



## Agenda Item 8d

March 17, 2014

**ITEM NAME:** Emerging Manager Five-Year Plan – Private Equity Emerging Manager Program Review

**PROGRAM:** Targeted Investment Programs

**ITEM TYPE:** Program Review – Information

### **EXECUTIVE SUMMARY**

This agenda item provides a status report on Targeted Investment Programs activities and progress on work streams in the CalPERS Five-Year Plan for Emerging Managers.

### **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**

The Private Equity Emerging Manager Program Review (Review) was announced in the August 2013 Investment Committee meeting as CalPERS Investment Office aimed to review and examine outcomes of CalPERS Private Equity emerging manager investments. This Review is a follow-up to a recommendation and a series of findings regarding Private Equity's Emerging Manager program in a Crosswater Realty Advisors report dated June 6, 2013.

### **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 section below.

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

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

##### *Private Equity EM Program Review*

As introduced in the December 2013 IC meeting, CalPERS Investment Office engaged Cambridge Associates as part of the Review to identify lessons learned and adopt best practices for evaluating investment managers and potential commitment of new capital to emerging managers. The Review included 10 emerging managers

from the CalPERS Private Equity Portfolio and three fund of funds; one fund of funds from the CalPERS portfolio and two from the Cambridge database. The objective of the Review was to identify common characteristics that contribute to, or detract from, the success of an emerging manager.

Cambridge, staff and a panel of nine external market participants discussed the general issues and challenges of investing in private equity funds. There was broad consensus that a successful private equity program, whether focused on emerging managers or more established managers, must rely upon judgment calls made by experienced and skilled professionals after a thorough review of both quantitative and qualitative information. However, the panel was able to highlight a number of best practices that should be considered when investing with emerging managers.

### **BUDGET AND FISCAL IMPACTS**

Not Applicable

### **ATTACHMENTS**

Attachment 1 – CalPERS Private Equity Emerging Manager Program Review  
(Cambridge)

Attachment 2 – CalPERS Emerging Manager Review (Cambridge)

Attachment 3 – Emerging Manager Program Update

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