
June 13, 2016**Item Name:** Targeted Investment Programs Update**Program:** Targeted Investment Programs**Item Type:** Information**Executive Summary**

This agenda item provides a status report on Targeted Investment Programs activities for the period of June 2015 to May 2016. This update focuses, in particular, on the final work stream of the CalPERS Emerging Manager Five-Year Plan with regards to the process for deployment of capital to Emerging and Transition Manager Programs. This item will also provide a related update on our exposure to emerging, transition and diverse 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. The ability to gain stakeholders feedback can help CalPERS make informed investment decisions. Engagement with stakeholders also assists CalPERS to gain knowledge and establish collaborative relationships to better accomplish the system's investment objectives.

Investment Beliefs

This program update highlights recent work guided by CalPERS' Investment Belief 3, that CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries, and Investment Belief 10 that strong processes and teamwork and deep resources are needed to achieve CalPERS' goals and objectives.

Background

In January 2012, Targeted Investment Programs was created to provide centralized coordination and reporting of Investment Committee and legislative initiatives that cross asset classes and multiple stakeholder groups. Over time, the program has expanded to manage additional initiatives for the Total Fund. In April 2014, Targeted Investment Programs responsibilities were broadened to include additional Investment Office Communications and Legislative Affairs efforts.

Analysis

The Targeted Investment Programs continues to make progress on the CalPERS Emerging Manager Five-Year Plan. In addition, there are activities related to Diversity and Inclusion and Labor stakeholder engagement on which staff continues to focus and will report to the

Investment Committee in September and December respectively. Highlights of our efforts are included below:

Portfolio Management – Emerging Manager Program Initiatives

Work Stream 1: Establish performance, cost, and diversity of existing EM Portfolio

The efforts outlined under the Five-Year Plan for this work stream are complete. However, staff has undertaken a follow-on initiative to establish consistent reporting of exposures to emerging, transition and diverse managers. This update will also serve to track the progress of the manager reduction process to achieve our goal of more meaningful relationships with fewer external managers most aligned with CalPERS.

CalPERS deploys approximately \$95 billion of capital through external investment managers. As part of our commitment to equality of access, we seek to understand and report on the diversity of external manager ownership within our own portfolio. This report (see attachment 1) provides information on manager count, number of investment vehicles and net asset value for established, emerging, transition, and diverse managers across the total fund. Highlights of the report include:

- Of the 919 current external manager vehicles, 301 or 32.7% meet CalPERS emerging manager definitions
- Of the total externally managed net asset value, approximately \$9.4 billion or 9.9% is managed by emerging managers
- Of the 919 current external manager vehicles, 56 or 6% are woman and minority owned managers
- Of the total externally managed net asset value, approximately \$5.3 billion or 5.5% is managed by woman and minority owned managers

Work Stream 3: Manage, track, and report progress of Private Equity and Real Estate EM programs

Two new investments were made in Private Equity's Emerging Manager Program managed by GCM Grosvenor since the last report.

- Juggernaut Capital Partners III, LP: Juggernaut invests in middle market companies, primarily in the business services and consumer sectors with enterprise values generally in the range of \$50 million to \$200 million.
- Tritium I, LP: Tritium focuses on targeted sectors which include internet and media, supply chain and logistics services, and financial and business services. Tritium will primarily make control investments in growth buyouts and recapitalizations of lower middle market companies.

Follow on commitments were made to Real Estate's Emerging Manager Program since the last report.

- In July 2015, CalPERS increased its commitment to Canyon Catalyst Fund from \$275M to \$375M. The Canyon Catalyst Fund is a joint venture between CalPERS and Canyon Capital Realty Advisors aimed at developing the next generation of real estate managers. As of March 31, 2016, Canyon Catalyst Fund invested \$246 million of its \$375 million equity commitment with four emerging managers.



- In July 2015, CalPERS increased its initial \$100M commitment to AGI Resmark to \$150M. AGI Resmark is a co-investment partnership between AGI Capital (AGI) and Resmark. AGI Capital is a San Francisco-based, diverse emerging manager-led real estate investment company. As of March 31, 2016, AGI Resmark has invested \$50 million of its \$150 million equity commitment.

Work Stream 5: Evaluate and establish criteria for commitment of new capital to emerging manager programs

In June 2015, the Investment Office announced the establishment of a new Transition Manager Program, and up to \$11 billion in new capital for emerging and transition manager investment over the following five years. This report (see attachment 1) establishes a process for the deployment of capital to Emerging and Transition Manager Programs for each participating asset class through fiscal year 2020. This report will outline how managers will be identified, evaluated and selected, as well as provide an anticipated pace for the deployment of capital over the plan period.

External Outreach and Networking Initiatives

Networking - Work Stream 1: Identify, host, and/or participate in Emerging Manager-focused events

New American Alliance 2016 National Tour

The Investment Office hosted a roundtable discussion with the New America Alliance in May 2016 at CalPERS' headquarters in Sacramento. The roundtable discussion was part of the New American Alliance 2016 National Tour. This event provided CalPERS with an opportunity to strengthen our relationship with this important stakeholder organization.

Emerging Manager Focused Events

Staff participated in 22 emerging and diverse manager events from June 2015 – May 2016, including these notable events:

- AAAIM Annual Conference
- NAA Wall Street Summit
- NASP Annual Pension Conference
- NAIC National Conference
- TRS/ERS Emerging Manager Conference
- White House New Entrepreneurs Demo Day
- Consortium East
- Consortium West
- Women's PE Summit
- SEO Alternative Investments Conference
- Milken Institute Annual Conference

Upcoming CalPERS Hosted Events

CalPERS Emerging, Transition and Diverse Manager Day - September 2016

The Investment Office is planning the third CalPERS Emerging, Transition and Diverse Manager Day to take place on September 8, 2016. The event will provide participating managers with an opportunity to meet with CalPERS' senior staff and emerging manager advisors in the Private Equity, Global Equity, and Real Estate asset classes. The event will feature scheduled meetings that allow emerging and diverse managers to introduce their firm, discuss their strategy, and receive direct feedback from senior staff.

CalPERS/CalSTRS Diversity Forum - May 2017

The Investment Office, in collaboration with External Affairs, is in the early stages of planning and co-hosting the CalPERS/CalSTRS Diversity Forum on May 10, 2017. The event will engage with leaders and stakeholders on the issue of diversity across the financial and institutional investment industries. Staff will provide additional information as we make progress on identifying the conference location and development of the agenda.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Targeted Investment Programs supports CalPERS fiduciary duty to provide sustainable, risk adjusted returns for its members.

Attachments

Attachment 1 – Targeted Investment Programs Update

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