

# Targeted Investment Programs Update

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# Contents

## External Manager Exposure

## Targeted Investment Programs Update

- i. Emerging and Transition Manager Programs Process & Deployment of Capital 2020 Plan

# Total External Manager Exposure

	6/30/2015
Total External Manager Count	215
Total External Investment Vehicles	919
Total Transition Manager Count	4 or 1.8%
Total Emerging Managers Investment Vehicles	301 or 32.7%
Diverse Manager Count	27 or 12.5%
Total Diverse Managers Investment Vehicles	56 or 6%
Externally Managed NAV	\$94.9B
Transition Manager NAV	\$2.1B or 2.2%
Emerging Manager NAV	\$9.4B or 9.9%
Diverse Manager NAV	\$5.3B or 5.5%

# Global Equity

	6/30/2015
External Manager Count	23
External Manager Count Incl. Advisors/Direct and Underlying in FoF	47
Transition Manager Count	3 or 10.7%
Emerging Manager Count (Underlying in FoF)	23 or 44.2%
Diverse Manager Count	1 or 4%
Diverse Manager Count Incl. Advisors/Direct and Underlying in FoF	13 or 34.6%
Externally Managed NAV	\$26.8B
Transition Manager NAV	\$2.1B or 7.8%
Emerging Manager NAV	\$2.6B or 9.7%
Diverse Manager NAV	\$1.7B or 6.3%

# Global Fixed Income

	6/30/2015
External Manager Count	10
External Investment Vehicles	14
Diverse Manager Count	N/A
Externally Managed NAV	\$6.3B
Diverse Manager NAV	N/A

# Private Equity

	6/30/2015
External Manager Count	119
External Indirect Manager Count	292
External Investment Vehicles	723
Transition Manager Count	1
Emerging Manager Relationship Count	68 or 57.1%
Emerging Manager Investment Vehicle Count	259 or 36%
Diverse Manager Count	15 or 12.6%
Diverse Manager Investment Vehicles	27 or 3.7%
Externally Managed NAV	\$29.8B
Transition Manager NAV	N/A
Emerging Manager NAV	\$6.2B or 20.8%
Diverse Manager NAV	\$2.9B or 9.7%

# Real Estate

	6/30/2015
External Manager Count	51
External Investment Vehicles	120
Transition Manager Count	N/A
Emerging Manager Vehicle Count	19 or 15.8%
Diverse Manager Count	6 or 11.7%
Diverse Managers Investment Vehicles	11 or 9.1%
Externally Managed NAV	\$26.9B
Transition Manager NAV	N/A
Emerging Manager NAV	\$0.7B or 2.5%
Diverse Manager NAV	\$0.7B or 2.8%

# Infrastructure/Forestland

	6/30/2015
External Manager Count	10
External Investment Vehicles	13
Diverse Manager Count	N/A
Externally Managed NAV	\$4.5B
Diverse Manager NAV	N/A



# MAC/Opportunistic Programs

	6/30/2015
External Manager Count	2
External Investment Vehicles	2
Diverse Manager Count	N/A
Externally Managed NAV	\$1.2B
Diverse Manager NAV	N/A

# Targeted Investment Programs Update

- i. Emerging and Transition Manager Programs Process & Deployment of Capital 2020 Plan

## Emerging Manager Five-Year Plan Objective

*The information and lessons learned from completed initiatives under the CalPERS Emerging Manager Five-Year Plan has assisted the Investment Office in determining prudent targets for emerging and transition manager participation.*

*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 final Five-Year Plan work stream will establish a process for the deployment of capital to Emerging and Transition Manager Programs for each participating asset class.*

# Investment Beliefs

*CalPERS's Investment Beliefs capture our commitment to the emerging manager community:*

## 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 10

Strong process and 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.

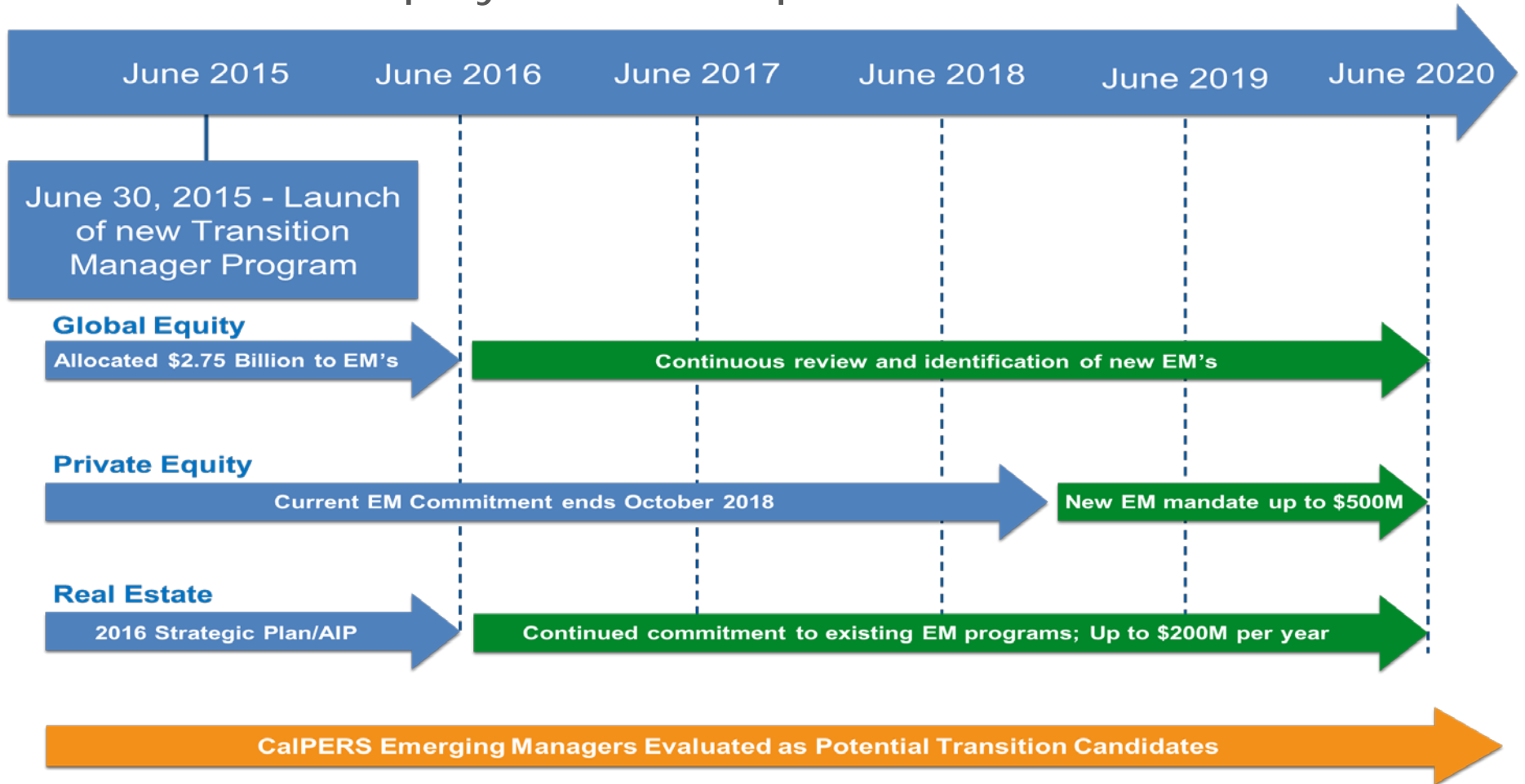
# 2015 – 2020 Estimated Capital Commitments

	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

## Key Elements of Plan

- Each participating asset class has established how prospective emerging and transition managers will be identified, evaluated, and selected along with an anticipated pace for the deployment of capital over the plan period
- In each asset class, CalPERS uses advisors who construct emerging manager portfolios, and/or select managers on behalf of CalPERS
- Emerging Manager Program
  - Over the course of the next five years, up to \$4 billion will be committed to the platforms that manage Emerging Manager Programs in Global Equity, Private Equity, and Real Estate
- Transition Manager Program
  - Over the course of the next five years, up to \$7 billion will be committed directly to Transition Managers in Global Equity, Private Equity, and Real Estate

# Emerging Manager Programs Timeline for Deployment of Capital



# Emerging Manager Program

CalPERS emerging manager advisors identify and perform due diligence on emerging managers

- Global Equity
  - Advisors
    - Progress Investment Management
    - Fiduciary Investment Solutions
    - Legato Capital Management
    - Leading Edge Investment Advisors
    - Strategic Investment Group
- Private Equity
  - Fund of Funds Advisor
    - GCM Grosvenor
- Real Estate
  - Mentoring Managers
    - Canyon Partners Real Estate



# Global Equity Emerging Manager Program

- Approximately \$3 billion in capital allocations made in 2015
- Identification and Sourcing
  - Leverage skills and resources of our five advisors for the selection and management of all emerging managers
- Evaluation and Selection
  - Utilize skills and resources of our five advisors
- Pacing of Deployment
  - Current advisors have authority to regularly review to determine and select current emerging managers investments with CalPERS staff oversight
    - Current advisor platform provides flexibility to cycle managers out of the program if necessary

# Private Equity Emerging Manager Program

- Up to \$500 million in new capital commitments
  - Estimated pacing: \$0 - \$250 million per year starting in 2018
- Identification and Sourcing
  - Fund of Fund Advisor: GCM Grosvenor
    - Domestic Emerging Manager Fund I
    - Domestic Emerging Manager Fund II (2014 – Four year commitment period)
- Evaluating and Selection
  - Currently utilizing Private Equity Fund of Fund Advisor, GCM Grosvenor
  - Willingness to comply with CalPERS transparency and disclosures policy
- Pacing of Deployment
  - Further commitment to one of Private Equity's Strategic Partners at the end of the current mandate in September 2018
  - Process for new mandate to be determined in 2017/2018 and deployed in 2018/2019

# Private Equity Emerging Manager Program

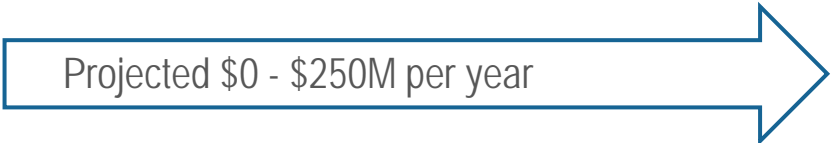
## Pacing Chart

Fund of Funds Vehicle Capital Deployment				
Strategies	Fiscal Year			
	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Buy-Out Growth Distressed for Control	Existing Fund of Funds Advisor: GCM Grosvenor \$300M Commitments	0-3 Funds	0-3 Funds	0-3 Funds
Deployment	\$142M Investable Capital		\$0 - \$250M per year	

# Real Estate Emerging Manager Program

- Up to \$500 million in new capital commitments
  - Estimated pacing of \$0 - \$250 million per year
- Identification and Sourcing
  - Mentoring Manager Advisor
    - Canyon Partners Real Estate, LLC
- Evaluating and Selecting
  - Mentoring manager engages in manager due diligence with discretion to make investment decisions with CalPERS staff oversight
- Pacing of Deployment
  - The Real Estate Strategic Plan has reaffirmed a continuing commitment to investing in their Emerging Manager Program

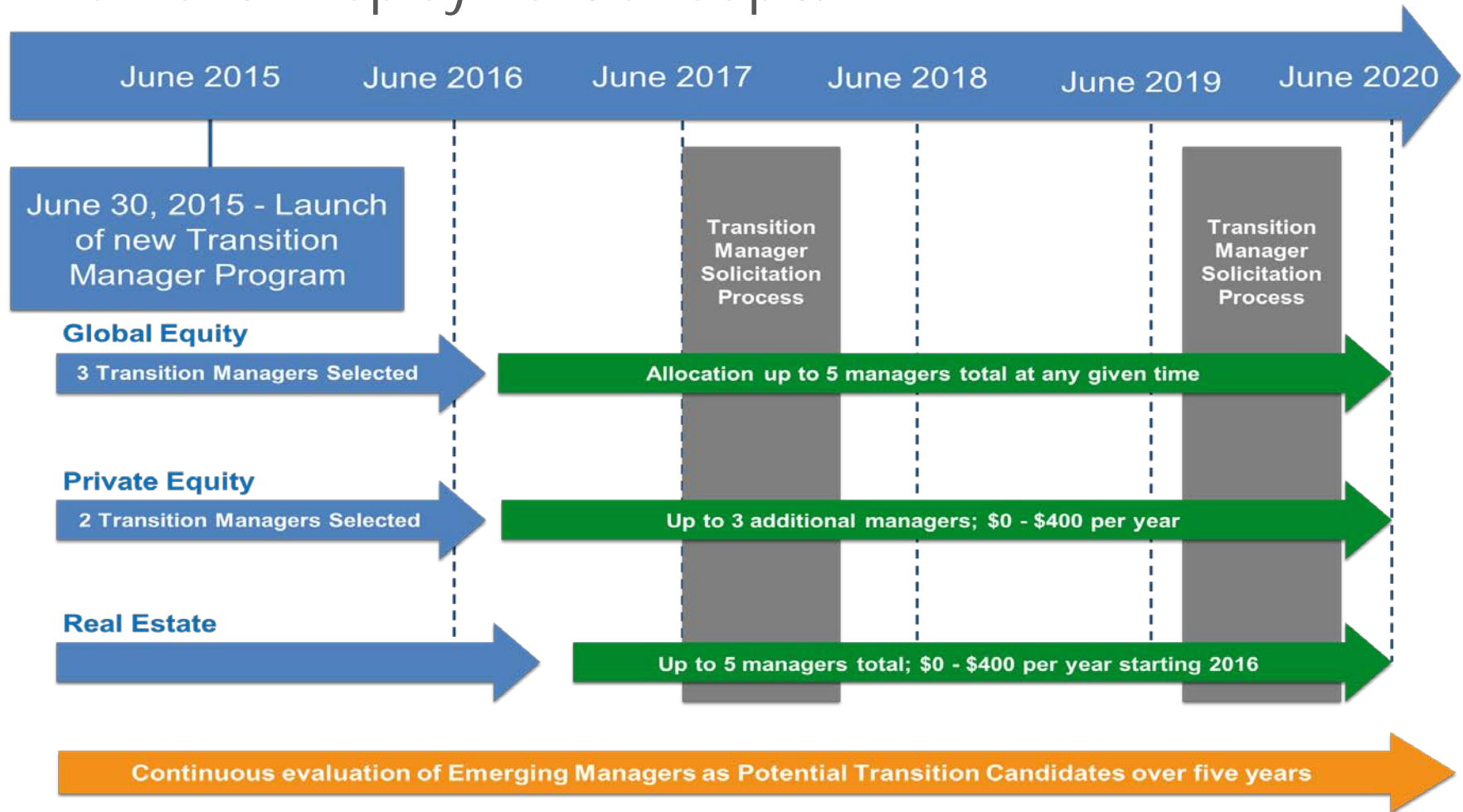
# Real Estate Emerging Manager Program Pacing Chart

Mentoring Manager Capital Development				
Strategies	Fiscal Year			
	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Retail Office Multi-Family Industrial	Existing Mentoring Manager: Canyon Catalyst Fund	Capital Committed to Mentoring Manager(s) Through Annual Investment Process		
Deployment	\$375M Actual	Projected \$0 - \$250M per year 		

# Transition Manager Program Process and Pacing

- Over the course of the next five years, the Transition Manager Program may commit up to \$7 billion, to up to 15 managers, in direct relationships with staff oversight
- Transition candidates to be sourced from multiple areas including:
  - CalPERS Emerging Manager Programs
  - Investment Proposal Submission Portal
  - Transition Manager Alternative Solicitation Process
  - Engagement and Outreach
- Selection and deployment of capital process varies by asset class

# Transition Manager Programs Timeline for Deployment of Capital

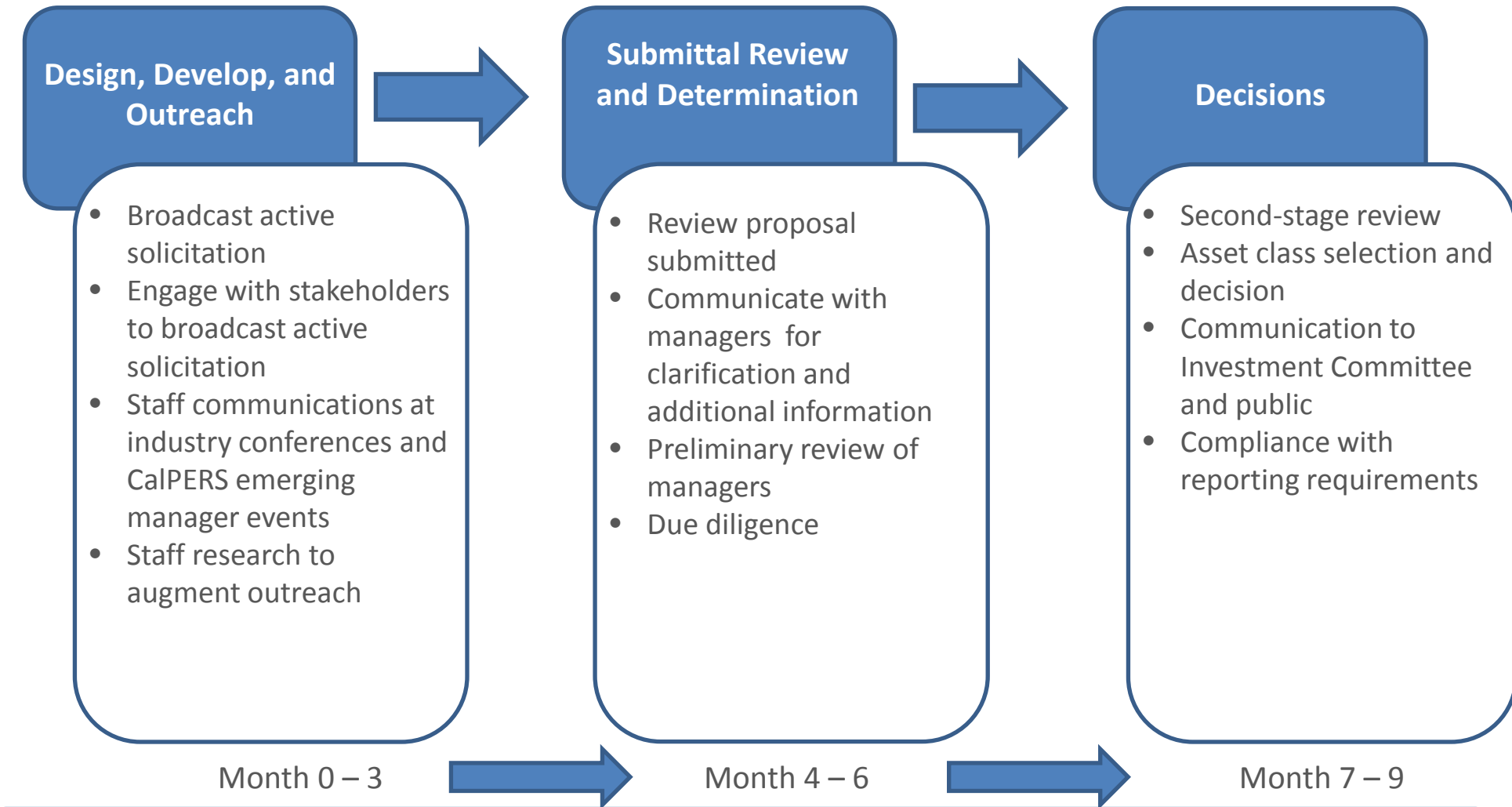


## Transition Manager Alternative Solicitation Process

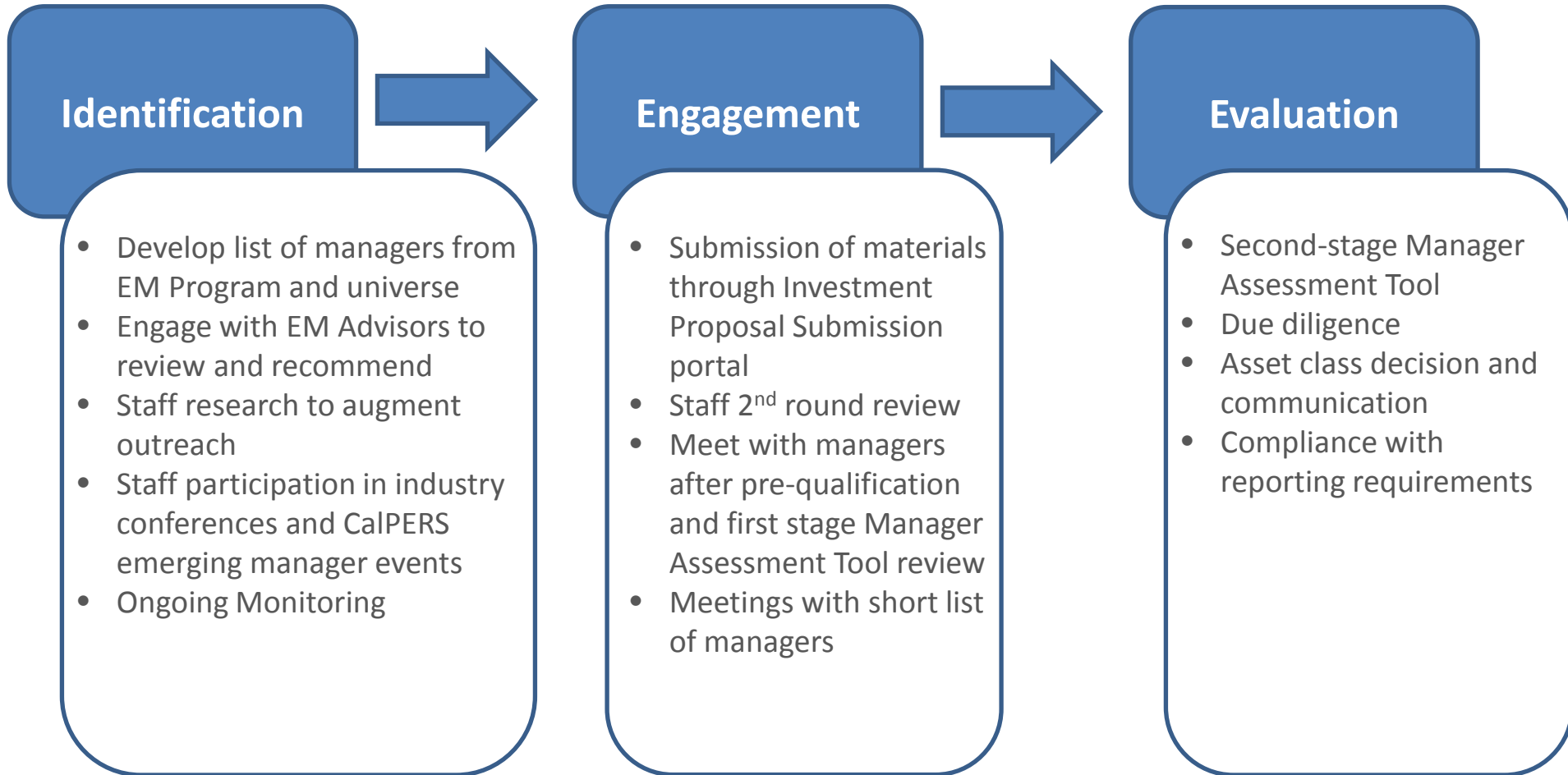
- CalPERS Investment Office has an alternative solicitation process (ASP) which will be used as a method of gathering proposals on potential transition managers
- Consolidated ASP process standardized across the asset classes, coordinated by the Targeted Investment Programs
  - Broad communication to the investment manager and stakeholder community
  - Selection criteria will be consistently and fairly applied
- Process can range up to 12 months depending on the type of strategy and the number of submissions received



# Example Transition Manager Alternative Solicitation Process



# Example Continuous Transition Manager Sourcing and Review



# Global Equity Transition Manager Program

- Approximately \$3 billion in capital allocations
- Identification and Sourcing Candidates
  - Successful emerging managers both internal and external may qualify for a transition manager assignment within CalPERS
    - Transition Manager Alternative Solicitation Process
    - Investment Submission Proposal Portal
    - Networking and outreach
- Evaluation and Selection
  - Three managers have been selected for the Transition Manager Program in Global Equity
    - TOBAM Investments - \$1 Billion, 6/23/2015
    - Hermes Sourcecap Limited – \$501 Million 6/24/2015
    - Huber Capital Management - \$710 Million, 6/25/2015
  - If it is found that there is a strategy need when considering the Global Equity portfolio, CalPERS may consider transition managers to fill that need
  - If those managers are found to be a match, those managers would enter due diligence and be subject to the Manager Assessment Tool due diligence phase
- Pacing of Deployment
  - Given the liquid nature of the asset class, it allows flexibility with the on-going selection and replacement of managers

# Private Equity Transition Manager Program

- Up to \$2 billion in new capital commitments
- Identification and Sourcing Candidates
  - Transition Manager Alternative Solicitation Process
  - Develop list of managers from Emerging Manager Program and investment proposals submitted via the portal
  - Engage with EM Advisors to review and recommend
  - Staff participation in industry conferences and CalPERS EM events
- Evaluation and Selection
  - Two Managers have been selected for the Transition Manager Program in Private Equity
    - Siris Partners - \$75M, 12/10/2014
    - Clearlake Capital Partners - \$113M, 8/14/2015
  - Manager Assessment Tool to be utilized during manager selection
  - Potential managers will be identified in each of the strategies and across vintage years
  - Willingness to comply with CalPERS transparency and disclosure policy
- Pacing of Deployment
  - Estimated pacing of \$0 - \$400 million per year starting in 2016

# Private Equity Transition Manager Program Pacing Chart

Transition Manager Capital Deployment					
Strategies	Fiscal Year				
	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Buy-Out Growth Distressed	Clearlake Partners IV Siris Partners III Clearlake Opportunities		Transition Manager Solicitation		Transition Manager Solicitation
		0 – 2 Funds	0-2 Funds	0-2 Funds	0-2 Funds

Deployment

\$188.4M Actual

Projected \$0 - \$400M per year

# Real Estate Transition Manager Program

- Up to \$2 billion in new capital commitments
- Identification and Sourcing Candidates
  - Transition Manager Alternative Solicitation Process
  - Develop list of managers from Emerging Manager Program and investment proposals submitted via the portal
  - Engage with EM Advisors to review and recommend
  - Staff participation in industry conferences and CalPERS EM events
- Evaluation and Selection
  - Annual Investment Planning Process
  - Transition Manager Alternative Solicitation Process
  - Real Estate Manager Assessment Tool
- Pacing of Deployment
  - Estimated pacing of \$0 - \$400 million per year starting in 2016

# Real Estate Transition Manager Program Pacing Chart

Transition Manager Capital Deployment				
Strategies	Fiscal Year			
	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Retail Office Multi-Family Industrial		Transition Manager Solicitation		Transition Manager Solicitation
	0 – 2 Transition Manager	0-2 Transition Manager	0-2 Transition Manager	0-1 Transition Manager

Deployment



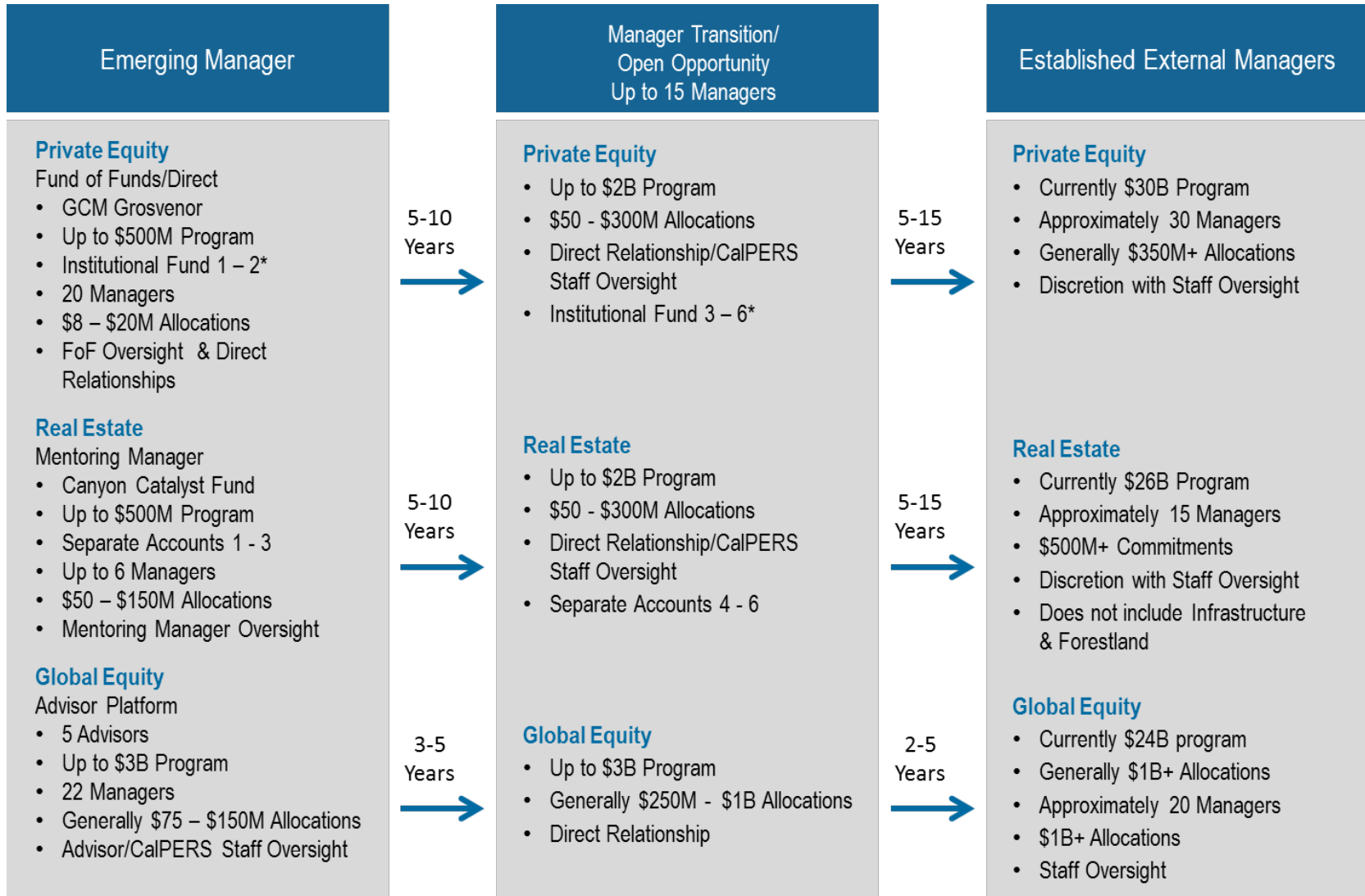
## Next Steps

- Continue to track and report Emerging and Transition Manager exposure, diversity, cost, and performance
- Continuous evaluation and improvement of Emerging and Transition Manager Programs
- Communicate and engage with stakeholders on outcomes of emerging and transition manager programs



## Appendix:

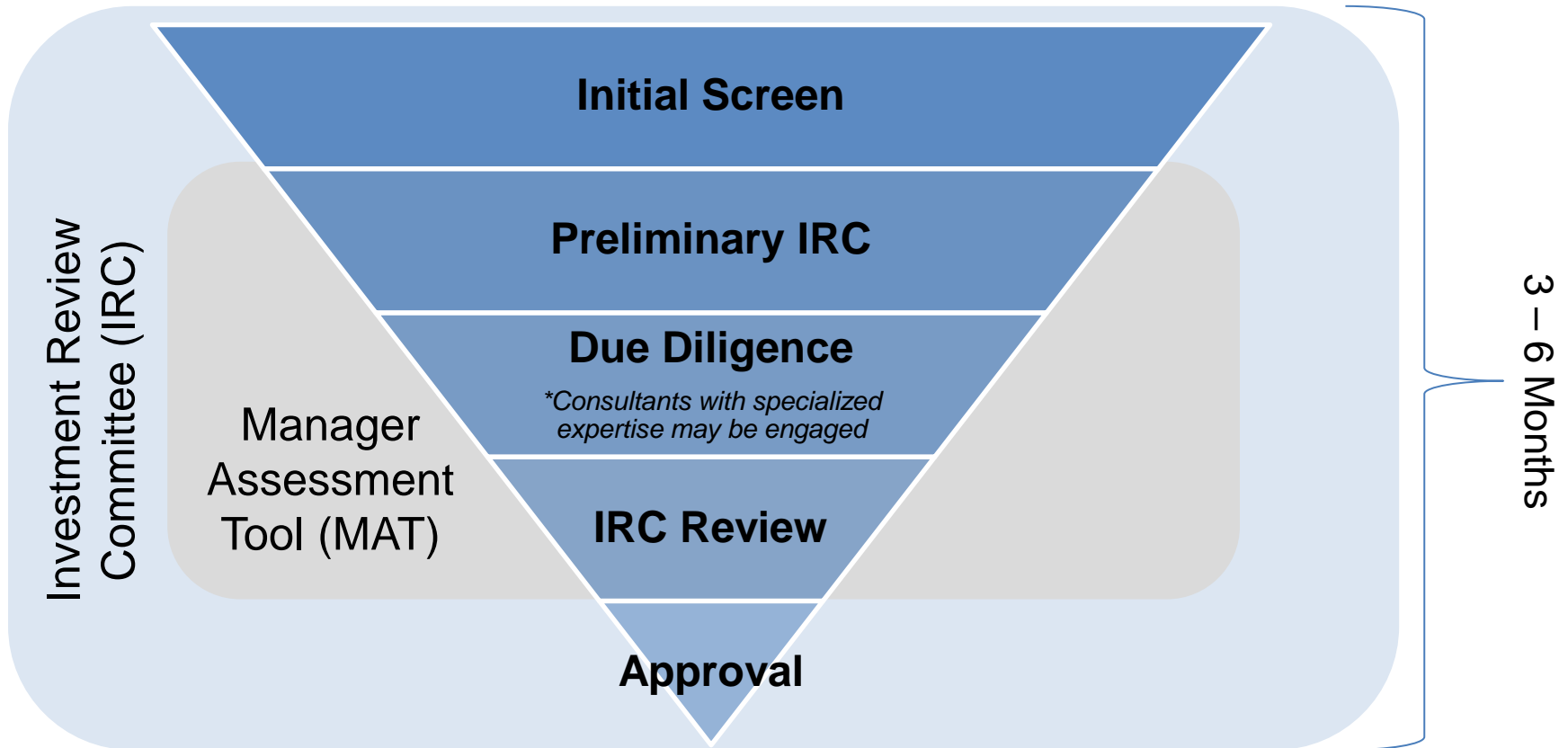
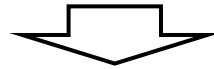
1. Emerging and Transition Manager Program Parameters
2. General Evaluation Process
3. Generally Accepted Categories of Manager Assessment Tool
4. CalPERS Emerging Manager Definitions
5. CalPERS Transition Manager Definitions



\*Please see CalPERS Private Equity Emerging Manager Definitions

# General Evaluation Process

## Investment Proposal Submission (IPS)



# Manager Assessment Tool

Investments are screened using a consistent, rigorous process focusing on five key metrics:

- Alignment of Interest/Governance
- Historical Performance
- Asset Allocation and Portfolio Fit
- Management Team Cohesiveness and Talent
- Strategy and Value Creation

# Emerging Manager Program Definitions

Asset Class	Global Equity	Private Equity	Real Estate
Program	Emerging Manager Advisor Program	Emerging Domestic Private Equity Managers	Real Estate Emerging Manager Program
Investment/Strategy	Long Only - Publicly Traded Securities	Buyout & Special Situations	Separate Accounts & Commingled Funds
Product Size	No requirement	Less than \$1 Billion	No Requirement
Firm Assets Under Management	Less than \$2 Billion	No Requirement	Less than \$1 Billion
Length of Track Record	No Requirement	First or Second Institutional Fund	First, Second, or Third Separate Account or Institutional Fund
Geographic Focus	No Requirement	Domestic U.S.	Urban California

# Transition Manager Program Definitions

Asset Class	Global Equity	Private Equity	Real Estate
Program	Manager Transition Program Direct Relationship/CalPERS Staff Oversight		
Investment/Strategy	Long Only - Publicly Traded Securities	Buyout & Special Situations	Separate Accounts & Commingled Funds
Product Size	No requirement		
Firm Assets Under Management	\$2 Billion Minimum	No Requirement	No requirement
Length of Track Record	No Requirement	Third, Fourth, Fifth and Sixth Institutional Fund	Fourth, Fifth and Sixth Separate Account or Institutional Fund
Geographic Focus	No Requirement	Domestic U.S.	No Requirement