



Agenda Item 9a

March 18, 2013

ITEM NAME: Targeted Investment Programs and Diversity Initiatives Update

PROGRAM: Targeted Investment Programs

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

This agenda item provides a status report on Targeted Investment Programs activities since its last update to the Investment Committee in December 2012. This update covers the period of January 2013 to the present and focuses on emerging and diverse manager initiatives, California investment initiatives, and the Responsible Contractor Program Policy.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. Stakeholder engagement results in better understanding of key issues on potential investments. Additionally, engagement with stakeholders assists CalPERS to gain the knowledge and establish collaborative relationships to better accomplish the System's investment objectives.

BACKGROUND

This agenda item is a regularly scheduled quarterly update to the Investment Committee on Targeted Investment Programs activities. Staff's efforts and accomplishments since the last update in December 2012, are detailed below for the following areas:

1. California Infrastructure Program
2. California Investment Initiatives
3. Responsible Contractor Program Policy
4. Legislation
5. Emerging Manager Five-Year Plan

ANALYSIS

1. California Infrastructure Program
 - CalPERS will host a discussion with financial advisors for California public agency infrastructure projects on April 22, 2013. This invitation-only event will be held at CalPERS headquarters.

2. California Investment Initiatives

Targeted Investment Programs and Private Equity (PE) staff have met and discussed the work plan for evaluating new investment opportunities in California. Staff will return to the Investment Committee with a progress update in the second half of the calendar year.

- Staff's ongoing outreach efforts for investing in California included participating in the following event:
 - o Socially Responsible Investment Fund Hearing convened by Assembly Member Nora Campos in February 2013.
- The *CalPERS for California Report* and the *California Initiative Report* will be presented to the Investment Committee in June 2013.

3. Responsible Contractor Program (RCP) Policy

- *Woodfield Mall*: At the December 2012 Investment Committee, the Service Employees International Union (SEIU) commented about the upcoming labor contract negotiations at the Woodfield Mall asset in Chicago. Staff communicated with all parties and discussions between SEIU, Woodfield Mall operator Simon Properties and Institutional Mall Investors are expected in the coming weeks.
- *Caesars Las Vegas*: Unite Here brought upcoming contract negotiations with Caesars Entertainment in Las Vegas to the attention of CalPERS. CalPERS Private Equity unit has an investment in Caesars Entertainment through Apollo Global Management and TPG Capital. Letters have been sent to these companies encouraging them to communicate to Caesars Entertainment the importance of remaining at the negotiating table, and of negotiating in good faith.
- *Holiday Inn LAX*: Representatives from CIM Urban REIT and Unite Here met in December 2012 to discuss service workers' complaints at the Holiday Inn LAX. CalPERS has a non-controlling 25% interest in the CIM Urban REIT, a commingled fund, which holds debt on the Holiday Inn LAX.
 - CalPERS holds a minority interest in a commingled fund known as the CIM Urban REIT. The RCP Policy provides that as a commingled fund, the investment is not an RCP investment and that CIM Urban REIT is "encouraged to make a good faith effort to comply with the spirit of the policy, consistent with the Fiduciary Duty Requirement."
 - The CIM Urban REIT only holds debt on the Holiday Inn LAX. CalPERS does not own, nor does it have an ownership interest in the asset, the McSam Hotel Group, which owns the hotel, or the Packard Companies, that operates the hotel.

- Federal lending laws limit debt holders from exerting influence or control over debtors of an asset, in this case McSam Hotel Group and the Packard Companies. CalPERS further understands that if CIM or CalPERS were to influence or direct McSam Hotel Group or the Packard Companies on these labor issues, CIM Urban REIT could lose legal protections of debt holders under lending law. CIM, and possibly CalPERS, could also risk claims of interference of performance from the owner or operator that could result in third party lawsuits. For these reasons, neither CalPERS, nor CIM, can direct or influence McSam Hotel Group or the Packard Companies on issues related to the Holiday Inn LAX consistent with the Fiduciary Duty Requirement mentioned above.
- CalPERS, consistent with the RCP Policy, has been and will continue to remain neutral on organizing efforts at the Holiday Inn LAX. CIM has also stated it will remain neutral.

4. Legislation

The role of the Targeted Investment Program has been expanded to include the Investment Office's legislative efforts. Staff will work with CalPERS Office of Governmental Affairs and update the Investment Committee on legislative-related matters as needed.

5. Emerging Manager and Diversity & Inclusion Initiatives

Progress on CalPERS Emerging Manager Five-Year Plan ("Emerging Manager Plan") initiatives is provided below.

Portfolio Management Initiatives
• Work Stream 1: Establish performance, costs, and diversity of existing Emerging Manager (EM) Portfolio - A working group of Investment Office staff compiled and analyzed data, identified key observations, and drafted the <i>Emerging & Diverse Manager Data Report</i> (the Report). Refer to Attachment 2 for the full Report. - o Staff will initiate work to establish the cost of EM programs and report the outcome in the coming months.
• Work Stream 2: Review Global Equity Manager Development Program and EM Fund of Funds Program - o Global Equity staff is working closely with all five outside investment advisors for the Global Equity EM Program on development of its restructuring plan, process and outcomes. Completion of the restructuring process is expected by mid-year 2013.

- Work Stream 3: Manage, track, and report progress of Private Equity (\$100 million) and Real Estate (\$200 million) EM programs
 - o Private Equity (PE) Domestic EM Program: Customized Fund Investment Group finalized a commitment to Siris Partners II, which is the first manager it selected for this Program.
 - o Private Equity Direct Fund Commitments: PE staff committed directly to Clearlake Capital Partners III which transitioned to a direct mandate.
 - o Real Estate EM Program: Since commencing in September 2012, the Canyon Catalyst Fund has considered approximately 200 firms of which 110 firms met EM Program criteria. After additional consideration, Canyon has presently narrowed the list of prospective emerging managers to 12. Over the course of its three-year Investment Period, Canyon anticipates committing capital to a total of four to six emerging investment management firms, of which at least one is projected to close by the end of fiscal year 2012-13.

External Outreach and Networking Initiatives

- External Outreach - Work Stream 1: Improve EM proposal tracking and communication
 - o Staff has initiated a process to improve the user experience with the Investment Proposal Tracking System (IPTS).
 - o Work includes ability to save, exit, and return to the system; improved information regarding asset class strategies; improved proposal tracking to ensure timely response; and improved communication between CalPERS and external IPTS users.
- External Outreach - Work Stream 2: Improve EM information and resources on CalPERS website
 - o Staff is working with CalPERS Office of Public Affairs on Targeted Investment Programs information to be posted on CalPERS website.
 - o The webpage will provide information on Investment Office efforts related to emerging managers, diversity and inclusion, California investment, and labor initiatives.

- Networking - Work Stream 1: Identify, host, and/or participate in EM-focused events
 - o Staff organized CalPERS Emerging and Diverse Manager Forum on December 3, 2012.
 - o The Forum was co-hosted by Legislative Caucuses and stakeholder groups.
 - o The Forum provided an opportunity to communicate Investment Office efforts related to Emerging Manager Programs.
 - o As a result of the Forum, staff initiated a series of follow-up efforts, including:
 - Conducted a survey of Forum attendees which resulted in 88% of the respondents ranking the event as “above average” or “excellent.”
 - Compiled and posted “Questions and Answers” from the Forum on CalPERS website.
 - Worked with Office of External Affairs to post a video and other key materials from the Forum on CalPERS website.
 - o Staff attended the 2nd Annual Emerging Manager Conference hosted by the Teachers Retirement System of Texas and the Employees Retirement System of Texas in January 2013

ATTACHMENTS

Attachment 1 – Targeted Investment Programs Update

Attachment 2 – Emerging & Diverse Manager Data Report

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