

CalPERS Five-Year Plan for Emerging Manager Participation

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Five-Year Plan for Emerging Manager Participation

- Legislation requires CalPERS and CalSTRS to:
 - Commence a five-year plan for emerging manager participation
 - Submit annual progress reports to the Legislature
 - Define “emerging investment manager”

Objectives of Emerging Manager Programs

- Generate appropriate risk adjusted investment returns by identifying early stage funds with potential for strong investment performance
- Access to investment opportunities that may otherwise be overlooked
- Cultivate the next generation of external portfolio management talent

Ancillary Benefit: Increased Diversity

- Women and minority managers are more likely to be emerging managers
- EM programs are likely to increase opportunities for diverse managers to manage capital for CalPERS
- Ancillary benefit of EM strategies is the potential for increased diversification of CalPERS external fund managers

Development of Five-Year Plan

- Hired RG & Associates from consultant pool
- Established cross asset class team, project milestones and emerging manager definitions
- Solicited “Top 3 Ideas” from industry associations (NAA, NAIC, NASP, AAAIM and Toigo Foundation)

Work Streams in the Five-Year Plan

- Portfolio Management: EM Programs
 - Track the performance, cost, and diversity of EM portfolio
 - Review of Global Equity Manager Development and Fund of Funds Programs
 - Report progress of Private Equity and Real Estate EM strategies
 - Establish criteria for transitioning EMs to direct mandates
 - Establish criteria for new capital to EM programs

Work Streams in the Five-Year Plan

- Portfolio Management: EM Research
 - Benchmark CalPERS EM programs design and implementation against peers
- External Outreach: Pipeline
 - Improve communication regarding investment proposal submittal and tracking
 - Improve EM information on CalPERS website

Work Streams in the Five-Year Plan

- External Outreach: Networking
 - Host and participate in workshops, webinars and conferences
 - Improve communication and strengthen relationships with stakeholder organizations

Emerging Manager Definitions

Emerging Manager definitions are established by each asset class. Programs may seek emerging managers domestically or globally. All program reporting will distinguish between domestic US and international emerging manager exposure.

Asset Class Parameters	Global Equity	ARS	Global Fixed Income	Private Equity			Real Assets
	Fund of Funds	Fund of Funds	Direct	Direct	Fund of Funds		Mentoring Manager
Emerging Manager Program Name	Emerging Manager Fund of Funds	Fund of Emerging Hedge Funds	None	None	Emerging Domestic Private Equity Managers		Real Estate Emerging Managers
Investment Strategy	Long Only - Publicly Traded Securities	Hedge Funds	All	Private Equity	Private Equity - Buyout and Special Situations	Venture Capital	Real Estate Separate Accounts and Commingled Funds
Product Size	None	< \$1B	None	None	< \$1B	< \$500M	None
Firm AUM	< \$2B	< \$2B	< \$2B	None	None	None	< \$1B
Length of Track Record	None	None	None	First or Second Institutional Fund	First or Second Institutional Fund	First or Second Institutional Fund	First, Second, or Third Fund
Geographic Focus	None	None	None	None	Domestic US	Domestic US	Urban California

Current Emerging Manager and Diverse Exposure

- CalPERS has approximately \$10 billion currently invested with emerging managers
- This investment with over 300 emerging managers totals approximately 12% of CalPERS externally managed net asset value
- CalPERS has over \$3 billion invested with over 80 diverse investment managers totaling approximately 4% of externally managed NAV

Growth of Emerging Manager Programs

- CalPERS has committed \$900 million to emerging manager programs over the past three years
- This new or additional EM program commitment has occurred across Global Equity, ARS (Hedge Funds), Real Estate and Private Equity asset classes

Conclusion

- The ten work streams established in the Plan are a significant commitment of resources to ensure that CalPERS EM programs continue to advance investment objectives
- CalPERS Five-Year Plan provides a road map to build on our successes and identify opportunities for improvement in the future