



Agenda Item 7b

June 16, 2014

ITEM NAME: Targeted Investment Programs Update

PROGRAM: Targeted Investment Programs

ITEM TYPE: Program Reviews – Information

EXECUTIVE SUMMARY

This agenda item provides a status report on Targeted Investment Programs activities for the period of March 2014 to June 2014. This update focuses on recent changes in the Targeted Investment Programs and CalPERS Five-Year Plan for Emerging Managers.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goals to improve long-term pension and health benefit sustainability and engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs. The ability to gain stakeholders feedback can help CalPERS make informed investment decisions. Engagement with stakeholders also assists CalPERS to gain knowledge and establish collaborative relationships to better accomplish the system's investment objectives.

BACKGROUND

In January 2012, Targeted Investment Programs was created to provide centralized coordination and reporting of Investment Committee and legislative initiatives that cross asset classes and multiple stakeholder groups. Over time, the program has expanded to manage additional initiatives for the Total Fund. In April 2014, the program began reporting directly to the Interim Chief Investment Officer and broadened its responsibility to include:

- Investment Proposal Tracking System management,
- Investment Office Roadmap, business planning, and priority initiatives,
- Investment Office communication, stakeholder relations and event planning activities.

Highlights of these changes and updates on the Emerging Manager Five-Year Plan and Responsible Contractor Program are included in this agenda item and Attachment 1.

ANALYSIS

The Targeted Investment Programs continues to make progress on the CalPERS Five-Year Plan for Emerging Managers. In addition, there are activities related to the

Responsible Contractor Program on which staff continues to focus. Highlights are included below:

CalPERS Five-Year Plan for Emerging Managers

Progress on CalPERS Five-Year Plan for Emerging Managers (“Five-Year Plan”) initiatives is provided in the following sections:

Portfolio Management – Emerging Manager (EM) Program Initiatives

Work Stream 1: Establish performance, cost, and diversity of existing EM Portfolio

Emerging Manager Exposure and Cost Initiative

The Emerging Manager Exposure and Cost Report (Report) (Attachment 2) provides information on the exposure to and cost of emerging manager investment initiatives in CalPERS investment portfolio. The information regarding emerging managers encompasses CalPERS investments made through direct relationships and fund of fund advisors, including underlying funds in fund of funds. Costs are reported in three major expenditure categories; investment management fees, personnel costs, and other expenses such as consultants and travel.

Work Stream 3: Manage, track, and report progress of Private Equity (\$100 million) and Real Estate (\$200 million) EM programs

Real Estate

In May 2014, the Canyon Catalyst Fund, a California-only program, increased its commitment to Sack Properties, a woman-owned firm based in San Francisco focused on investment strategies in the multifamily property sector primarily in Northern California.

External Outreach and Networking Initiatives

Networking - Work Stream 1: Identify, host, and/or participate in EM-focused events

CalPERS Emerging and Diverse Manager Spring Forum 2014

Investment Office staff, in collaboration with External Affairs and RG + Associates, hosted the second CalPERS Emerging and Diverse Manager Forum on April 1, 2014.

The theme of this year’s event was California public pension funds and their emerging manager initiatives. CalPERS brought together its pension peers in California to discuss their views on emerging and diverse managers, as well as to provide information on the opportunities available to managers. All Forum content, including event videos, are available online and can be found on the Targeted Investment Programs webpage. Feedback from the event has been positive, including 98% of post-event participants scoring the overall agenda above average or excellent.

Participation in EM-Focused Events

Staff participated in the following emerging manager events during the last quarter:

- NYCERS Controllers Emerging Manager Conference on April 25, 2014
- Toigo 25th Anniversary Celebration LA on May 15, 2014
- Consortium 2014 on June 11-12, 2014
- Toigo 25th Anniversary Celebration NYC on June 12, 2014.

Responsible Contractor Program

SEIU and LiUNA/Starwood NYC

In May 2014, staff met with representatives of LiUNA regarding labor concerns on specific Starwood properties in New York City, which CalPERS has a minority interest. SEIU and LiUNA have formed an organization called Build Up New York with the building trades and Unite Here to work together on labor issues in New York City. Build Up New York fact sheet raises specific issues on the two CalPERS owned properties. Staff has reached out to Starwood to get their input on the matter. Staff will continue to monitor and engage.

Total Fund Labor Issues

Unite Here/Revel Hotel and Casino

CalPERS has a minority interest in Revel Hotel and Casino (Revel) through Chatham Asset Management (Chatham), a hedge fund manager. In September, 2013, staff met with Unite Here to discuss labor issues at Revel in Atlantic City. At staff's request, Chatham met with Unite Here in late 2013 and it is our understanding that there has been additional communication between the union and Chatham since that time. On May 2, 2014, Unite Here notified staff that employees at Revel have filed for a National Labor Relations Board election. Staff will continue to closely monitor this issue.

SEIU/Carlyle/Cambodia

SEIU and the Asian Pacific American Labor Alliance, AFL-CIO raised a labor issue regarding a The Carlyle Group (Carlyle) investment in Cambodia to the attention of CalPERS. Both organizations expressed concern over a Carlyle investment with Yakjin Trading Corporation (Yakjin) and news reports that linked Yakjin to the violent Cambodian military intervention to stop striking workers in January 2014.

Staff reached out to Carlyle to state CalPERS concerns and to better understand the issues. Carlyle responded that they share the concerns, and contrary to some media reports, Yakjin has reported to Carlyle that they were not involved in this tragedy, either directly or indirectly. Specifically, Yakjin informed Carlyle that they did not ask either the Korean or Cambodian governments to intervene.

In addition, staff received a letter from the International Labor Organization Better Factories Cambodia (ILO-BFC) dated May 5, 2014. The ILO-BFC is a United Nations agency responsible for addressing labor issues worldwide. The ILO-BFC letter states that the tragic events that took place outside of Yakjin on January 2, 2014 were not

caused by the factory, nor is the factory's management responsible for the unrest, arrests and detention that occurred that day.

On May 6, 2014, staff met with Michael Ring of SEIU to discuss this issue and provided SEIU with copies of both the Carlyle and ILO-BFC letters. Staff will continue to closely monitor this issue.

BUDGET AND FISCAL IMPACTS

Not Applicable

ATTACHMENTS

Attachment 1 – Targeted Investment Programs Update

Attachment 2 – Emerging Manager Exposure and Cost Report

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