Date: December 2012
Segment: Emerging Managers – Private Equity Workshop
Host: Joe Dear
Guests: Real Desrochers, Scott Jacobsen, Sarah Corr, Christine Gogan, Mike Moy, Kelly Williams

Video Transcript

Joe Dear:
Welcome to a break out session on private equity. I'm Joe Dear, you know me and we have an outstanding panel for you and I am the moderator so I'll keep my remarks very short. I think the bios are in the handout but to introduce the panel, Real Desrochers, the Senior Investment Officer for Private Equity at CalPERS. Next to him Scott Jacobsen, Senior Portfolio Manager in the Private Equity Program. Sarah Corr is next to Soctt. She's also Senior Portfolio Manager in the program as is Christina Gogan, also Private Equity Senior Portfolio Manager. And next to her is Mike Moy, Board consultant in Private Equity from PCA. And finally at the end Kelly Williams, our partner from Credit Squeeze Customized Funds Investment Group, our fund-to-funds partner. They have a great program for you and without further adieu, let me ask Real to take you through a discussion of how CalPERS makes decisions in private equity. Real?

Real Desrochers:
Thank you very much Joe. Good morning everyone. I'm really happy to be here. I must admit also I feel a bit strange to the extent that from what I heard, I've been at CalPERS for about 14 months, and I want to thank CalPERS, I'm very proud to be here. I was at CalSTRS before but I heard that many things have changed in the last year so I look at that, I take that, maybe I should take that personally. I was very happy to here. I find very interesting also and subscribe to the emerging manager, diversity. I think it would make us, makes us all stronger and better in the long term. What we have here, I would, actually before I start, introduce (indiscernible) in the back. In case you want to raise your hand, so in the breakout session people can relate to you and there's John Greenwood here also of our team. There he is okay. And Kelly, may I propose that you do that also with your guy.

Kelly Williams:
Sure. So from the Customized Fund Investment Group, which as Joe said is the fund-to-funds partner to the CalPERS private equity team, I'm joined by my partner Derek Jones. Derek if you would stand up and two of our principles, David Almadovar and Jason Howard.

Real Desrochers:
So, thank you very much Kelly. What we wanted to do is we have a presentation that will last about 15 minutes that we want to explain the role of the private equity portfolio, governance will be done by Mike Moy, the investment processes,

the portfolio exposure and the emerging manager and target investment program that we run into private equity. So, I don't know if we can change that slide. Thank you. The private equity portfolio represents approximately 14 percent of CalPERS' assets, which is $233 billion as of June 30, 2012. Fourteen percent has been, like Joe was mentioning this morning, pretty constant, it's one of the world's largest private equity portfolio with $34.2 billion. The program role, you will, CalPERS has adopted a risk based asset allocation process. And when we look at that, private equity is probably one of the highest risk asset class, and the portfolio is expected to generate 3 percent extra return over the global private equity portfolio. That's, we call that alpha but our role is to deliver 3 percent over the global private equity portfolio. I will pass to Mike Moy to explain the governance of the portfolio, how we operate.

Mike Moy:
For those of you who don't know, the investment policy that governs the private equity program is on the CalPERS website. And that is the framework within which everything is done in the private equity program. Investment decision making has been delegated to staff within certain parameters and everything that is done is done by the staff in execution of that policy. When you look at how staff discharges that responsibility, they engage consultants on a specialized basis to assist them when they are making decisions as it relates to managers. They don't necessarily going forward have to engage one all the time but they have historically done that. CalPERS in-house legal counsel also works with them to oversee the completion of legal documents which are typically crafted and negotiated by outside legal counsel, which is hired for each of their commitments. At the end of the day, when the decision is made, the in-house counsel and PCA write opinions that the policies that exist have been, the investment policies which exist and govern the process have been complied with, with respect to the commitment. Internally, when they're making the decisions and looking at the proposals they've received, they've established an internal review committee, investment review committee, which looks at each of the proposals and actually works on the equality of the decision making. So that there's an attempt to weed out any bias that might exist with respect to a proposal and it is done on a committee basis and it is done every two weeks this committee gets together and goes through what's been proposed. Having said that, we'll move on to Real and strategic review which occurred back in September.

Real Desrochers:
Thank you Mike. Thank you very much. I want to thank Joe Dear that invite me to come back here to manage this portfolio and when I came back from Saudi Arabia in June 2011, and the Board, they asked me to have a plan, what they call restructure and analysis portfolio. So we did that and that was approved by the investment committee and the Board at the time in September 2011. And the key vector in there was to reduce the number of relationships, first the findings. This portfolio had 762 funds, over 350 managers, and about, approximately $1.6

billion invested in direct holding company, like Carlisle, Silver Lake (indiscernible), had a lot of stuff. So what we did we proposed a portfolio construction that you're going to be exposed to by Scott here later on. The plan also was to improve the amounts and through the use of the web based portal. I don't want to dwell down into that, it was mentioned by Lori and Joe this morning. It was following the placement agent reconfiguration that was put in place by CalPERS to provide greater transparency, to provide level playing field to all of the people that compete to have assets to be managed by CalPERS. So this is the entry, Scott will go into that. We wanted to also reduce the core of the program that we presented to the, to Joe, the investment committee and the Board was to reduce economics, to improve performance but that is done also to reduce fees, reduce current interest which is a big part of the expense that we have. And lastly, to upgrade the technology and there is a, Sarah Corr will explain that. We've been undertaking improving our information management processes and this is a long haul. This is, we're well into the (indiscernible) with that. But it's probably a three year project. I will pass the baton to Scott who will explain the IPTS.

Scott Jacobsen:
Great, thanks Real. If there's one thing that you should take away from this day is that the investment proposal tracking system is the entry way into CalPERS. All of our proposals need to go through that system, even our existing managers resubmit through those, through that system so that we can evaluate every proposal on a consistent basis. I would encourage you all, as Lori did earlier in the day to spend some time looking at that system before you're actually going to submit your proposal. We're trying to make the system as user friendly as possible but there's still some things that could be improved upon and we're gonna work hard to do that. After the proposal is submitted, it gets routed to the appropriate asset class, in this caser private equity. And then gets assigned a staff member to evaluate that proposal on a consistent basis. We meet every Monday. Every proposal gets vetted and screened and assigned a staff person who starts work. Depending on the merits of that proposal, it then moves through the system. If it goes from the initial screening through approval, that could take up to three to six months. For initial screening, we try to get back to people within 30 to 45 days. So once it comes in, what do we do with it? We try to have every fund proposal, or every investment proposal go through a similar process so that we're systematic in how we approach these things. As part of that, we developed a manager assessment tool which is something we use as a starting point to compare different proposals against our internal criteria. Three are five buckets that we typically look at and each of these buckets have a number of sub elements that we dive deeper into. So for example, on alignment in governments, governance, we look at the waterfall structure, the claw back structure, how carry is distributed and vested throughout the firm, etc. For performance, we look not just at multiple and IRR, but consistency. How does the manager produce those results? Is it realized or unrealized? How are they really adding value to the investments? Portfolio fit, we look at our existing exposure

within the portfolio and see if we're overweight or underweight. And whether this proposal will be additive to our overall portfolio. Team cohesiveness, we look at things like team turnover, how long the team's been together, whether at the current firm or a prior firm. Attribution of investment results to team members to make sure that the performance is really driven by the existing team members. And so forth. And then finally on value creation, we look at what they're actually doing with the portfolio companies in order to drive those returns. So um, each of those is designed to be systematic, such that we look at every investment proposal on equal weighting. I'm going to turn it over to Sarah to talk about the portfolio.

Sarah Corr:
Thanks Scott. I'm gonna start off with the definition of emerging manager. For CalPERS, an emerging manager is a first or second time institutional fund. An institutional fund requires at least three limited partners, institutional quality limited partners. And the team must have a demonstrable track record. So it does not have to be a track record where they have all invested together, but it does need to be attributable back to the people that are forming the new team. Importantly, the definition for CalPERS is also global, so it does include emerging managers outside of the United States. When looking at the portfolio, we have $34.2 billion of NAV and $11.5 billion of unfunded commitments. For emerging manager, that adds up to a little over 20 percent of both the NAV and the unfunded commitments. Moving on to the target investment programs. Aside form the emerging managers, there are three additional target investment programs within the private equity portfolio covering California, clean energy, and healthcare. For emerging managers there is a billion dollars that was committed, has been fully committed and there is an additional $100 million to be allocated. Currently it's being managed by CFIG and Kelly Williams will talk more about that in a little bit. As Joe mentioned earlier today, after the financial crisis, the total committed assets decreased significantly. New commitments from private equity were also reduced due to this limited supply of capital. Despite the reduced commitments ion 2009 through '12, which was just over $5 billion, the portfolio remained at 14 percent of the target. And as Joe alluded to earlier, there was 18 percent of the $36 billion was to emerging managers, and post the crisis, of the $5 billion approximately 18 percent of that was also committed emerging managers. Moving on to new deals. Post the crisis, there's still significant deal flow. CalPERS received over 700 new proposals in 2009 through 2012. However, CalPERS has become increasingly selective in making new commitments with only three percent of new deals being approved in 2009 through '12. Part of this is going back to increasing the performance as Joe alluded to in his opening remarks. Using the current CalPERS definition of emerging managers, CalPERS has committed $7.6 billion to 166 emerging managers directly. In addition to that, 148 managers have been sponsored by fund-to-funds that are managed on behalf of CalPERS. For a total of 314 partnerships and over $7 billion being committed to emerging managers over the past 20 years. Moving on to performance. We can see in the 10 and since

inception year periods, the emerging manager portfolio has underperformed the portfolio broadly. There clearly has been some good performance in the emerging manager portfolio, however the experience has not been positive overall. CalPERS is currently looking at the performance and what was driving that, and determining how to best proceed with new commitments to emerging managers. We remain committed to making new commitments and are looking at the best way to move forward and this is a review that will be going on over the next four months. And with that…

Real Desrochers:
That completes the presentation that we have and how it's very quickly looking at how we run the portfolio. We can address any question you may have, or we can ask Kelly Williams to go and explain how she runs the CFIG program. Okay, we have a couple of questions so can you start?

Victor Murari with HTP:
When you compare emerging managers with the overall, has that been adjusted for vintage years?

Sarah Corr:
No, that's since inception or the 10 year return across the entire portfolio for both groups.

Male Audience Member:
I was wondering if you looked at it in a breakout between what's been direct and what's been funded. Is there a difference in that as well?

Sarah Corr:
We have done some work around that. We're not done finalizing that. Some of the work being done is part of the five year plan that Lori spoke to earlier. And I'm sure we'll be revealing those results in the near future.

Male Audience Member:
Coming direct versus to a fund-to-funds, is there an economic lot size that governs your interest in taking a direct proposal from a fund manager?

Joe Dear:
Kelly's going to be able to answer that in just a sec. Particularly the smaller commitments go through the fund-to-funds. It's a small number, right. Yeah.

Female Audience Member:
You mentioned that the website has a lot of the criteria listed. I'm just curious on the need for three other institutional LPs. Are some of the logistics maybe laid out, is that funded, is it committed? Logistically how does that work?

Real Desrochers:

It's committed money. People that would be there at the launch of the fund. So we're all people that are committing money to that fund.

Male Audience Member:
Curious about the portal coming through there. If you're going to go to a fund-to-funds, do you go through the portal as well?

Joe Dear:
Why don't we take that for Kelly. We'll come back and take many more questions.

Kelly Williams:
So my colleague Dave Almadovar joked this morning that coming to an emerging manager conference for us is often like going to the bar at Cheers. You know, everybody knows your name. But I think this speaks to the breadth of CalPERS and the ability for CalPERS to really get the word out that just while I was sitting here I met four new managers that I have never met before. So, I think the purpose of this conference has been well served. So let me tell you a little it about who we are first and then I'll launch in and answer some of the questions. So I'm Kelly Williams, I'm ahead of what's called the Customized Fund Investment Group and we are a $29 billion fund investment group that focuses on private equity and also real estate, but for purposes of this discussion, we're just talking about private equity. We are the I think the largest women-lead private equity firm. We often don't get credit for that because we're inside of a firm called Credit Squeeze but that, for many of you who've been following we are in the process of separating form Credit Squeeze. And so I was very pleased to hear Lori referring to us as Customized Fund Investment Group up on the dais. And we are, we have a particular expertise in the emerging manager space, small and emerging funds. In fact, the very first mandate that we ever did back in 1999 when I started the business at Prudential Insurance Company, we were hired by Michigan, the state of Michigan Retirement System to help them get into smaller managers. Because Joe said it very well earlier, it takes actually usually more diligence to do a $10 million commitment to a $200 million fund than it does to do a $100 million to a $10 billion fund. And so, but many investors recognize that if they miss the opportunity to participate with those funds early on, as those funds grow and they gain more success it may become very difficult to get access. And so that's really the theory behind the small and emerging manager universe as we started it. If we talk specifically about this program, the CalPERS domestic emerging manager program, that was established in March of this year, March 2012, and that's really to continue this ongoing commitment CalPERS has had to making investments in emerging manager space. The program was launched with $100 million commitment and we intend to deploy that over a four year time period. And you can do the math. That really translates into about 12 to 15 commitments over time, and focus on very high quality domestic managers. And as Joe, you know, Joe commented earlier, when an investor hires a fund-to-funds, the bar you know, for us is quite high, because we

have to provide performance to our investor, that justified them paying us the fee. And so you know, we really have to over the next four years, find the best of the best to participate in this program. The allocation that we have set for the program, up to 60 percent for buyout funds. Up to 30 percent for special situation funds and up to 10 percent for venture capital and really following on Joe's comment earlier, our pogrom does include venture but it's a small allocation to venture. I think CalPERS suffers form what many large pensions suffer from is that it's hard to get enough money into venture to have it really move the needle, even if the performance is quite good. Our approach to the market is really to have an open door policy, and so if you're an emerging manager and you reach out to us, and people do that in a variety of ways. It's often as a result of this conference, so as I said a number of folks came up, gave me their card. You, Derek, Jason and David are here today. Please reach out to them. You don't have to feel like you have to need to reach out to every one of us. I assure you we look at every single proposal and the whole team looks at the proposal. But it's very much an open door policy. So whether you're referred to us by CalPERS, so your question before, if you go through their portal, and it's something that's appropriate for us, it will be referred. And maybe that's the best way to do it in some respects, because then you get logged into the system. But you're certainly welcome to come to us directly. We log every, every proposal that's brought to us and every proposal that is referred to us so that we can keep an ongoing report for CalPERS on how those managers are dealt with. And we work very closely with staff, it's a very collaborative relationship. There's lots of communication. We have regular deal flow calls to update on what's going on overall in the emerging manager marketplace and also specifically with direct to the portfolio. So the definition, Sarah said it, ours really doesn't deviate at all. Buyout and special situation funds are sizes below a billion. And currently raising fund one or two. For venture capital funds it's funds below 500 million. The reason for that is obviously venture funds tend to be much smaller. And it's the focus on the first or second institutional fund. And so for us we recognize that many funds bootstrap themselves or they're fundless sponsors in the early years of creating their track record. We're really looking for those funds as Sarah said that are on their first or second institutional fund. So that was a little bit about what we're doing on a going forward basis with the program. We also are working on and have taken responsibility for the previous programs, the Capital Link One and Two Portfolios that CalPERS invested in. And that was completed as of the month of October. So we're really about a month into it. We have all the responsibilities there as the fund manager so we are the entity to the Accenture in the capital link portfolio. We are representative of the LP so we will attend your annual meetings. We have an advisory board seat. Someone from our team will sit on your advisory board. But we should be your primary point of contact. And we will be monitoring the fund on an ongoing basis. And as I said, we are regularly engaging in deal flow calls with staff. Right now we have about 200 managers in our pipeline. And we have, as I mentioned earlier, we have a very broad practice in the emerging manager space. And so if you're coming in, whether you're coming in through CalPERS or another client, you're ending up getting reviewed for all the clients who have appetite for the strategies that you talk about, that we're talking about. The final page here is going to be hard to read but I'm happy to send this to everybody. It's just our contact list of everybody on our team and how to get in touch with them. Whether it's, you know, the investment side of the house, legal accounting, investor relations. Again, it's very much an open door policy and you're welcome to reach out to anybody on this list. And with that I'm happy to re-engage and start the questions again.

Joe Dear:
Questions. Please.

Male Audience Member:
Hi. Two questions. Where does growth equity fit in that asset allocation of buyout venture, etc. And the other question was institutional investors or sponsors, how do you think about strategic investors in a fund?

Kelly Williams:
So within the allocation that we are articulated and staff can speak to this as well. It kind of depends, you know. We've tended to see some people who have been traditional venture investors cloak themselves in the growth equity moniker just because there's a perception that there's more capital for that. We tend to look at growth equity really in the buyout category. And again it depends, it really depends on the strategy and we look carefully. But when we're talking about venture, we're really talking about true venture more early stage investing. When you're talking about a strategic investor, again it will depend. But I think from our perspective, we're looking for an institutional quality investor in terms of what type of terms are they negotiating with you, what's the governance look like in the fund. We really want someone who we view as our peer as well particular as limited partners in your governance, to the extent appropriate. But we want somebody who really we think is a like-minded investor alongside of us.

Male Audience Member:
(indiscernible). How do we learn more about your new VC program?

Kelly Williams:
I want to make sure I heard you correctly. How do you learn more about?

Male Audience Member:
New fund-to-funds venture capital size, there was 500 million mentioned.

Kelly Williams:
Sure. So again the, as I mentioned for venture capital specifically, of the $100 million we've allocated up to 10 percent. So up to $10 million probably will translate into two to three commitments depending upon the fund size and the

allocations. And we're looking for funds 500 million and under in terms of target capital size. And it has to be Fund One or Two.

Joe Dear:
Do you have a question?

Male Audience Member:
Again for Kelly. Just your bite size for an investment through your fund-to-funds. And that buyout…

Kelly Williams:
Sure. So, so if we just talk about the CalPERS program, and given that it's a $100 million allocation, and as I said probably somewhere between 12 and 15 managers, for the venture side, smaller bite sizes, probably $3 to 5 million. The buyout or special situation side, you're probably talking somewhere between 6-1/2 to 10, depending upon the size of the fund and the allocation.

Pilar Avila:
Speaking of the theme again, show me the money. You know, we really appreciate the program with Credit Squeeze. And Joe you alluded to your process, your (indiscernible) additional commitment from CalPERS whether it's the fund-to-fund programs which we hope will he more robust because the opportunity that it's more robust than the program is right now, and also you're looking at a direct, potentially a direct program. So is there a particular timeline that you're looking at in terms of announcement of new capital allocation?

Joe Dear:
Right, Sarah in her presentation actually alluded directly to that project so it's the end of the first quarter of 2013. I knew you were gonna pin me down. I just…

Female Audience Member:
So Kelly, can you talk a little it about the sort of commitments to diverse managers and how that connects with your program and the $100 million capital commitment?

Kelly Williams:
Sure. So again, the program that we manage and I think Sarah talked about this, is purely emerging managers, the definition is really based upon the size of the fund and the vintage year of the fund. However, it happens to be the case that many managers that fall into that category are either diverse managers, they're managed by women or minorities, or they have as part of their investment strategy, investing in underserved capital markets. And it just so happens that the investing in diverse managers, or the emerging domestic managers, or whatever terminology you want to use, happens to be an expertise of our team. And so we're really looking at every manager in that marketplace. And so as part of our job to look for the very best managers for the CalPERS program, we are by

definition looking at diverse managers as well. So it's not, there's no target, there's no specific percentage of the portfolio that's been articulated. And actually as Sarah said, can't be but it's definitely a robust pipeline for us.

Male Audience Member:
Hi. I want to address a question that seems to be kind of the elephant in the room which is around the venture capital world. So I think Joe earlier in your presentation you mentioned the allocation's gonna go from 7 percent to 1 percent over the next several years. It strikes me as if there's maybe an opportunity that's being missed around venture capital. So in a sense what's happening is the allocation's is gonna get lower and lower. The definition of emerging manager really is a firm that already has a track record, and yet when you look at what's going on with venture right now, there are a couple of things happening. The firms that are in many ways the most interesting are the micro VCs. These are people, these are funds of 25 million to 50 million so they would fit into the emerging manager category in terms of assets under management. They're the ones that are taking the great risks in many cases. And they're not subject to what I refer to as kind of the retirement factor with the firms that are on the list, you know, the Sequoias and the Kleiners of the world, the firms that everyone is clamoring to get into. Is there not a bit of an opportunity being missed to fund these smaller earlier stage, fund one funds that are really taking the risk. And the best example of that I'll make is Facebook. And I'm currently in Boston, I'm a California native, but the point I make to people is that Facebook at $50 market cap, there's not a single dollar of Boston money in there. So the traditional Boston firms that were much more established missed the opportunity. The firms that put the first money in, were Peter Teal's Founder Fund, technically a micro VC. I'm wondering is that potentially where the venture capital model for CalPERS could go? Sorry, long question.

Joe Dear:
No, it's a fair question. I know, I tried to be as direct as I could be about where venture is and if you're in venture space that's not an encouraging answer, I understand that. Are we gonna miss something by not funding the next Sequoia or Kleiner Perkins because we're not trying that hard? Yep. We will. I mean that's one of the consequences of the strategies that we're going to be strictly opportunistic. Getting at funds of $25 or 50 million, so we're not going to be more than 25 percent, so we'd be 12-1/2, so a million is partly just a staff capacity issue. So the way we'd have to approach that is through a fund-to-funds and you've heard Kelly say that CFIG is open to that. I'll grant you that $100 million isn't gonna go far over four years, which is why we're addressing that topic in the next quarter, and why we're looking at both direct internally run programs or a fund-to-funds approach. But this is, sometimes size is a huge advantage for us. And sometimes it's not. And in venture it's just not. I think the other characteristic of venture capital that's important is unlike most other fields of investment, where additional capital will expand the opportunity set, more money into global equity allows you to move into frontier markets if you think you

don't have an opportunity in emerging markets. For example, fixed income those markets are huge. Real estate. But increasing the supply of capital into venture capital doesn't affect the supply of investable ideas. And that really makes that category different and more difficult I think. So there are cases in venture capital where the best thing to happen is there are fewer investors and there's less capital available. Now we'd like to be the ones that would, you know, have everybody else leave and then we stay. But we don't think that's happening. So, we're moving back to this strictly opportunistic approach. Opportunistic doesn't mean nothing, never ever again. It just means it's going to be a much higher bar and we're going to devote our time and attention to the other elements of the portfolio where we think we have a better advantage and our time and effort is more likely to yield the result that helps portfolio performance.

Female Audience Member:
There's no way I'm going to be as articulate as that question was. That was a great question. In the main presentation, when you defined emerging managers, at one point you did sort of call out how many were women-owned businesses and then you listed I think African American, Latino, Asian and Native American. All things, I understand your fundamental criteria has to be met obviously, but is there diversity within your emerging managers. Do you considered how many of each of those categories are within the portfolio?

Sarah Corr:
So we're actually prohibited from doing that by Prop 209, which does not allow us to make that a criteria in the decision making process.

Male Audience Member:
Coming back to venture capital. Maybe more to you Kelly, it sounds like you have other groups reaching to you as well as CalPERS. And kind of coming to you with money. I think one thing from the venture side is that I hear what you're saying Joe and it sounds appropriate, but it also sends a statement to the entire investment world that you're interested in VC and therefore they're not interested in VC. Therefore nobody's interested in VC. And you know, there's a lot of economic indicators that are based on how much VC money comes into an area. So it seems like there would be a great opportunity if there was a chance to reach out more broadly through groups like Kelly. So, I guess the question is to you Kelly, do you feel that sort of a greater number of folks are approaching you with small amounts of money, but as you pull it together it does make it more significant?

Kelly Williams:
Here's the observation I would give you and this is again to reiterate what we said before. And I would agree that other question that was posed was very well put. The challenge that many of our clients who are either large pension plans or sovereign wealth funds have is that even if they could get into you know Peter Teals Fund or the next Peter's fund, and even if you could make four x their

money, in a $25 million fund you'd probably elect to put in at most five million bucks. And so that four x which is extraordinary, or even a ten x which is extraordinary, doesn't move the needle on the $233 billion that Real articulated at the beginning. And so it's not a qualitative assessment or qualitative judgment I think by any of the clients, it's just sort of owning up to the fact that if they could, even if they could get into those investments which is very difficult to do, it isn't necessarily the most rational use of their capital. And you know, what you saw in the late nineties and early 2000's, before the first internet bubble burst, was pension plans, you know, chasing funds, begging to get in as Joe said, is necessarily putting more capital and expanding the market wasn't necessarily a good thing because you ended up with a 10 or 15 me too companies which then failed. What I see happening, what my partners and I will tell you is that the interest on round venture capital seems to be more regionally focused. And so the argument that you just made around economic stimulus seems to come from more around investors, whether they're pension plans, they're angels, they are corporates, who within their own state or region see the opportunity. And it's less from an emerging manager standpoint. But it's much more regionally focused. And so we manage a number of programs around the country for states that do want to fund that type of economic, that type of investment and see real opportunity, and frankly have made pretty good returns. But it's sort of with VCs in their own backyard.

Joe Dear:
I want to amplify this because there is a public policy element to this. We got frustrated by public policy. We had a commitment to large fund, well known, spun out of a venture capital firm. Right at the leading edge kind of investment. The FCC adopted it's pay-to-pay regulations and said if you give money to politicians in a state where those politicians have an effect on the composition of the public pension plan board, you know, you're limited to 250 bucks or something like that. So we got kicked out of the fund because the head of that firm decided he wanted to be involved in California politics. I think, given the interest here in California and in the home states of other pension funds of what can public pension fund capital do to help with economic development, job creation, minority enterprise development and, you know, geographic interests, that the issue's not going away and we're very careful of CalPERS and our Board is really interested in what we can do for California. That's why we said we haven't, you know, it's not no venture capital, we have to do it where it makes sense. But from my experience in this field, there are a number of issues about financing new businesses for which even venture capital is not the complete answer. And as you must know, those of you in the field, you know, from technology to clean tech to bio tech, really different industries and funding requirements, and within bio tech, drug discovery versus devices require different forms of capital. And some of them may not all be appropriate for public pension funds to find. And some may be. But that valley of death that the entrepreneurs talk about between the angel and the venture and the institutional and how to get it across is a real issue in terms of how to encourage stimulus. So we may not be direct funders of this

but we're certainly interested in public policy issues around that because I don't care what problem you talk about with respect to investment, jobs, economic development, better economic growth will make the solution, which is the easiest one to implement. And so CalPERS through its public policy efforts will continue to participate. So you know, I don't want to, you know, we're not giving up entirely, we're interested in the issues but we need to do what's appropriate for our investment program.

Real Desrochers:
If I may, CalPERS, when we did the restructuring program, we really looked at the venture capital industry. And it was very well said what's happening today. But this is an industry that is contracting, that's one thing. And when we look at the CalPERS still has an exporter over $2 billion to the venture capital industry. We're not out of the industry because most of the people will know that (indiscernible) managed I think close to $3.9 billion of venture capital. When we look, we look back, is there a lesson learned, and when what shall we be doing going forward. So we said we're still involved there to the extent we have CalPERS has these assets. I think there is differently, I agree with you, there's change in the industry with the structure of the industry. There's a lot of (indiscernible) found in all that. But, the point I want to make it was very, and the Board asked us, would you really want to move from 7 percent to the 1 percent. And CalPERS still has assets there, lots of asset. And I think it's so many things you can do in any one given years, so, but that's, that's part of the review also that we do.

Male Audience Member:
Hi. What about emerging managers that deal in emerging markets?

Real Desrochers:
We, we look at that like it's part of the, like as Sarah Corr was explaining, CFIG has a domestic mandate but CalPERS perspective is to look at the emerging manager along the criteria that we have put in the portfolio. Where they are, and they were, I think were very publicly. We did one commitment we did this year to a group called PAG which is specific with $100 million commitment with not well established but a first time firm. It's a long answer to a question. We look at that along the criteria that we have, we did one. As we did graduate it, also a manager clearly from a CFIG which is not emerging market but based in Los Angeles here.

Kelly Williams:
The only other thing I would add is as you probably know because those of you who practice in the emerging markets, many of those funds by definition are also emerging managers. Just because you know, there haven't been that many funds. And so I think for all investors who are looking at emerging markets, they are by definition directly looking at emerging managers because it's often a first, second or maybe third time fund.

Real Desrochers:
And we have also in the portfolio fund-to-fund, 57 Star, that's their job, that's what they look for also. And we're looking to graduate some of the people from these fund-to-funds.

Male Audience Member:
Hi. Rashid (indiscernible) from Lexington (indiscernible). I just want to go back to the CalPERS side of the table and talk about the emerging managers part. I hear you're saying you're looking to make $100 million in the emerging manager first or second time fund. Coming out of this last three-four years where the emerging managers to be raising any money has been difficult. Would there be an opportunity to work with CalPERS in a separate type of situation? And looking at your numbers as well where most fees your emerging managers segments is trailing the emerged managers segment. For emerging managers to have CalPERS be part of their people, is good enough right? Once you come in, a lot of others follow. Would you look at opportunities where you come in and no fee arrangement or come in a special account situation, where your (indiscernible) is different but it also makes economic sense for CalPERS. Because you own more than just your LP return.

Scott Jacobsen:
I think it's a great question. Look, we're cognizant that CalPERS does drive a lot of value in the industry and I think one of the things that we've tried to do as good fiduciaries is figure out how we can capture more of that value internally as opposed to having it go to our external partners. You know, when Real joined the organization I think we got a lot of press around our focus on fee reductions and other things. And that's certainly important in any situation. But at the end of the day it's performance, net performance is critical to the overall system. And so you know, we would have to look at the situation on a case-by-case basis but you know, I think it's safe to say that we're open to unique structures and unique opportunities as long as it drives performance for the system.

Sarah Corr:
One observation I would make to those of you who are emerging managers, is it's certainly the case we've seen in the last couple of years that some of the more successful emerging managers in terms of both track record and subsequent fundraising, are managers who found a strategic partner to fund them in their first, you know, professional fund. And either funded all of the capital or a large proportion of the capital. In none of those cases are they pension plans. They're often either a hedge fund, a family office or high net worth, who are often willing to take that additional infrastructure risk. But I think I would agree with Scott that you know, all investors are looking towards new and innovative ways to capture return and also to also reduce their fees. But I will tell you there have been a couple of very, very successful emerging managers who started their business just that way.

Male Audience Member:
…CalPERS view on direct secondary and secondary investments. And a second question, how many emerging manager commitments has CalPERS made in the secondary business, secondary private equity?

Scott Jacobsen:
So the first part of the question is how many direct secondaries we've done. We have done any direct secondaries. If you mean by that buying securities of individual portfolio companies from general partners. We haven't done that. We've been active in the secondary fund market, mostly recently as a seller of some of our underperforming relationships. Going forward, we look to be a buyer of fund interests for situations where we can increase our exposure to top performing managers. The second question, second part of your question, I'm sorry?

Male Audience Member:
… emerging manager commitments have you made in the secondary business?

Scott Jacobsen:
Yeah, well I guess we could go back…

Sarah Corr:
So we've backed one secondary fund that was an emerging manager. W Capital. W Capital.

Pat Miller Zolar:
Hi, I'm Pat Miller Zolar with Newberg Fermin. Co-investments. There wasn't very much discussion there. Co-investments I think clearly represent an opportunity for additional return, especially in the emerging managers space. What's your posture there?

Scott Jacobsen:
Sure. We are in the co-investment business. It's actually an area of focus for us. We expect to increase the number of co-investments that we do going forward. With all of our partners, not with just our emerging manager partners. It is an area where we believe we can improve our performance and reduce our fees in a meaningful way. But we look at every situation, you know, on its own merits. So we actively encourage our partners to bring us co-investment ideas and we evaluate them in much the same way that we evaluate a fund investment.

Riah Mohammad:
Hi. Riah Mohammad, Old Brass Partners. Just had a question around the secondaries going back to that. So are you interested in secondary funds going forward, from a standpoint of allocation, or are you interested more on a co-investment side? It sounds like both?

Scott Jacobsen:
Yeah. So for a fund, a fund commitment where the fund's focused on buying secondary interests, we have not made commitments to that segment of the market recently. We have historically backed some secondary funds but we're gonna start doing those more directly going forward.

Real Desrochers:
If I may, the interest would be for CalPERS if you look at the, if we were to go back to the chart where CalPERS committed $35 billion over a three year period, 2006, '07 and '08. And $5 billion the next four years. For vintage diversification, we should be buyer of some of the vintage year probably, 2009-2010, it just would make a lot of sense for the portfolio to have the proper diversification. And that would be done probably through direct secondary. So we have that on our radar screen. Looks like, one last question here. I'm sorry? This gentleman here?

Male Audience Member:
Going back to your co-investment appetite. Are there any specific industry where that appetite is greater than in others?

Scott Jacobsen:
No. I mean we analyze it in much the same way. When Sarah looks at the overall portfolio, we look at it on a number of different metrics, including pie industry. So the first thing is are we overweight or underweight in this industry relative to our benchmark. And then we look at the fundamentals of that industry just like, you know, any of you would. Is it an industry where we see the general partner having some unique competitive advantage. Is it an industry where you know, there's you know one principal participant who is far and away the leader in terms of market share. You know, how capital intensive is the industry. Is it gonna require a lot of capital going forward. So basic industry analysis like, like any of us would do analyzing any investment. we'd go through with every co-investment.

Joe Dear:
This was also implicit in the earlier question we have about co-investment. And it ties back to something that Real mentioned and we haven't talked a lot about today. In the event that your fund is selected by CalPERS for investment, the next thing you'll hear from us is the economics of the investment. We really are focused on fees and one of the easiest ways to change those economics more favorably is through co-investment on a no fee-no carry basis. So under Scott's leadership we're beefing up our whole co-investment program and as we have discussion with partners, we talk about how much co-investment we could get, as a result of our investment in their, in their fund. Now no fee-no carry doesn't mean free, because co-investment carries with it some concentration risk, and it carries in some circumstances a risk of adverse selection. Our own experience with co-investment is we ended up with a sort of I don't know, dog's breakfast of

co-investments. You know, some of the biggest buyouts of the bubble era are in there, and they're not doing so well. So we are trying to think about it from a portfolio standpoint and Scott listed the elements that we think about. So yes, we want to expand co-investment, but we want to do it, we want to do it thoughtfully. And reap the benefits from both sides. To try to amplify a little but more clearer something that was said earlier about investing in funds that concentrate on secondary investments, that's when we were probably not in the market right not. In the market right now doesn't mean we'll never be in the market, but this does appear to be an area in which some direct work by our staff can be done and the economics of that are always more favorable for doing the work internally.

Real Desrochers:
I would like to take this opportunity if I may to acknowledge Christine Gogan that has been sitting there and didn't say a word. And that's to speak probably to the process that we put in place. We have presented to the Board a portfolio construct that you've seen here. Where we say because it's big, it's 60 percent buyout, 15 percent growth, 15 percent credit, less than 1 percent VC and 10 percent opportunistic bucket. That's important. We have a road map as to where we want to go with that. The other thing that has been very important and it's to Mike here, the process that we have in place. We call that investment review committee private equity. The three senior portfolio managers and their staff, we are brought on board a lot of (indiscernible) function. And this is Christine Gogan's job here to do that. And we really look at what we have in the portfolio. We really worked, tried to work together as Sara's research and analysis, and there's no deal that gets to be approved without having what I call a risk memo. So we have someone, she is not independent, she is part of the family, but when we look at a deal, I wanted to have someone that say hey you guys are, if you look at this and that, and Scott alluded to that in the co-investment, concentration risk, vintage year, diversification, sector exposure, this is really a ruthless process. And this is being wrapped also by the (indiscernible) office and Mike Moy, as he explained from the policy compliance. So there were lot of change but I'm seeing a lot of work to acknowledge Christine that has been driving a lot of work also, because now we have in house, what we have in the portfolio, what are the, what do we need to monitor. And we still have a lot of work to do. There was a lot of work done over a year. I just thank you Christine, thank you Sarah and thank you Scott and the whole team. I should shut up and answer any other questions if you have any.

Female Audience Member:
This is for Kelly. When an emerging manager comes to you, you obviously you have the mandate for CalPERS, but you also have a number of other mandates. So how should an emerging manager think about your decision making process to whose, if anyone, you're going to put into their fund?

Kelly Williams:

Thank you Jerry. I mentioned this obliquely before but let me be very specific. When you come to us and regardless of which one of us you connect with, we consider you not just on behalf of the client but that you were referred to by, but on behalf of all clients who have an appetite for your strategy and as Jerry mentioned, we manage a number of emerging manager strategies and so we would consider you across all of those mandates. So, no one should feel like oh well, you know, we call Jason, we met with Jason for CalPERS, but now we've talked to Stewart Bernstein over at Texas Teachers who's a Texas guy or gal. you don't have to do that. We're a one stop shop. We are looking at your across all of, all of the mandates. And that's one of the benefits is that we do, we do have an open door policy and once you come through that door, you have access to be considered on behalf of all the capital that we managed.

Male Audience Member:
So you talked about co-investment. I'm curious if there's any relationship on the co-investment side through the fund-to-funds especially in some of the smaller VCs that will need access to greater capital as it goes along.

Scott Jacobsen:
Yeah, we do have the ability to co-invest with any of the relationships that we have through any of the vehicles. Whether it's CFIG or some of the other vehicles that Joe and Real mentioned earlier.

Joe Dear:
Any more questions? Well let me thank you all for attending this session. We hope you found this useful. These are the four key decision makers in private equity plus our partner on the fund-to-fund side. Thank you for your time and attention. We look forward to keeping in touch with you.