

Targeted Investment Programs and Manager Restructure Update

Laurie Weir
Senior Portfolio Manager

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Manager Restructure Update

Targeted Investment Programs Update

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Manager Restructure

- CalPERS is taking the next step in a multi-year effort to reduce risk, cost, and complexity in our portfolio
- Reducing the risk, cost, and complexity of our portfolio has meant reevaluating our relationships with external managers
- Our goal through this ongoing restructure is fewer and larger relationships with those external managers who are most aligned with CalPERS' investment strategy
- A key element of this restructure is the development of a new strategy to transition emerging managers to larger direct relationships

Proposed Emerging Manager Transition Program

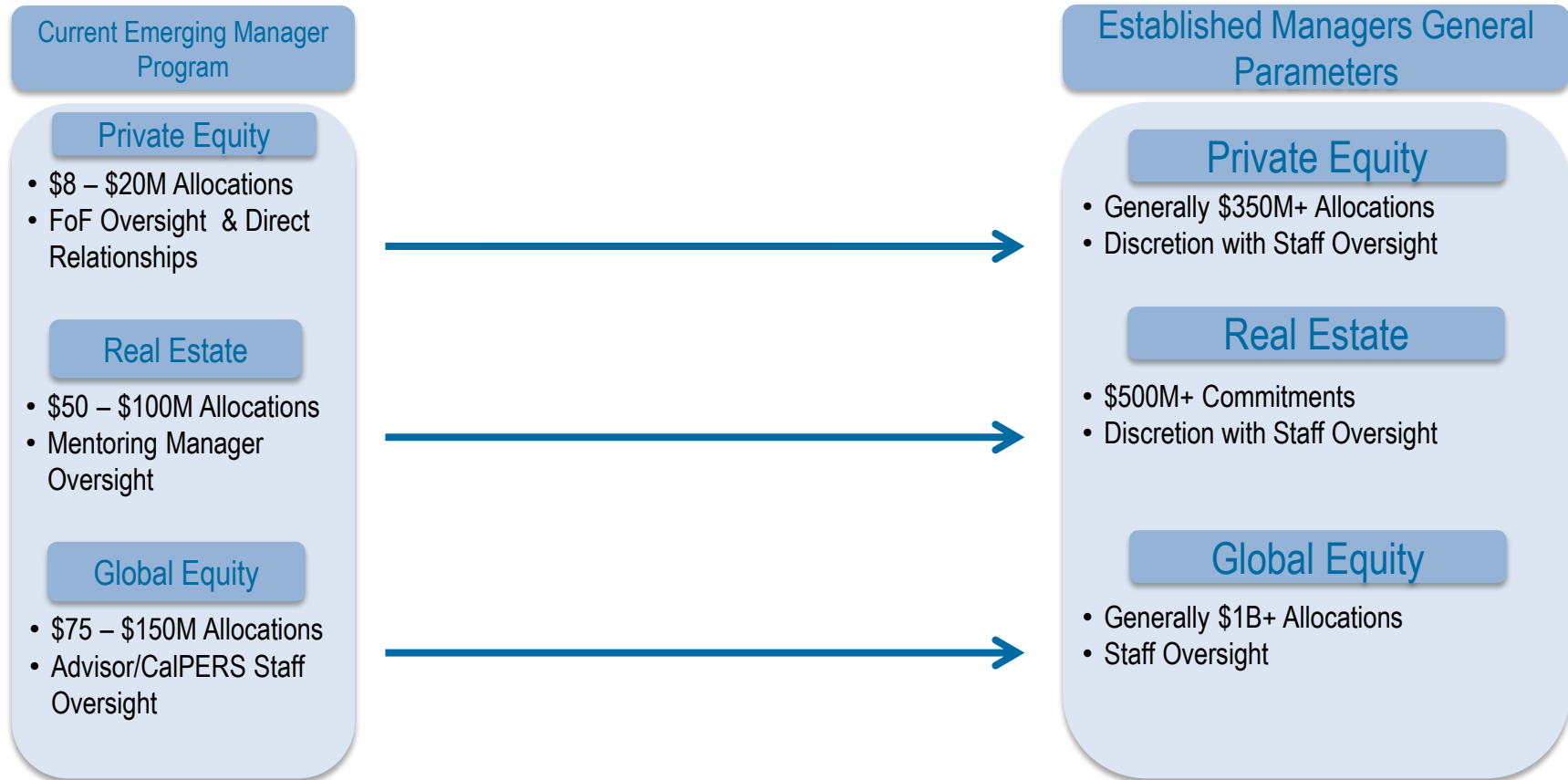
- During development of the Emerging Manager Five-Year Plan, stakeholders expressed concern over firms that grow beyond the definition of emerging manager but are not large and experienced enough to compete against established firms for direct investment mandates.
- In response, a work stream to establish an emerging manager transition program was included in the Five-Year plan.
- The establishment of an Emerging Manager Transition Program is timely given CalPERS commitment to reduce risk, cost and complexity in our portfolio by creating more meaningful but fewer, larger relationships with external managers.
- The Emerging Manager Transition Program will “fill the gap” between emerging managers and large established managers.

Emerging Manager Transition Research

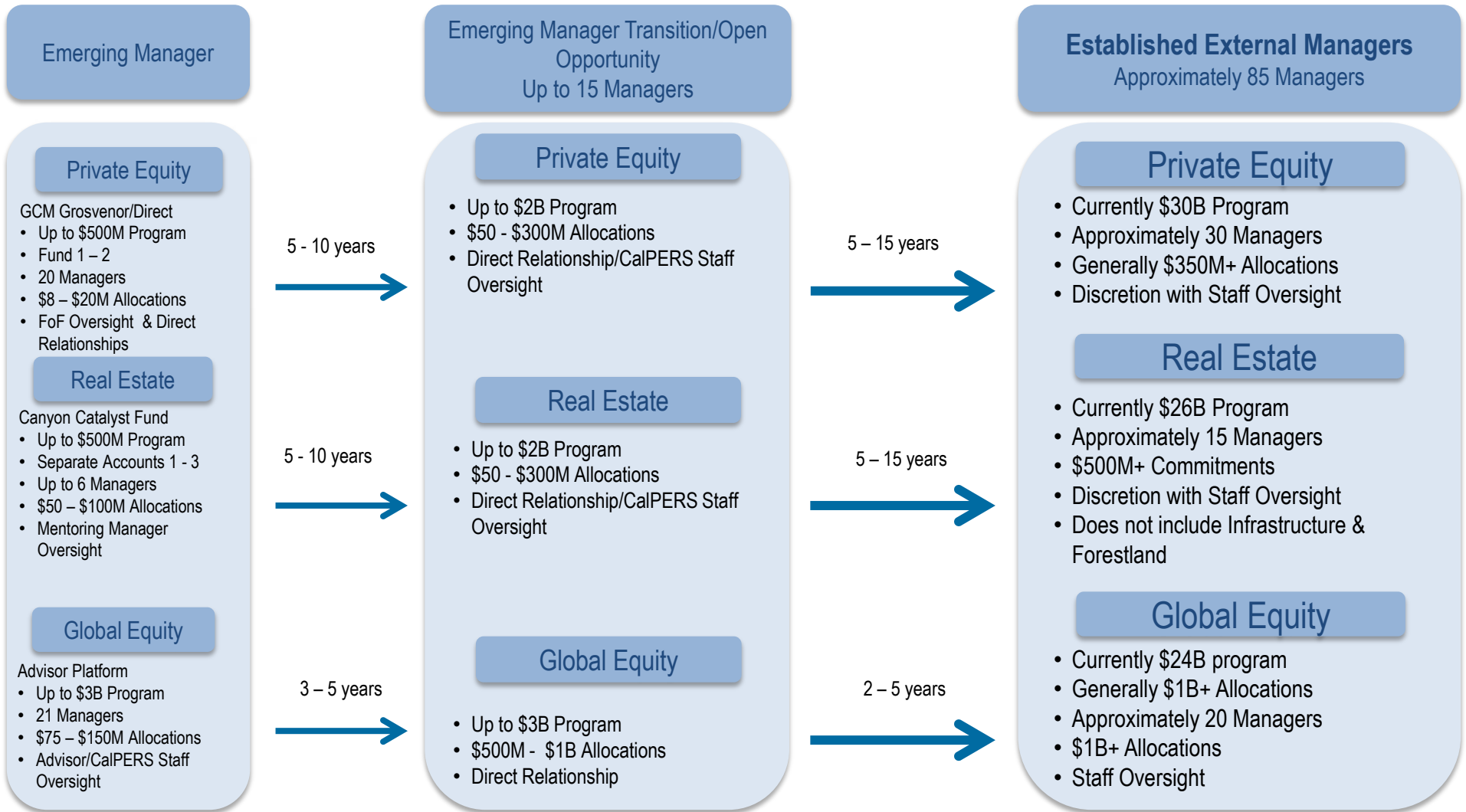
- Staff conducted a survey of the asset classes with emerging manager initiatives, as well as our pension peers and stakeholders.
- The purpose of the survey was to gather information on emerging manager programs and to examine current methods and best practices for transitioning emerging managers to direct relationships.
- Key observations and responses from survey participants include:
 - A formal program is needed to provide specific program parameters and review criteria so emerging managers can anticipate and grow to scale appropriately
 - Definitions need to be revisited so as not to restrict manager participation. Assets under management restrictions typically found in emerging manager definitions can limit fundraising efforts
 - Greater communication is needed on the opportunity to transition emerging managers to direct relationships
- The new Emerging Manager Transition Program addresses each of the issues identified in the survey and engagement process.

Illustrating the Gap

Absent a transition program, there is a sizeable gap preventing emerging managers from growing to a sufficient size to be able to compete to become an established manager.



Emerging Manager Transition Program Parameters



Emerging Manager 2015 – 2020 Estimated Capital Commitments

	Private Equity	Real Estate	Global Equity	TOTAL
Emerging Manager Program	Up to \$500M	Up to \$500M	Up to \$3B	Up to \$4B
Transition Manager Program	Up to \$2B	Up to \$2B	Up to \$3B	Up to \$7B
Total Commitments	Up to \$2.5B	Up to \$2.5B	Up to \$6B	Up to \$11B

Emerging Manager Program Definitions

Emerging Manager Program – Current Definitions Remain Unchanged

- Private Equity Emerging Manager Fund of Fund Program and Direct Investment Strategy
 - 1st or 2nd Institutional Fund
 - Product size no greater than \$1B
 - Domestic U.S. for Fund of Fund Program
- Real Estate Emerging Manager Program
 - 1st, 2nd, or 3rd Separate Accounts
 - Firm AUM no greater than \$1B
- Global Equity Emerging Manager Program
 - Long only publicly traded securities
 - Maximum \$2B firm AUM with CalPERS representing no more than 25% of AUM

Emerging Manager Program Definitions *(cont.)*

Transition Program Definitions

- Private Equity Emerging Manager Transition Program
 - 3rd, 4th, 5th and 6th Institutional Funds
 - Direct Relationship/Staff Oversight
 - CalPERS investment represents no more than 25% of fund
- Real Estate Emerging Manager Transition Program
 - 4th, 5th and 6th Separate Accounts
 - Direct Relationship/Staff Oversight
- Global Equity Emerging Manager Transition Program
 - Minimum \$2B firm AUM with CalPERS representing no more than 25%
 - Direct Relationship

Emerging Manager Transition Program Objectives

- Generate appropriate risk adjusted investment returns by investing with managers with demonstrated Fund I and II success.
- Continued access to investment opportunities with successful firms and increased representation of women and minority owned firms in CalPERS portfolio.
- Provide a path of growth and opportunity for emerging managers to build their firms to a size large enough to compete for entry into our pool of larger established managers.

Diversity & Inclusion Steering Committee Work Streams

Corporate Boards

- Diverse Director Datasource (3D Database)
- Board Quality and Diversity Event at Council of Institutional Investors
- SEC Petition on Enhanced Diversity Disclosure

External Investment Managers

- Investment Manager D&I Engagement
- Equity Brokerage Program
- 2nd Emerging and Diverse Manager Day

Investment Office Talent Management

- Toigo Foundation
- Diversity Recruitment Efforts
- Investment D&I Communication
- Investment Office Demographics
- Investment Office Strategic Partnerships
- CalPERS Commitment to Diversity Report
- Pipeline of Talent - MBA Statistics

CalPERS Diversity Forum

- On-going initiatives
- Upcoming initiatives
- Completed initiatives

Appendix: Emerging Manager Exposure

Appendix | Year Over Year Emerging Manager Exposure by Count and Net Asset Value

		As of June 30, 2012*	As of June 30, 2013	As of June 30, 2014
Global Equity	Total Active Emerging Managers	35	36	29
	F of F Underlying EM NAV	\$2.1B	\$2.6B	\$3.0B
	Total Emerging Manager NAV	\$1.7B	\$4.2B	\$3.8B
Private Equity	Total Active Emerging Managers	253	273	267
	F of F Underlying EM NAV	\$1.3B	N/A Included Below	N/A Included Below
	Total Emerging Manager NAV	\$7.5B	\$6.2B	\$6.8B
Real Estate	Total Active Emerging Managers	17	17	19
	Emerging Manager NAV (Direct & F of F)	\$0.8B	\$0.7B	\$0.7B
Total Emerging Manager Exposure	Total Active Emerging Managers	305	326	315
	F of F Underlying EM NAV	\$3.4B	N/A Included Below	\$5.6B
	Total Emerging Manager NAV	\$10B	\$11.1B	\$11.3B

- Count of emerging managers includes funds, separate accounts and other investment vehicles. Individual emerging managers may be counted more than once.

*Methodology separates Direct and Fund of Funds (F of F) Emerging Manager NAV