Emerging Manager Five-Year Plan Update
Investment Manager Engagement Programs

Clinton Stevenson, Investment Director
Diego Carrillo, Investment Manager

December 18, 2017
Investment Manager Engagement Programs Functions

- External Manager Monitoring and Evaluation
- Emerging and Transition Managers
- Investment Portal and Manager Solicitations
- California Investments
2012 Emerging Manager Five-Year Plan

• The Emerging Manager Five-Year Plan concluded June 30, 2017

• All ten objectives have been met, including:
  – Restructure of the Global Equity Emerging Manager Program
  – Established new Transition Manager Programs
  – Established criteria for deployment of capital to Emerging & Transition Manager Programs

• Strategic programs have $4B of NAV and 45 emerging managers, of which 22 are women and minority-owned, with plans to expand size and scope

• The Emerging and Transition Manager 2020 Plan continues the framework and builds on the success of the initial Emerging Manager Five-Year Plan

• The 2020 Plan extends from July 1, 2017 to June 30, 2020
Transition Manager Program Highlights

- Objectives:
  - Generate appropriate risk-adjusted returns while meeting strategic investment needs
  - Provide a path of growth and opportunity for emerging managers to compete for entry into our pool of larger established managers

General Evaluation Criteria

- Portfolio fit
- Strategy and value creation
- Management team and talent
- Alignment of interest
- Historical performance
Transition Manager Solicitation

- New commitments are planned to transition managers through 2020
- 3 participating asset classes: Global Equity, Private Equity and Real Estate
- Solicitations for Global Equity and Private Equity opened in July 2017
- Proposals have been received and are being evaluated
Emerging, Transition, and Diverse Manager Day

- Hosted 4th annual Emerging, Transition, and Diverse Manager Day on October 3, 2017
- Three participating asset classes: Global Equity, Private Equity, and Real Assets
- 52 emerging and transition managers attended
- The event was viewed as a success by asset classes, advisors, and external managers
Recent Highlights

- Real Assets expanded its emerging manager program allocating $350 million of additional capital and expanding permissible property types and geographical regions. The program has received $1B of commitments since its inception in 2012.

- A manager from Global Equity’s Emerging Manager Program progressed into the traditional manager program and is now a model provider. The manager received a $1 billion mandate, and CalPERS is now able to efficiently implement the portfolio at a very attractive fee structure.

- Private Equity committed $75 million to Valor Equity Partners, its third transition manager.
Looking Forward

1. Finalize Transition Manager solicitation process
2. Assess Emerging and Transition Programs in Global Equity and Private Equity
3. Solicitation for Emerging Manager Advisor mandate
4. Implement Emerging and Transition Manager 2020 Plan
# Emerging and Transition Manager 2020 Plan

<table>
<thead>
<tr>
<th>Portfolio Management</th>
<th>External Outreach</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Administer Two Solicitations for Transition Managers</td>
<td>2. Communicate and Foster Relationships with Emerging and Transition Managers and Stakeholders</td>
</tr>
<tr>
<td>3. Integrate Emerging and Transition Manager Programs and Outcomes</td>
<td></td>
</tr>
<tr>
<td>4. Conduct a Comprehensive Review of Emerging and Transition Manager Programs and Outcomes</td>
<td></td>
</tr>
</tbody>
</table>

**CalPERS Investment Office**
### Emerging Manager Program Summary

<table>
<thead>
<tr>
<th></th>
<th>Global Equity</th>
<th>Private Equity</th>
<th>Real Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic Business Model</strong></td>
<td>(5) Advisors + Emerging Managers</td>
<td>(1) Fund of Funds</td>
<td>(1) Mentoring Manager / Separate Account</td>
</tr>
<tr>
<td><strong>Investment Strategy</strong></td>
<td>Long Only - Publicly Traded Securities</td>
<td>Buyout Growth and Distress for Control</td>
<td>Value-Add, Opportunistic, Commercial and Urban California</td>
</tr>
<tr>
<td><strong>Length of Track Record</strong></td>
<td>No Requirement</td>
<td>First or Second Institutional Fund</td>
<td>First, Second, or Third Separate Account or Institutional Fund</td>
</tr>
<tr>
<td><strong>Firm AUM</strong></td>
<td>&lt; $2 billion</td>
<td>No Requirement</td>
<td>&lt;$1 billion</td>
</tr>
<tr>
<td><strong>Total Emerging Manager NAV</strong></td>
<td>$3.2 billion</td>
<td>$4.4 billion ($89M - Domestic Emerging Manager I &amp; II)</td>
<td>$0.6 billion ($322M - Canyon Catalyst)</td>
</tr>
<tr>
<td><strong>Total Number of Emerging Managers</strong></td>
<td>22</td>
<td>222 (21 - Domestic Emerging Manager I &amp; II)</td>
<td>9 (5 - Canyon Catalyst)</td>
</tr>
</tbody>
</table>

*As of June 30, 2017*
## Transition Manager Program Parameters

<table>
<thead>
<tr>
<th></th>
<th>Global Equity</th>
<th>Private Equity</th>
<th>Real Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Strategy</strong></td>
<td>Publicly Traded Equity Securities</td>
<td>Buyout and Growth Equity</td>
<td>TBD</td>
</tr>
<tr>
<td><strong>Minimum Qualifications</strong></td>
<td>$2-15 billion AUM</td>
<td>Over $1 billion AUM and $1 billion Fundraised</td>
<td>Over $1 billion</td>
</tr>
<tr>
<td><strong>Length of Track Record</strong></td>
<td>3-Year live track record</td>
<td>Third, fourth, fifth &amp; sixth institutional fund</td>
<td>Fourth, fifth, and sixth institutional fund</td>
</tr>
<tr>
<td><strong>Geographic Focus</strong></td>
<td>Global, Global ex US, International Developed</td>
<td>Domestic focus</td>
<td>TBD</td>
</tr>
<tr>
<td><strong>Exclusions</strong></td>
<td>Frontier Markets</td>
<td>Venture Capital and Debt strategies</td>
<td>TBD</td>
</tr>
<tr>
<td><strong>Estimated Commitment</strong></td>
<td>~$500 million</td>
<td>Min. $100 million</td>
<td>Up to $2 billion</td>
</tr>
</tbody>
</table>