

# Targeted Investment Programs Update

Laurie Weir  
Senior Portfolio Manager

June 16, 2014

# Table of Contents

- Targeted Investment Programs Overview ..... 3
- Structure and Responsibilities ..... 5
- Investment Beliefs ..... 6
- CalPERS 2013-15 Business Plan..... 8
- Emerging Manager Exposure and Cost Report..... 9

# Targeted Investment Programs: Responsibilities

Provide a total fund strategic approach focused on appropriate risk-adjusted returns for investment programs and policies that are designed to have positive impacts

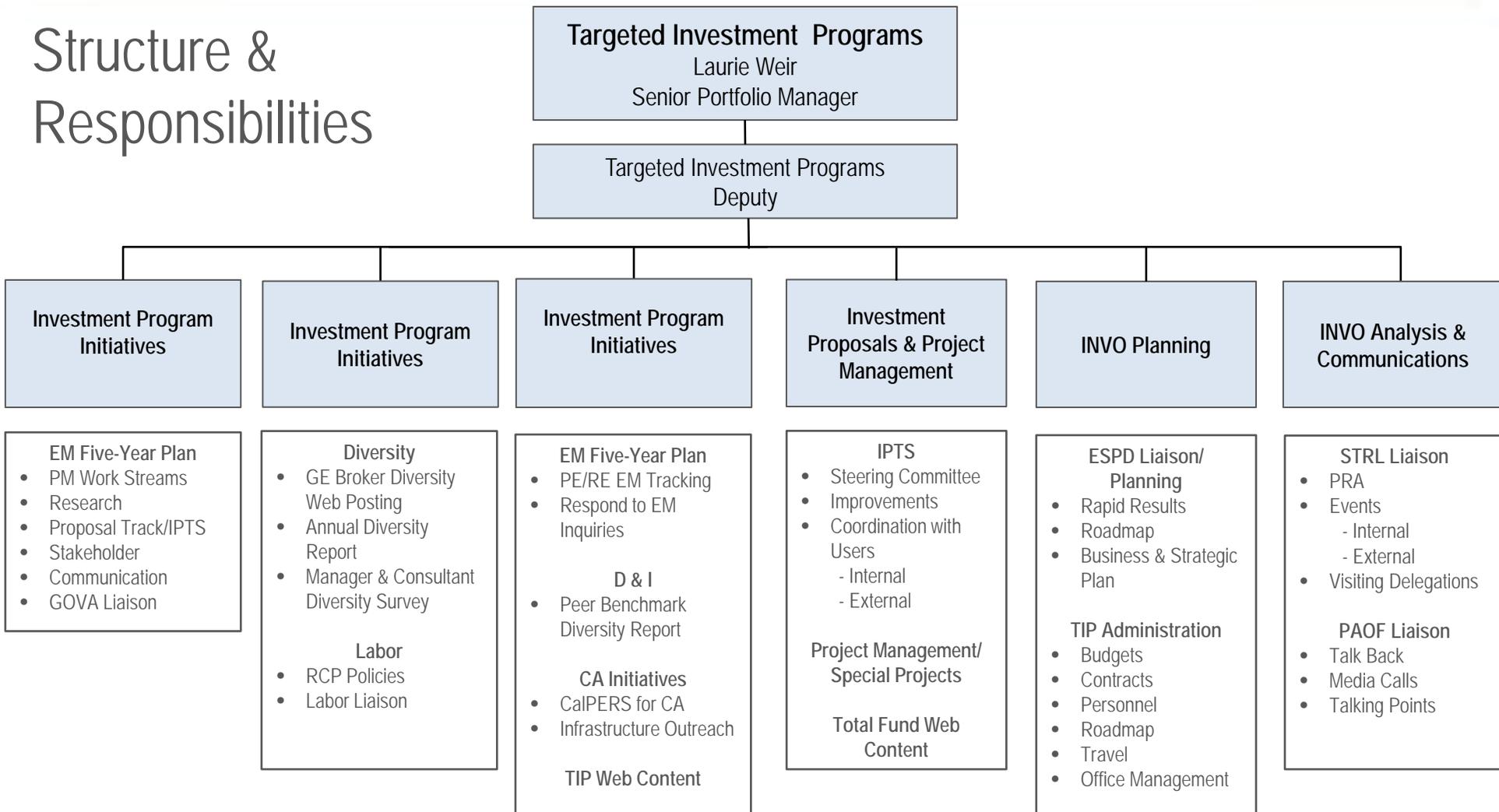
- **Manage Investment Office Legislative and Board Initiatives**
  - Liaise between the Investment Office and interested stakeholders including advocacy groups and labor organizations
    - CalPERS Five-Year Plan for Emerging Managers
    - Investment Office Diversity & Inclusion Initiatives
    - California Investment Initiatives
    - Responsible Contractor Program Policies and Labor Items
  
- **Investment Proposal Tracking System Management**
  - Interface with external manager community
  - Oversee investment relationship and contact management
  - Develop investment proposal reporting for Board and management

## Targeted Investment Programs: Responsibilities *Continued*

Provide a total fund strategic approach focused on appropriate risk-adjusted returns for investment programs and policies that are designed to have positive impacts

- **Facilitate Investment Office Business Planning, Roadmap & Priority Initiatives**
  - Oversee project and initiative reporting for CalPERS Business Plan and Investment Office Roadmap
  - Liaise between Investment Office and Enterprise Strategy & Performance Division
- **Coordinate Communication, Stakeholder Relations & Event Planning Activities**
  - Develop communication and outreach plans for the Investment Office, CalPERS Executive Team and the Board
  - Liaise between CalPERS Executive team, Office of Public Affairs, Office of Governmental Affairs and Stakeholder Relations
    - Manage Public Records Act Requests, Ask CalPERS, Event Planning and Visiting Delegations

# Structure & Responsibilities



# 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.

**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.

# CalPERS Investment Beliefs – Targeted Investment Programs

**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.

**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 2013-15 Business Plan

**Strategic Goal A** - Improve long-term pension and health benefit sustainability

- Deliver target risk-adjusted investment returns

**Strategic Goal C** - Engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs

- Clarify and communicate CalPERS perspective on pension, health and financial markets

# Emerging Manager Exposure and Cost Report

# Emerging Manager Exposure and Cost Report

- Introduction
- Emerging Manager Exposure
- Emerging Manager Cost
- Emerging Manager Staff Time

## Introduction

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%

- Emerging Manager Five-Year Plan adopted August 2012. In March 2013, CalPERS Investment Office completed the *Emerging and Diverse Manager Data Report* that established CalPERS exposures to emerging and diverse managers
- This Report provides information on the exposure, cost and staff time of emerging manager investment initiatives
- This project required complex data collection and analysis methodology which is covered in detail in the appendix of this Report

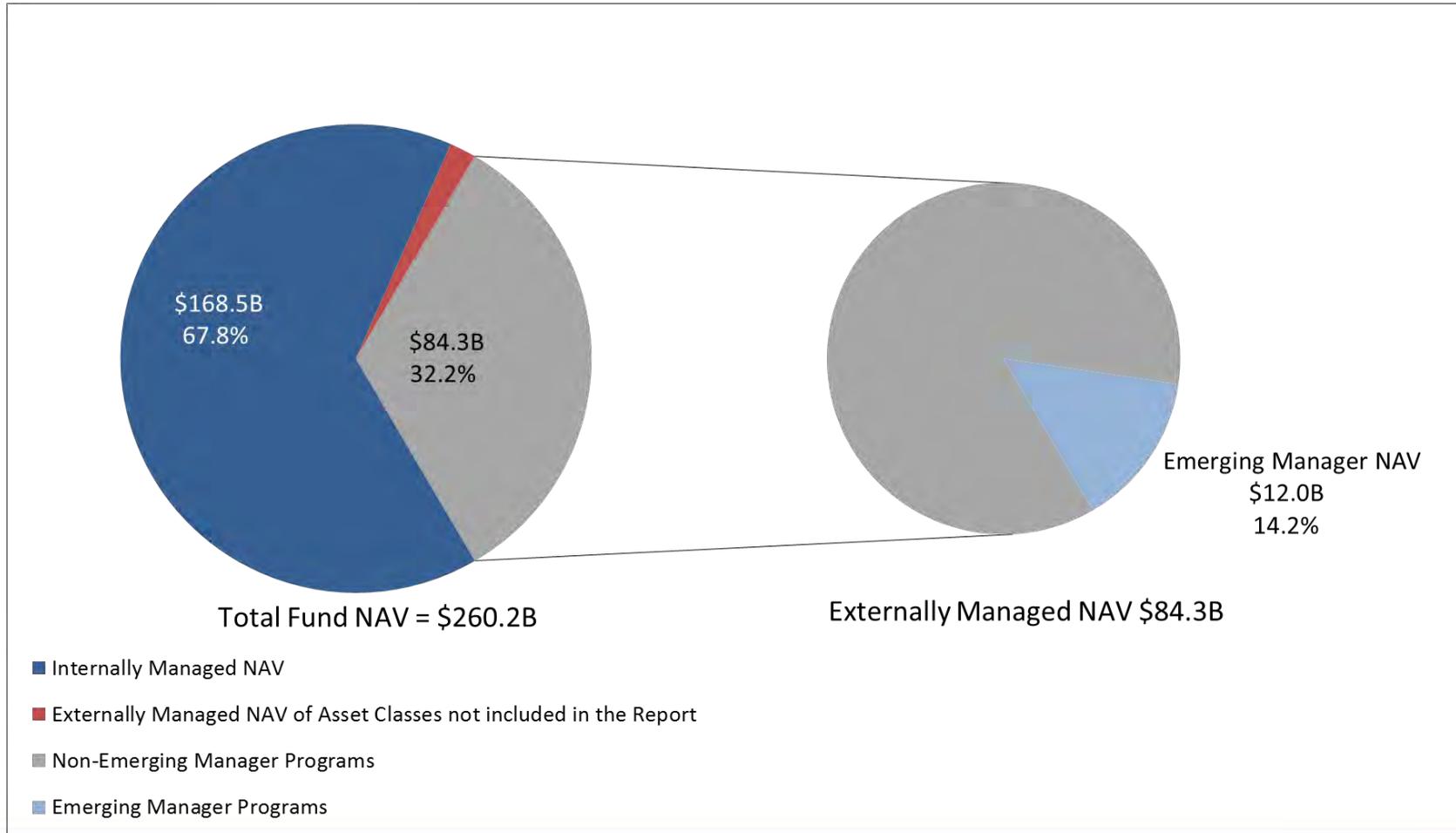
## Emerging Manager Exposure

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%

- As of June 30, 2013, CalPERS had significant assets under management with emerging managers in Absolute Return Strategies, Global Equity, Private Equity and Real Estate
- Of CalPERS 1,105 external managers, 393 or 35.6% of all external managers met CalPERS definition of an emerging manager
- Of CalPERS \$84.3 billion in externally managed net asset value, \$12.0 billion dollars or 14.2% was invested with emerging managers

# Emerging Manager Exposure

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%



## Emerging Manager Exposure

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6	20,935 Hours
35.6%	14.2%	15.6%	8%

## Trend of Emerging Manager Investment

	As of June 30, 2012	As of June 30, 2013
<b>Total External Managers</b>	<b>1,103</b>	<b>1,105</b>
<b>Total Emerging Managers</b>	<b>371 or 34%</b>	<b>393 or 35.6%</b>
<b>Externally Managed NAV</b>	<b>\$80.4B</b>	<b>\$84.3B</b>
<b>Emerging Manager NAV</b>	<b>\$10.6B or 13%</b>	<b>\$12.0B or 14.2%</b>
<b>Underlying funds in FoF</b>	<b>\$4.1B or 5%</b>	<b>N/A included above</b>

- A net increase of 22 emerging managers from June 30, 2012 to June 30, 2013

## Emerging Manager Cost

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6	20,935 Hours
35.6%	14.2%	15.6%	8%

- Staff examined three main categories of cost: management fees, personnel costs, and ancillary costs such as consultants and travel
- Costs associated with emerging manager program investments totaled \$201.6 million or 15.6%
- Management fees represented the bulk of the emerging manager program cost at \$199.3 million or 16.4%

## Emerging Manager Cost

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%

- The costs for emerging manager investments were more expensive on a net asset value basis (14.2%) compared to total asset class costs (15.6%)
- Specifically, base fees were generally higher for emerging managers compared to established managers
- There is an incremental increase in cost that CalPERS pays in order to meet the objectives for investment with emerging managers

## Emerging Manager Cost

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%

The main reasons for the incremental cost increase associated with emerging manager strategies are:

- There are two layers of fees associated with fund of funds that are often employed for emerging manager strategies
- Emerging manager investments are by definition small and do not have scale and fee efficiencies that many larger investments may have

## Emerging Manager Staff Time

Count of EM's	NAV	Cost	Staff Time
393	\$12B	\$201.6M	20,935 Hours
35.6%	14.2%	15.6%	8%

- Across the four relevant asset classes, including Targeted Investment Programs, emerging manager investments accounted for approximately 8% of staff time
- Staff time was significantly lower in proportion to the exposure and NAV with emerging managers

# Targeted Investment Programs Update

- Conclusion
- Questions