutions to address issues
- Asset classes maintain preset timeframes for reviewing submissions once proposals are submitted
- Challenges within IPTS
 - Need to establish internal investment proposal transfer and communication process when proposals are incorrectly submitted
 - Need ability to link previous proposal submissions to new proposal submissions from same manager (performance and/or new fund information)
 - Ability to produce reports to transfer submission information to asset classes or Emerging Manager Advisors

IPTS Recommendations

Revise IPTS and Website

- Show the overall CalPERS asset allocation directly on IPTS (not via a link)
- Include additional, updated information to provide a clearer depiction of the asset classes
 - Overview of the Asset Class
 - Target Allocations by Strategy
 - Summary of the Fiscal Year Investment and Operating Plan
 - Strategies Not Currently Seeking Investment
 - Benchmark
 - Emerging Manager Advisors / External Managers
 - Investment Policy
- Determine frequency of asset class data updates
- Create formal asset class transfer process for incorrect proposal submissions

Sample IPTS Asset Class Template – Private Equity

Quick Asset Class Overview

- The Private Equity (PE) Asset Class invests globally in:
- Traditional Strategies: Buyouts, Growth Equity, Turnarounds, Etc.
 - Credit Strategies: Mezzanine and Other Credit Strategies
 - Opportunistic: Including but not limited to Distressed Strategies
 - Direct and Co-Investment opportunities with existing CalPERS General Partners
 - Direct Secondary Investments
 - Fund of Funds (Only for specific mandates)

Please note:
 If you are a Private Equity Real Estate Fund, submit under [Real Estate](#).
 If you are a Private Equity Infrastructure Fund, submit under [Infrastructure](#).
 If you are a Private Equity Hedge Fund, submit under [Hedge Funds](#).

- Portfolio Actual and Target Allocations by Strategy

Strategy	Target	Actual
Buyouts	60%	62%
Credit Related	15%	12%
Venture Capital	<1%	6%
Growth/Expansion	15%	17%
Opportunistic	10%	3%

- Fiscal Year Investment and Operating Plan

- Commit \$6 billion to the PE Program during Fiscal Year 2013-2014.
- Utilize both the secondary market as well as selected co-investment opportunities to restructure and rebalance the Portfolio.
- Improve investment management and enhance reporting analytics and transparency.
- Support the INVO Target Operating Model (TOM), including evaluation of the Emerging Manager Program and California Investment opportunities.

- **Strategies Currently Not Seeking Investment** - Specific sub-strategies include bank-sponsored LBO funds, venture capital funds, life settlement funds, agriculture/farming funds, or movie production funds.
- **Benchmark** – Global Equity + 300bps
- **External (Third Party) Managers** - Grosvenor Customized Fund Investment Group for Emerging Managers
- **Investment Policy** - Please refer to the following link for CalPERS Private Equity Investment Policy: [PE Investment Policy](#)

CalPERS Emerging Manager Definition for Private Equity: *Emerging Management Team* is defined as “a firm raising a first or second time Institutional Fund.” An *Institutional Fund* is defined as “a Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors* have made a commitment.”

All potential investment opportunities should be submitted directly to CalPERS Private Equity. In the event that an opportunity is a better fit with one of Private Equity’s External Managers, staff will formally refer and introduce the opportunity to the appropriate contact at the External Manager.

*Two institutional investors plus CalPERS. CalPERS does not define *institutional* at this time.

IPTS Recommendations

Enhance IPTS Communication Letters

- Improve IPTS communication letters to investment managers after a proposal is submitted
 - More consistent and professional communications across asset classes in terms of tone, referral information and further outreach
- Provide information about Emerging Manager Advisors
- Encourage investment managers to remain in contact with CalPERS

Section 3: Asset Class Communication Findings & Recommendations

Asset Class Communication Findings

- Staff is encouraged to develop a relationship with promising emerging and diverse managers
 - Stay informed about manager developments, performance, challenges, etc. in order to identify the best potential investment opportunities
 - Understand the pool of talent in order to identify leading managers of the future
- While IPTS is an efficient system, it is not be a substitute for human interaction
 - Investment manager interaction with CalPERS should not be limited to an investment proposal system

Asset Class Communication Recommendations

- PCA encourages staff to provide feedback to Emerging and Diverse Managers when requested
 - Provide concise feedback within ten (10) business days of request via phone or email
 - Provide information about submission, asset class investment interests, missing or misaligned proposal information, etc.
 - Explain any changes in CalPERS strategy for the asset class
 - Direct to Emerging Manager Advisors only if appropriate
 - Encourage resubmission in the future and updates as the investment manager develops
- CalPERS should consider establishing an annual Emerging and Diverse Manager Day where emerging and diverse managers have the opportunity to meet with senior asset class staff and Emerging Manager Program Advisors

Emerging Manager Advisor Feedback

- Emerging Manager Advisors serve as an extension of CalPERS in facilitating and implementing specific strategies
 - They interact directly with emerging and diverse managers on a daily basis

- As CalPERS looks to make changes within specific asset classes, it is important that these changes are thoroughly explained to Emerging Manager Advisors

- Emerging Manager Advisor Feedback
 - Desire to receive a consistent message from CalPERS staff to relay accurate information to managers

 - Desire to provide a consistent message to investment managers

 - Interested in how they may be impacted by changes and restructurings

 - Would welcome the opportunity to participate in strategic brainstorming efforts with staff in order to assist with new initiatives

Summary

- CalPERS is committed to emerging and diverse managers
- The proposed communication changes assist to further engage with stakeholders
- To build upon these efforts, CalPERS should annualize an Emerging and Diverse Manager Day
 - Provides direct contact between staff and investment managers
 - This would be in addition to the larger and more formal Emerging and Diverse Manager Forum

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