



Investment Committee

Agenda Item 3a

November 16, 2021

Item Name: Emerging Manager Program Review

Program: Board Governance & Sustainability

Item Type: Information

Executive Summary

Provides a review of the CalPERS Emerging Manager Program.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions.

Investment Beliefs

The Emerging Manager Program supports CalPERS' Investment Belief 2, that a long-term value creation requires the effective management of financial, physical, and human capital. This agenda item also supports Investment Belief 3 in which CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with our fiduciary duty to our members and beneficiaries; and the Sub-Belief of Investment Belief 10, Diversity of talent at all levels is important.

Background

CalPERS' fiduciary duty is set out in the California constitution and requires us to invest to achieve risk adjusted returns to pay benefits for our members, while ensuring that we minimize costs. In line with these requirements, the purpose of the Emerging Manager Program is to achieve risk-adjusted returns by harnessing the talent of new investment managers. The objectives of the program are: first, to identify early-stage funds with strong potential for success; second, to allow CalPERS to access unique investment opportunities that may otherwise be overlooked; third, seek to cultivate the next generation of external portfolio management talent.

Analysis

In preparing for this update, the Board Governance & Sustainability team conducted a wide-ranging review including discussions with our public pension fund peers CalSTRS, New York State Common, New York City's Employment Retirement Fund, and the Texas Teachers Retirement System. Comparing notes with our peers helps us to better understand the operational structure of their Emerging Manager Program, as well as their experience and insight. Likewise, we had in-depth discussions with our current roster of Emerging Manager advisors to get their input on the status of our program from their perspective. We also reached out to our stakeholders and strategic partners to better understand the marketplace and learn from their perspectives. As always, we want to ensure our work is grounded in evidence, so we reviewed academic material and market studies in the diverse management marketplace. Finally, the foundation of this review was the collaborative work of our investment performance analytics and asset class teams who are responsible for allocating capital in line with their specific role in supporting the total fund objective to achieve sustainable, cost effective, and risk adjusted returns over time. In our next steps we will be commissioning further research through the third round of the Sustainable Investment Research Initiative and the external manager diversity survey to be conducted again by Lenox Park.

Budget and Fiscal Impacts

Costs included in current budget allocations.

Benefits and Risks

The CalPERS Emerging Manager Program is designed to identify and grow the next generation of exceptional, high performing managers, with the goal of potential graduation to a Trust level commitment. An ancillary benefit of the Emerging Manager Program is to support CalPERS' framework for Diversity, Equity, and Inclusion.

Attachment 1 – Emerging Manager Program Review Presentation

Anne Simpson
Managing Investment Director
Board Governance & Sustainability

Clinton Stevenson
Investment Director
Board Governance & Sustainability

Dan Bienvenue
Interim Chief Investment Officer