



**CalPERS Investment Office**  
Emerging and Transition Manager 2020 Plan

July 1, 2017 — June 30, 2020

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For more than eight decades, CalPERS has built retirement and health security for state, school, and public agency members who invest their lifework in public service. Our pension fund serves more than 1.8 million members in the CalPERS retirement system and administers benefits for nearly 1.4 million members and their families in our health program, making us the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately \$300 billion.

For more information about CalPERS, visit [www.calpers.ca.gov](http://www.calpers.ca.gov).

## Message From Our CIO



Ted Eliopoulos

On behalf of CalPERS, I am pleased to present the *Emerging and Transition Manager 2020 Plan*.

CalPERS has invested with emerging managers for more than 25 years, directly or through fund of funds partnerships. We continue to actively engage with the emerging manager community to improve communication, strengthen our relationships, and enhance the implementation of our existing emerging manager investment strategies.

The purpose of the new Emerging and Transition Manager 2020 Plan is to continue the strategic framework established under the 2012 Emerging Manager Five-Year Plan. The Emerging and Transition Manager 2020 Plan identifies appropriate objectives and initiatives to be undertaken over the course of the Plan including the administration of two global solicitation processes seeking qualified candidates for the Transition Manager Program. The report period extends from July 1, 2017 to June 30, 2020. Staff will report annually to Investment Committee on activities undertaken under this new plan.

CalPERS will continue to engage and communicate with the emerging and transition manager community as we implement the Emerging and Transition Manager 2020 Plan. We value your feedback as we continue our leadership role in emerging and transition manager investment strategies.

Sincerely,

Ted Eliopoulos  
*Chief Investment Officer*

## Section 1

## Executive Summary

In 2012, CalPERS' Board of Administration adopted the *Emerging Manager Five-Year Plan - Pathway to the Future* (Reference 1), which provided a strategic framework to guide CalPERS' investments and engagement with emerging investment managers. Under the *Emerging Manager Five-Year Plan*, CalPERS has delivered annual updates to the California State Legislature, reporting on progress and accomplishments toward achieving plan goals.

The initial Five-Year Plan ends in June 2017, with the final report to the Legislature generated by March 2018. As of June 2016, all ten stated objectives in the *Emerging Manager Five-Year Plan* have been completed. Key accomplishments include:

### Portfolio Management Work Streams

- Publication of the Emerging and Diverse Manager Data Report (Year 1)
- Publication of the Emerging Manager Exposure and Cost Report in (Year 2)
- Restructure of the Global Equity Emerging Manager Program (Year 2)
- Completed the Private Equity Emerging Manager Program Review (Year 2)
- Established new industry-leading Transition Manager Programs (Year 3)
- Established criteria for deployment of capital to Emerging & Transition Manager Programs (Year 4)

The new Emerging and Transition Manager 2020 Plan (the 2020 Plan), beginning July 1, 2017 and ending June 30, 2020, will focus on six key initiatives that are intended to maintain CalPERS leadership in emerging and transition manager investment programs, and build on the success of the initial Five-Year Plan.

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ALL  
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STATED ✓  
OBJECTIVES  
COMPLETED

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## Introduction

CalPERS has invested with emerging managers for more than 25 years, directly or through fund of funds partnerships. Our objectives for investing in emerging manager programs are to:

- 1) Generate appropriate risk-adjusted returns by identifying early stage funds and managers with strong potential for success;
- 2) Access unique investment opportunities that may otherwise be overlooked; and
- 3) Cultivate the next generation of external investment management talent.

Emerging managers are generally defined as newly formed or relatively small investment firms, while transition managers are successful early stage firms that have grown beyond the emerging manager definition but not yet large enough to be defined as an established manager. Each CalPERS asset class has emerging and transition manager definitions based on assets under management and/or length of track record. *The CalPERS Emerging and Transition Manager Programs and Definitions* (Reference 2) detail these definitions across asset classes.

Our objectives for investing in transition manager programs are similar but provide CalPERS with an opportunity to:

- 1) Generate appropriate risk-adjusted investment returns while meeting strategic investment needs by investing with managers with demonstrated early stage success;
- 2) Have continued access to investment opportunities with developing successful firms, and
- 3) Provide a path of growth for emerging managers to build their firms to a size large enough to compete for entry into our pool of larger established managers.

The transition manager program represents the evolution of our emerging manager program, and provides an appropriate ecosystem to source and develop investment managers.

California law prohibits state agencies from discriminating against or granting preferential treatment to any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public contracting. Therefore, CalPERS may not grant preferential treatment to managers based on the above characteristics. Data shows, however, that women and minority managers make up a higher proportion of emerging managers than established managers; therefore, emerging manager strategies can likely result in greater ethnic and gender diversity among CalPERS' external investment managers.

As the nation’s largest public pension fund, within the nation’s most ethnically and culturally diverse state, CalPERS recognizes diversity is a competitive advantage. CalPERS broadly interprets diversity to mean differences such as age, ethnicity, culture, or gender that result in diversity of thinking. CalPERS seeks diversity of internal staff, corporate boards, and external investment managers in an effort to secure high functioning teams that incorporate different ways of seeing and solving problems.

As of June 30, 2016 CalPERS has \$4.5 billion invested with women and minority owned managers. For additional details on diversity & inclusion initiatives at CalPERS, please view our *CalPERS Commitment to Diversity & Inclusion Report* (Reference 3).



CalPERS is also committed to equal access and opportunity for all investment managers. To facilitate equality of access and opportunity for external managers we have established an internet-based investment proposal submittal process, and apply consistent review and decision-making criteria in evaluating all investment proposals. CalPERS has made significant efforts to communicate our investment strategies and criteria for making investment decisions to the external manager community, including emerging managers, to help ensure that investment proposals are aligned with CalPERS’ objectives.

CalPERS’ dedication to investing with emerging and transition managers is demonstrated by the integration of the Plan into the *Investment Office Fiscal Year 2016-17 Roadmap*, which is the strategic plan that details the key priorities and initiatives of the Investment Office.

CalPERS adopted 10 *Investment Beliefs* (Reference 4) in September 2013, which are intended to provide a basis for strategic management of the investment portfolio, inform organizational priorities, and ensure alignment between the Board and CalPERS staff. In particular, the following Investment Beliefs underpin the work in the 2020 Plan:

- **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 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.
- **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.

# About the Emerging and Transition Manager 2020 Plan

The 2020 Plan outlines components of the next era of CalPERS Emerging and Transition Manager Programs across two areas of focus: (A) Portfolio Management, and (B) External Outreach. CalPERS has established six distinct work streams organized under these two major topic areas (see Exhibit 1). CalPERS will monitor progress under the 2020 Plan, report annually to the Investment Committee, and may make changes and adjustments to work streams, as necessary. Staff will include any additional or amended efforts as part of its annual reporting.

## Exhibit 1

### Emerging and Transition Manager 2020 Plan Work Streams

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#### Portfolio Management

1. Manage, Track, and Report Emerging and Transition Manager Performance, Capital Deployment, Exposure and Cost
2. Establish the Global Solicitation Process for Transition Manager Program
3. Integrate Emerging and Transition Managers Into Asset Classes
4. Conduct a Comprehensive Review of Emerging and Transition Manager Programs and Outcomes

#### External Outreach

1. Engage and Participate in Stakeholder Events
2. Communicate and Foster Relationships with Emerging and Transition Managers and Stakeholders

Section 2

# CalPERS Emerging and Transition Manager 2020 Plan

The following describes the CalPERS Investment Office work streams under the 2020 Plan. Each work stream includes a brief description and its desired outcomes.

## A. Portfolio Management Initiatives

### *Emerging and Transition Manager Programs*

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**Emerging and Transition Manager Work Stream 1:**  
 Manage, Track, and Report Emerging and Transition Manager Performance, Capital Deployment, Exposure and Cost

*CalPERS will manage, track and report on key metrics including allocation of capital to emerging and transition managers, performance, fees, and diversity. The information reported on emerging and transition managers will encompass CalPERS investments made through fund of fund or external advisors and direct relationships.*

**Desired outcomes within year 1-3:**

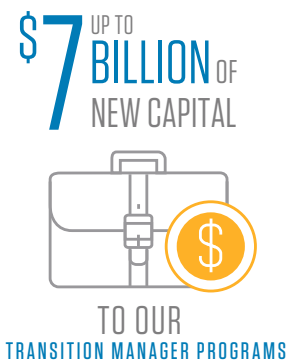
- Track and report on the progress of capital deployment in the Emerging and Transition Manager Programs through fiscal year 2020
- Track and report year-over-year emerging, transition, and diverse manager exposures
- Track and report investment performance and fees paid to managers



## Emerging and Transition Manager Work Stream 2: Establish the Global Solicitation Process for Transition Manager Program

*In June 2015, CalPERS' Investment Office initiated a new industry-leading Transition Manager Program. The objective of the program is to provide a path of growth and opportunity for successful early stage managers who expand beyond the parameters of an emerging manager program. The Transition Manager Program seeks managers who may ultimately compete for entry into our pool of larger established managers. This program allows CalPERS to continue to invest in firms with early stage success, while meeting strategic investment needs, including women and minority owned firms that are transitioning from small entrepreneurial platforms to established asset management firms.*

*Investment Office staff will review potential transition candidates from CalPERS' Emerging Manager Programs, as well as external managers who do not currently have capital with CalPERS who qualify under the guidelines of the Transition Manager Program. In June 2016, CalPERS announced the pacing and deployment of up to \$7 billion of new capital to our Transition Manager programs, which included transition manager solicitations in 2017 and 2019.*



### Desired outcomes within year 1 and 3:

- Design and execute a solicitation process, through our online Investment Proposal Submission (IPS) portal, to seek investment proposals from eligible, mid-size external investment managers
- In collaboration with the asset classes, evaluate potential for capital to be invested through Transition Manager Programs across Global Equity, Private Equity and Real Estate

### Emerging and Transition Manager Work Stream 3: Integrate Emerging and Transition Managers into Asset Classes

*The purpose of this work stream is to create greater opportunities for staff and emerging and transition managers to share market and sector intelligence, expertise, and perspectives. The objective is to further integrate emerging and transition managers into our external manager monitoring process with the expectation of a more robust and aligned relationship.*

*This process will be initiated in the Global Equity Emerging Manager Program and be applied over time to all CalPERS asset classes as we determine how best to deliver impact to the portfolio, and increase more meaningful contact between external investment managers and CalPERS staff.*

#### Desired outcomes within 1 - 3 years:

- Better leverage the insight and expertise of emerging and transition managers by increasing meaningful interaction with asset class staff
- Provide managers with a better understanding of CalPERS asset allocation and decision making process

### Emerging and Transition Manager Work Stream 4: Conduct a comprehensive Review of Emerging and Transition Manager Initiatives and Outcomes

*CalPERS has a long history of investing in emerging managers across a variety of investment disciplines. In 2012, CalPERS conducted a comprehensive review of its emerging manager investment strategies and identified lessons learned. The result was the development of more strategic and formal emerging manager program including the Emerging Manager Five-Year Year Plan. CalPERS believes it is prudent to conduct comprehensive reviews, from time to time, of our experiences and outcomes investing with emerging and transition managers. The goals would be to identify lessons learned and establish a framework for future emerging manager initiatives.*

#### Desired outcomes within year 5:

- Review program outcomes and identify lessons learned from 2012-2019 and adopt best practices for investing with emerging and transition managers
- Re-examine CalPERS goals for investing with emerging managers, including our asset class definitions and parameters
- Leverage internal and external insights to inform and develop a framework for future Emerging and Transition Manager strategies beyond 2020

## B. External Outreach Initiatives

### *External Outreach Programs*

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#### **External Outreach Work Stream 1:**

##### **Engage and Participate in Appropriate Stakeholder Events**

*CalPERS has a long history of hosting and participating in industry association events focused on emerging and diverse managers. This work stream focuses on staff's outreach efforts via conferences, webinars, workshops, and meetings to strengthen CalPERS relationships and improve communications with its stakeholders.*

#### **Desired outcomes within 1 – 3 years:**

- Continue CalPERS strong presence in emerging and transition manager networks through industry associations
- Continue to participate in conferences and events featuring emerging and transition manager investment programs

#### **External Outreach Work Stream 2:**

##### **Communicate and Foster Relationships with Emerging and Transition Managers and stakeholders**

*CalPERS believes that constructive engagement with the emerging and transition manager community is a critical element to continuing its commitment to emerging and transition managers. As such, CalPERS is focused on continuing efforts in (1) outreach, (2) education and messaging, (3) technology networking tools, and (4) ongoing communications.*

#### **Desired outcomes within 1 – 3 years:**

- Engage directly with the emerging and transition manager community via workshops and interactions with trade and professional associations
- Communicate with emerging and transition managers via printed materials and CalPERS website

## Section 3

# Conclusion

The six work streams described in this 2020 Plan provide an approach to evaluating current emerging and transition manager programs and ensuring CalPERS can access and utilize the capabilities of high-performing emerging and transition investment managers. In aggregate, the steps outlined in this plan will ensure that CalPERS emerging and transition manager programs continue to serve their purpose of advancing our investment objectives while cultivating the next generation of portfolio manager talent.

CalPERS will continue its efforts to examine and improve its emerging and transition managers programs and to communicate with emerging, transition, and diverse managers and other interested stakeholders about the goals of our investment programs.

## Section 4

# References

**1. Emerging Manager Five-Year Plan**

<https://www.calpers.ca.gov/docs/forms-publications/emerging-manager-five-year-plan.pdf>

**2. CalPERS Emerging and Transition Manager Programs, Definitions, and Fact Sheets**

<https://www.calpers.ca.gov/page/investments/investment-manager-engagement-program/emerging-transition-manager>

**3. CalPERS Diversity & Inclusion Annual Report**

<https://www.calpers.ca.gov/docs/forms-publications/diversity-report-2015.pdf>

**4. CalPERS Investment Beliefs**

<https://www.calpers.ca.gov/docs/forms-publications/calpers-beliefs.pdf>

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