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**CalPERS Peer Benchmark Survey:
Women and Minority Owned
Managers**

Summary Findings

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Introduction

The California Public Employees' Retirement System (CalPERS), headquartered in Sacramento, provides retirement and health benefits to more than 1.6 million public employees, retirees and their families, and more than 3,000 employers.

As the nation's largest public pension fund, within the nation's most ethnically and culturally diverse state, CalPERS recognizes that diversity is a competitive advantage. CalPERS broadly interprets diversity to mean differences such as age, ethnicity, culture, or gender that result in diversity of thinking. CalPERS seeks diversity of internal staff, corporate boards, and external investment managers in an effort to secure high functioning teams that incorporate different ways of seeing and solving problems.

In March 2014, Callan presented the results of the emerging manager peer benchmark survey to CalPERS Investment Committee. The report on emerging manager investments was one of the work streams in CalPERS Emerging Manager Five-Year Plan, which the Board of Administration adopted in August 2012. As a result of the emerging manager survey, CalPERS engaged Callan to conduct a follow-up survey, consistent with the prior survey, to examine investment manager diversity.

This second survey focused on gathering information on the women and minority owned manager exposures of similar U.S. public pension funds. CalPERS objective is to understand investment exposures with women and minority owned managers, and the goals, governance, and operations of each program in order to learn how other programs are implemented and gain insight into the best practices of its peers.

This presentation of Summary Findings includes highlights and key findings from the survey. It compares CalPERS exposure to women and minority owned managers to its peers across asset classes.

Executive Summary

- CalPERS employs 89 women and minority managers across the total fund—more than twice the number of the next highest peer fund. The number of CalPERS external managers is more than three times the number of the next closest peer fund. As a result, CalPERS percentage of women and minority owned managers (8%) belies the sheer number of women and minority funds employed.
- CalPERS dollar investment with women and minority owned firms is the third-largest of the peer fund respondents at \$4.5 billion. CalPERS also has the third-largest percentage of externally managed assets with women and minority owned firms at 5%.
- CalPERS largest exposure to women and minority owned firms by total assets is in Public Equity (\$1.6 billion), followed by Real Estate (\$1.4 billion), Private Equity (\$1.2 billion) and Absolute Return Strategies (\$256 million). CalPERS does not have exposure to women and minority owned firms in Fixed Income.
- As a percentage of total externally managed assets, CalPERS largest exposure to women and minority managers is in Public Equity (7%), followed by Real Estate (6%), Absolute Return Strategies (5%) and Private Equity (4%).
- Unlike CalPERS, four peer funds explicitly include women and minority owned firms in their definitions of emerging managers. These peer funds' emerging manager exposure ranges from 6% to 83% of women and minority owned firms. At CalPERS this figure is 30%.

Executive Summary (continued)

- In reporting on exposures to women and minority owned investment managers, and identifying best practices in defining such firms, CalPERS is embarking into uncharted territory. Efforts to ascertain simple figures like asset balances or the number of managers employed that are majority or substantially owned by women and minority individuals will encounter challenges, such as how to define these firms and how to confirm their status.
- In surveying large, public U.S. pension funds on women and minority manager exposures, Callan found many were unable to report accurately—or even to estimate—the data requested, as many funds have been stymied in their efforts to approach identification and measurement. This is largely due to the industry practice of the ownership status of an investment manager being self-reported by the firm under its own definitions of the genders and ethnicities of their owners. The sensitivities of researching, and possibly challenging, these definitions have hampered the ability of many pension funds to report on and measure these managers with high levels of confidence.
- CalPERS efforts in producing this survey represent a step forward for the industry in identifying these challenges and creating a baseline for how investors define women and minority owned firms, and in which asset classes these managers are most prevalent. The data reported in this survey is subject to reporting limitations by survey respondents, and obtaining sufficient data across asset classes was a challenge. Many funds responded only to selected questions where they were able to give accurate data.
- By asset class, three peer funds provided investment data for private and public equities; two peer funds provided data for absolute return strategies (hedge funds), real estate, and public fixed income.

Total Fund Overview

Number of Women and Minority Owned Firms

Fund Name	External manager count across total fund	Women and minority owned manager count across total fund	Percent of total external fund managers that are women and minority owned
CalPERS	1,105	89	8%
Fund A	233	23	10%
Fund B	148	No response	No response
Fund C	300	41*	14%
Fund D	176	11	6%
Fund E	254	40*	16%

- CalPERS employs 89 women and minority managers across the total fund—more than twice the number of the next highest peer fund. The number of CalPERS external managers is more than three times the number of the next closest peer fund. As a result, CalPERS percentage of women and minority owned managers (8%) belies the sheer number of women and minority funds employed.
- Amongst peer funds, the number of women and minority owned firms ranges from 11 to 41 managers, or 11% of total external managers, on average.
- The percentage of women and minority owned firms (out of the total number of external investment managers) is generally larger than the percentage of assets they manage across funds, suggesting they tend to manage a smaller amount of assets than other managers. This is not surprising, as many women and minority firms are emerging managers that are still building their asset base.

*Figure is an estimate collected or calculated by Callan using individual asset class responses from the survey or from publicly available sources as directed by respondents.

Total Fund Overview

Investments with Women and Minority Owned Firms

Fund Name	Capital committed to women and minority owned managers across total fund (\$bn)	Market value of investments with women and minority owned managers across total fund (\$bn)	Percent of total fund assets managed externally	Women and minority owned manager assets (as % of externally managed assets)	Target allocation to women and minority owned managers across total fund (%)
CalPERS	\$5.17	\$4.50	35%	5.0%	none
Fund A	\$2.25	\$1.75	100%	4.3%	none
Fund B	No response	\$5.37	100%	13.6%*	none
Fund C	\$9.90	\$8.80	100%	6.4%	none
Fund D	\$0.89	\$0.84	100%	1.5%	none
Fund E	No response	No response	46%	No response	none

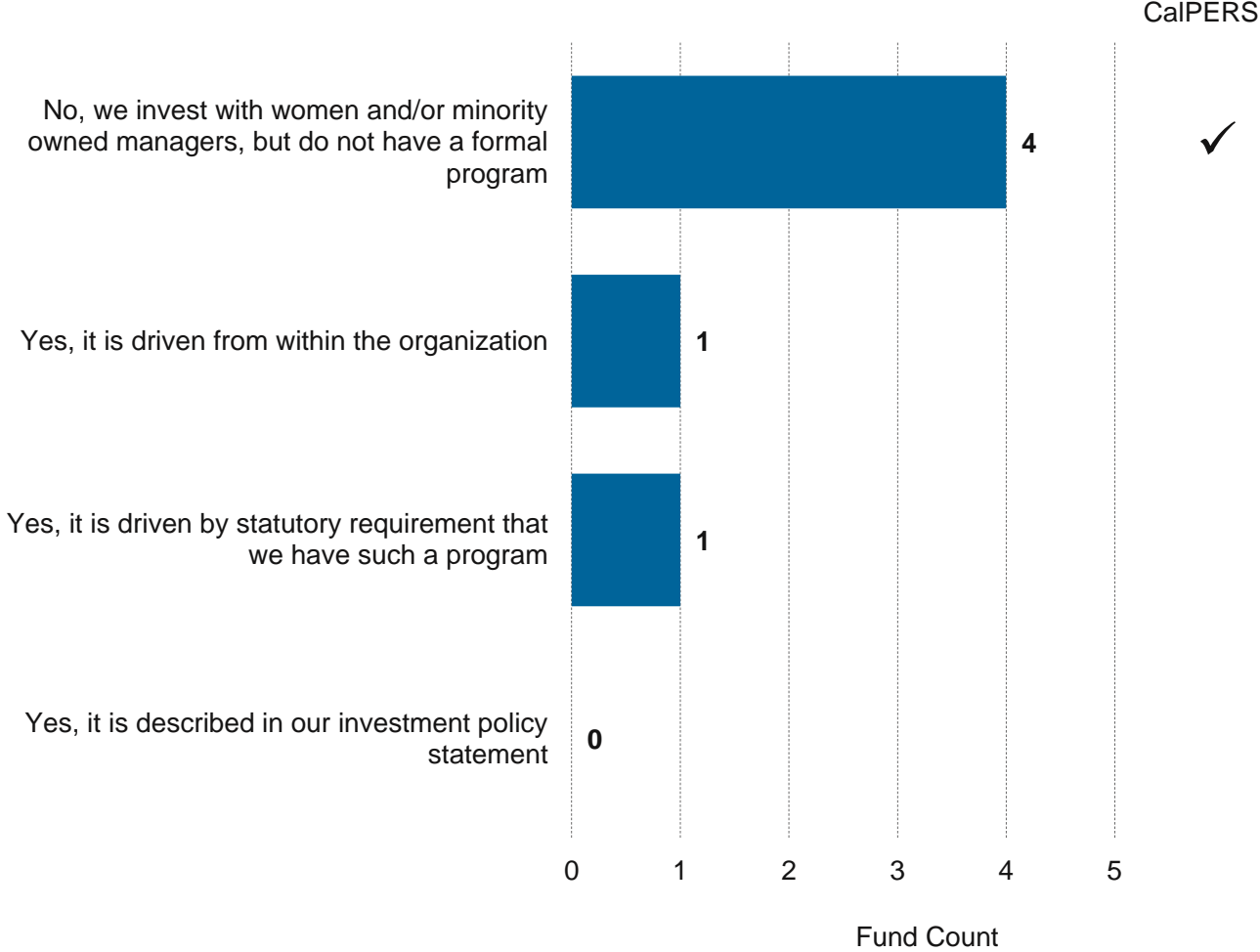
- CalPERS dollar investment with women and minority owned firms is the third-largest of the peer funds examined at \$4.5 billion. With 35% of total fund assets externally managed, CalPERS has the second-largest pool of externally managed assets amongst peers.
- At 5.0%, CalPERS has the third-highest percentage of externally managed assets with women and minority owned firms.
- None of the peer funds surveyed have target allocations to women and minority firms.

*This fund does not have an explicit target allocation to women and minority managers across the fund, but has a legal mandate to invest with these managers on a best-efforts basis with annual legislative oversight, which has resulted in a higher-than-average percentage of external assets invested with these managers.

Program Approaches

Do you have a formal program to invest with women and minority owned managers?*

- Like most of its peers, CalPERS does not have a formal program for investing with women and minority owned firms.



*Multiple responses allowed.

Overlap with Emerging Manager Programs

Definitions and Assets

Does your fund explicitly include women and minority owned firms in its definition of "emerging" managers, at the total fund or individual asset class levels?

Fund Name	Definition	Percentage of emerging manager investments managed by women and minority owned firms
CalPERS	No	30%
Fund A	Yes: "Emerging investment managers are independent firms that may not have substantial assets under management (generally less than \$2 billion) nor long-term investment. Emerging Manager Policy can include, but are not limited to minority, women and disabled veteran owned organizations."	61%
Fund B	Yes: "Emerging managers are defined as (1) minority, woman, or veteran/disabled owned, meaning 51% or greater as per the State definition, and managers that (2) might not explicitly meet the State definition, but have leading or significant minority, woman, or veteran disabled ownership and are within the spirit of the State definition."	83%
Fund C	Yes: "Emerging managers are small or minority and/or women-owned business enterprises."	6%
Fund D	Yes: "The Board may consider hiring emerging managers, i.e., investment managers with less than \$2 billion of assets under management that may have shorter track records or investment managers that are minority-owned or women-owned..."	50%
Fund E	No	No response

- California State Law (enacted through passage of Proposition 209 in 1996) prohibits CalPERS and other state agencies from discriminating against or granting preferential treatment to any individual or group on the basis of race, sex, color, ethnicity or national origin in public contracting. As such, CalPERS cannot establish any investment targets for external managers based on race, sex, color, ethnicity or national origin.
- Unlike CalPERS, four peer funds explicitly include women and minority owned firms in their definitions of emerging managers. These peer funds' emerging manager exposure ranges from 6% to 83% of women and minority owned firms. At CalPERS this figure is 30%.

Defining Women and Minority Owned Managers

Total Fund Level

Does your fund have a definition of women and minority owned managers at the total fund level?

Fund Name	Definition
CalPERS	CalPERS defines a diverse investment management business as: A for-profit enterprise, regardless of size, physically headquartered in the United States or its trust territories, which is owned and operated by women and/or ethnic minority group members. Ethnic Minority Group Members are defined as United States citizens and permanent residents who are African American, Asian American, Hispanic American or Native American based on 2010 US Census classifications. The information used to assess women and minority ownership is provided by each firm, voluntary and self-assessed.
Fund A	No
Fund B	The state of [Fund B] has a definition of Minority and or Women owned manager. [Fund B] also applies judgment in regards to definition of control and influence of minorities/women in the respective organizations. Less than 50% ownership, but with substantial control and influence, can also factor into our definition of minority owned manager.
Fund C	A business enterprise in which at least 51% is owned, operated, and controlled by citizens or permanent resident aliens who are women and who are meeting the ethnic definitions of minorities (as defined by the state).
Fund D	No
Fund E	No response

- CalPERS defines women and minority owned managers at the total fund level. See Appendix 2 for the complete definition of women and minority owned firms.
- Two peer funds also define women and minority owned firms at the total fund level.
- Neither CalPERS nor the peer fund respondents define women and minority owned managers at the asset class level.

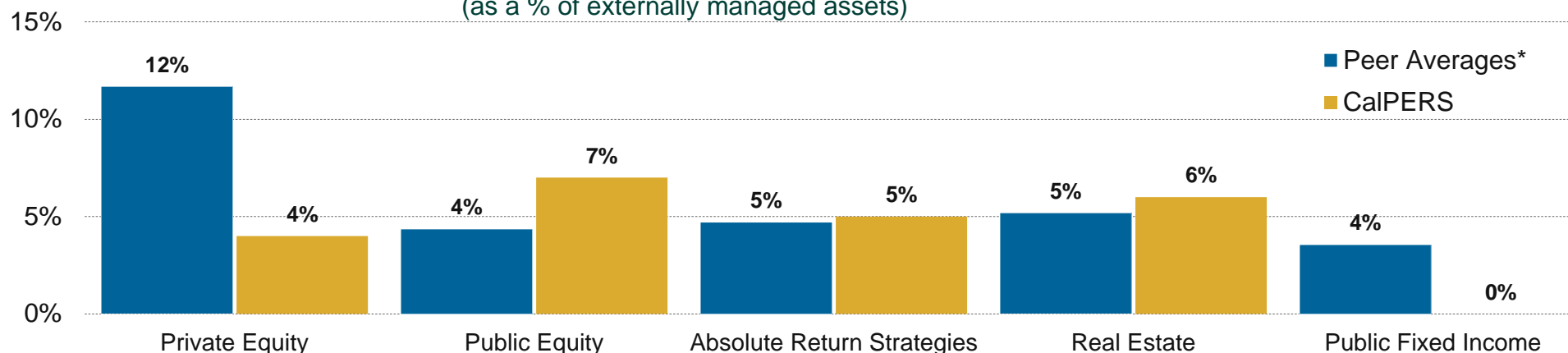
Asset Class Detail

Summary of Investment Exposures

- In this section we compare total externally managed assets by asset class across CalPERS and the peer funds. We identify the total dollar amount of assets invested with women and minority owned firms. These comparisons should not be considered “apples to apples” across the peer funds. Definitions of “women and minority owned firms” vary, and the information presented reflects each fund’s individual definition. Several respondent funds were unable to accurately estimate their exposures to women and minority owned firms, and thus did not report any data although they do have exposures.
- CalPERS largest exposure to women and minority owned firms by total assets is in Public Equity at \$1.6 billion, or 7% of externally managed assets. This compares to the peer funds’ average of \$2.3 billion, or 4%.
- In private equity, peer fund exposure to women and minority owned firms as a percentage of assets is substantially larger than CalPERS (12% and 4%, respectively). However, the difference is due to the size of the total externally managed asset pools: \$32 billion for CalPERS compared to \$8 billion peer average. CalPERS dollar investment with women and minority owned managers (\$1.2 billion) is actually larger than the peer fund average (\$975 million).
- CalPERS and peers had similar percentage exposures to women and minority owned firms in Absolute Return Strategies and Real Estate at around 5%. CalPERS does not have exposure to women and minority owned firms in Fixed Income.

Investment with Women/Minority Owned Managers by Asset Class

(as a % of externally managed assets)



*Averages include only peer funds invested with diverse managers (0% not included in calculations). Averages based on 2 or 3 data points per asset class.

Asset Class Detail

Percentage of External Managers that are Women and Minority Owned (by number of firms)

Fund Name	Private Equity	Public Equity	Absolute Return Strategies (Hedge Funds)	Real Estate	Fixed Income
CalPERS	14%	44%	79%	8%	0%
Fund A	5%	24%	2%	18%	20%
Fund B	This respondent did not provide asset class level detail.				
Fund C	27%	19%	0%	7%	5%
Fund D	5%	0%	27%	0%	0%
Fund E	12%	29%			0%

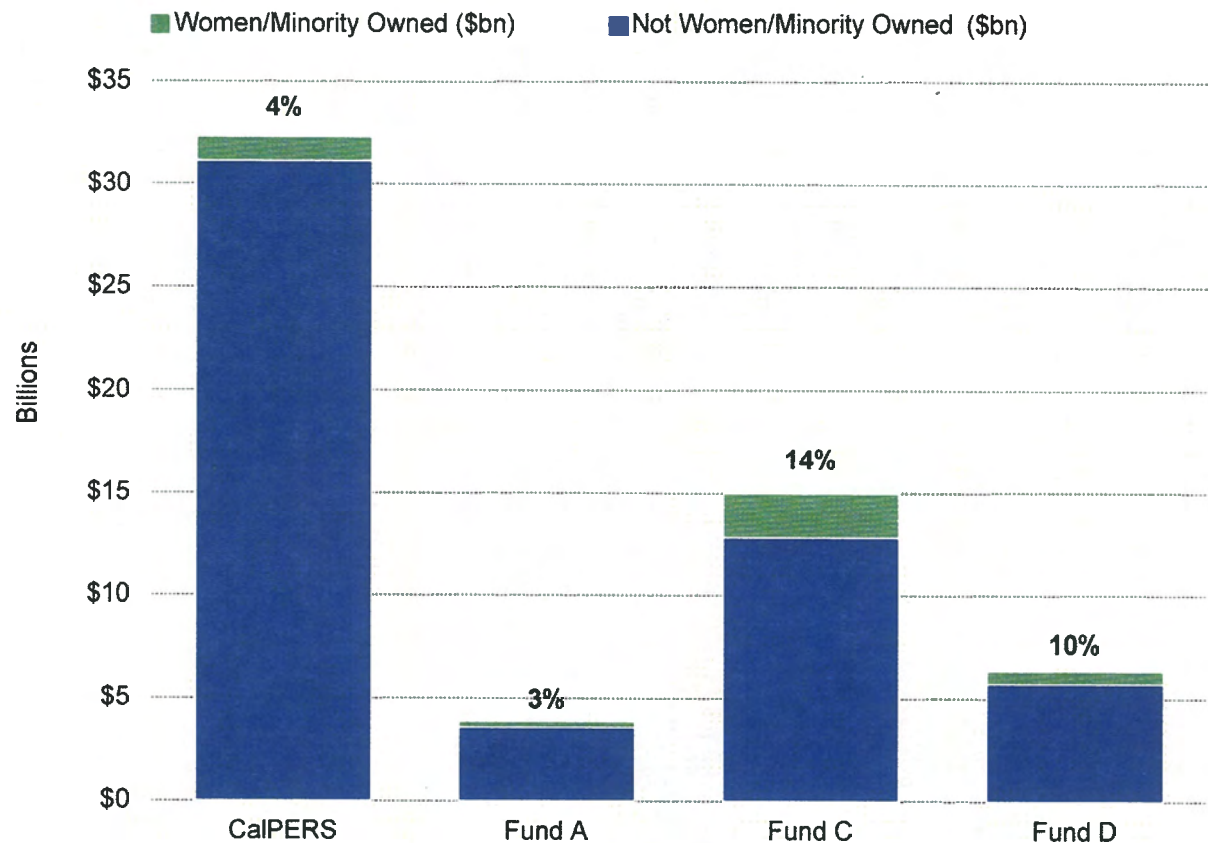
- CalPERS has the greatest percentage of women and minority owned managers (out of the total number of external managers) in Absolute Return Strategies, where 79% of external managers are women and minority owned. Public Equity is next at 44%, followed by Private Equity (14%) and Real Estate (8%). Just 9% of CalPERS public Fixed Income is managed externally, and none of the external managers are owned by women or minorities.
- Peer funds respondents percentage of women and minority owned firms vary by asset class, but generally range from 0% to 30%.

Asset Class Detail: Net Asset Value

Externally Managed Private Equity

- CalPERS has the second-largest asset value to women and minority owned firms in Private Equity (\$1.2 billion) and the third-highest percentage of the total asset class investment (4%).
- Three peer funds reported investment data on women and minority owned firms in externally managed private equity assets.
- Investments with women and minority owned firms within private equity range from 3% to 14% of externally managed assets. (Fund C provided commitment figures rather than actual investment amounts.)
- Dollar amounts of peers' investments with women and minority owned firms range from \$118 million to \$2 billion.

Women and Minority Owned Assets as a Percentage of Total



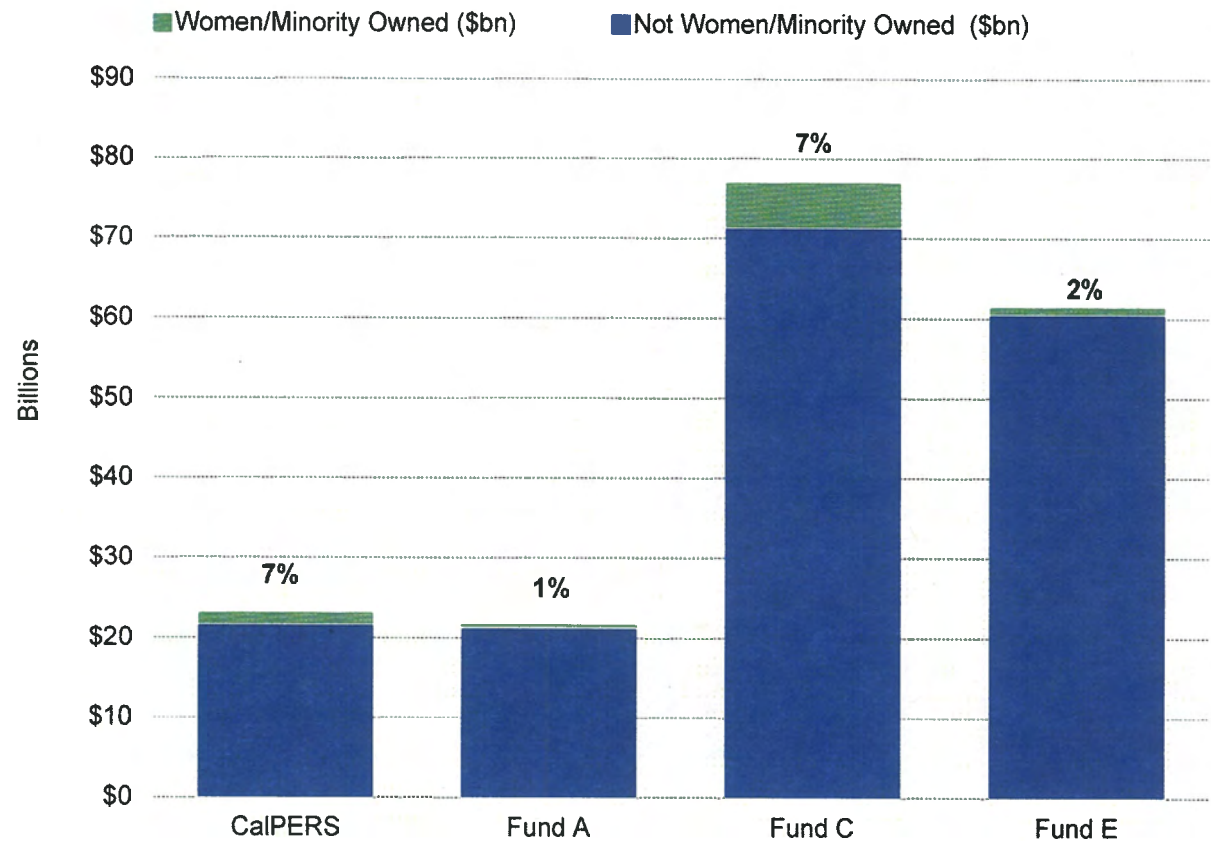
Data presented reflects each fund's unique definition of a women or minority owned firm.

Asset Class Detail: Net Asset Value

Externally Managed Publicly Traded Equity

- Only 17% of CalPERS Public Equity is managed externally.
- For investments with women and minority owned firms within Public Equity, CalPERS has the second-largest dollar value at \$1.6 billion, or 7% of total externally managed assets.
- Three peer funds reported data on investments with women and minority owned firms in externally managed public equity.
- Peer investments range from 1% to 7% of the total asset class.
- Dollar amounts of peers' investments with women and minority owned firms range from \$213 million to \$5.8 billion.

Women and Minority Owned Assets as a Percentage of Total



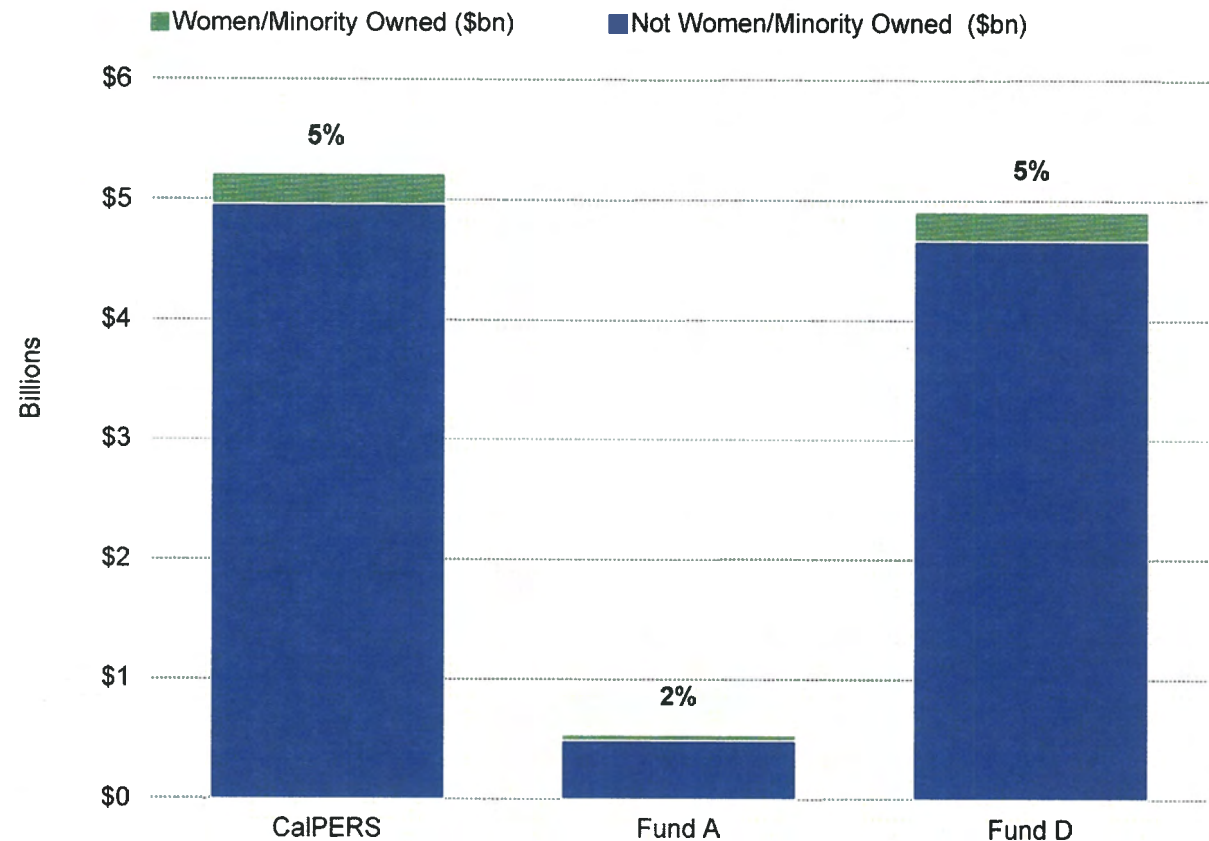
Data presented reflects each fund's unique definition of a women or minority owned firm.

Asset Class Detail: Net Asset Value

Externally Managed Absolute Return Strategies (Hedge Funds)

- CalPERS has the largest dollar value invested with women and minority owned firms in Absolute Return Strategies (\$256 million) and shares the highest percentage of the total asset class value (5%) with one peer fund.
- Two peer funds reported investments with women and minority owned firms in absolute return strategies.
- Fund A invests 2%, or \$9.8 million, of the total externally managed assets with women and minority owned firms.
- Fund D invests 5%, or \$245 million, of the total externally managed assets with women and minority owned firms.

Women and Minority Owned Assets as a Percentage of Total



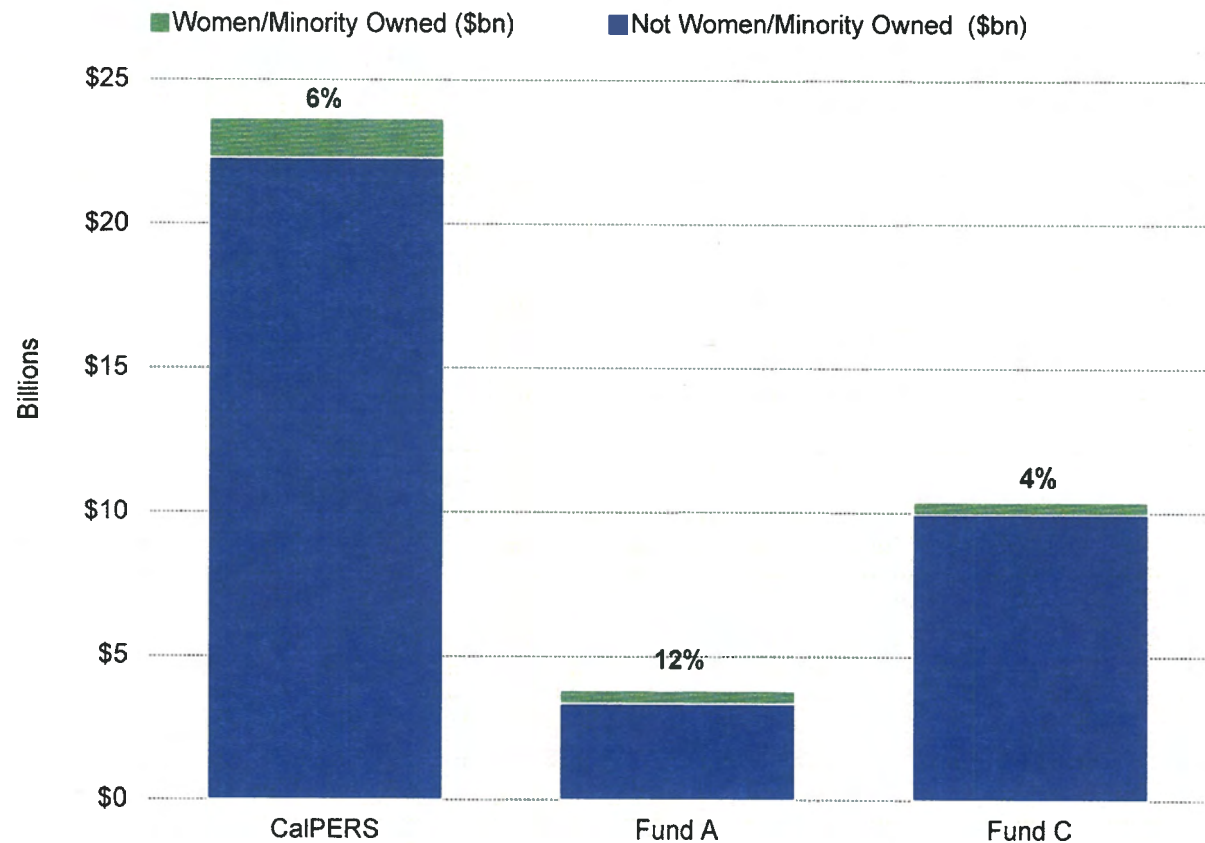
Data presented reflects each fund's unique definition of a women or minority owned firm.

Asset Class Detail: Net Asset Value

Externally Managed Real Estate

- CalPERS has the largest dollar investment with women and minority owned firms in externally managed Real Estate (\$1.4 billion) and the second-highest percentage of the total externally managed asset class value (6%).
- Two peer funds reported investments with women and minority owned firms in real estate.
- Fund A invests 12%, or \$472 million, of the total externally managed real estate portfolio to women and minority owned firms.
- Fund C has committed 4%, or \$451 million, of the total externally managed real estate portfolio (including REITs) to women and minority owned firms. (Fund C provided commitment figures rather than actual investment amounts. Fund C's totals include REITs.)

Women and Minority Owned Assets as a Percentage of Total



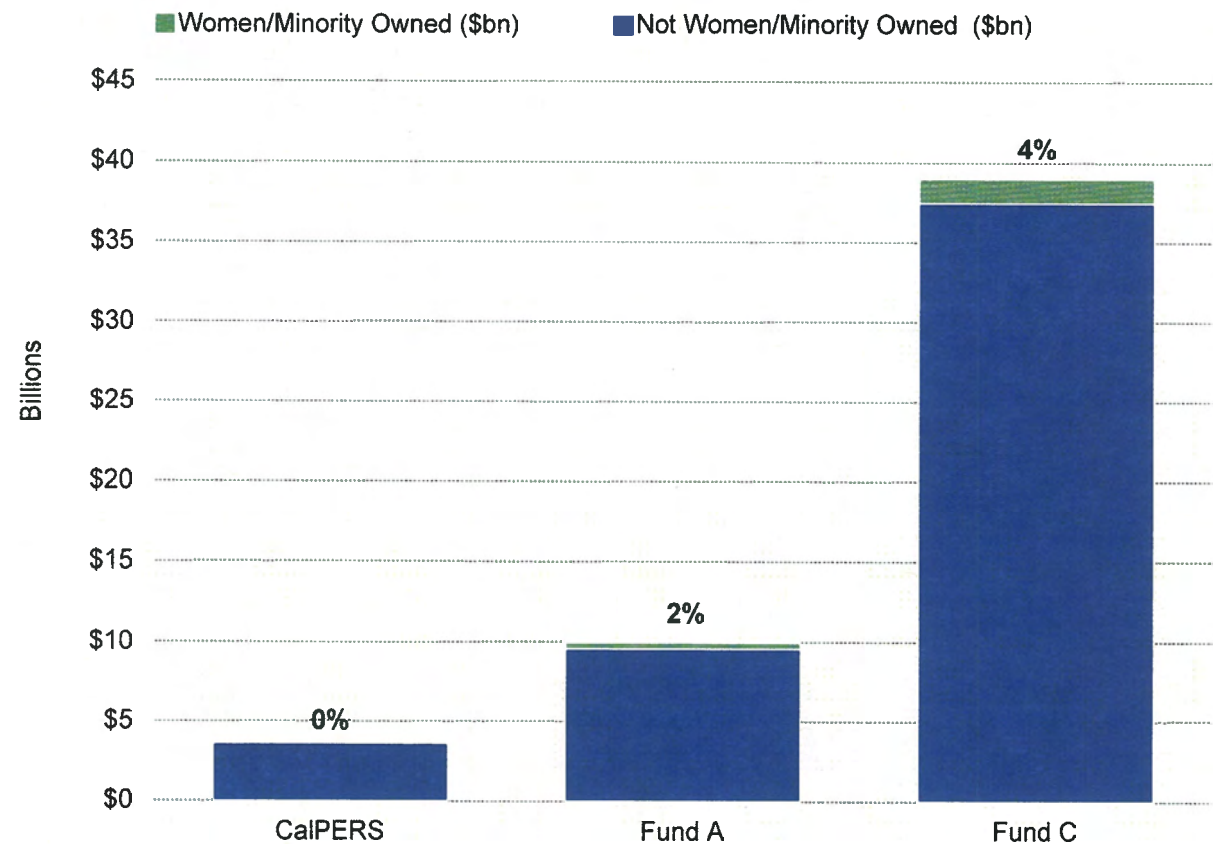
Data presented reflects each fund's unique definition of a women or minority owned firm.

Asset Class Detail: Net Asset Value

Externally Managed Publicly Traded Fixed Income

- Only 9% of CalPERS public Fixed Income is managed externally.
- CalPERS did not have investments with women and minority owned firms in public Fixed Income as of June 30, 2013.
- Two peer funds reported investments with women and minority owned firms in public fixed income.
- Fund A invests 2%, or \$215 million, of the total externally managed fixed income portfolio to women and minority owned firms.
- Fund C invests 4%, or \$1.5 billion, of the total externally managed fixed income portfolio to women and minority owned firms.

Women and Minority Owned Assets as a Percentage of Total



Data presented reflects each fund's unique definition of a women or minority owned firm.

Appendix 1

Survey Methodology

- CalPERS engaged Callan in March 2014 to conduct a survey to gather information on the women and minority manager exposures of similar U.S. public funds to follow up on a survey covering emerging manager exposures.
- The 11 institutional funds that CalPERS and Callan previously identified as peer investors for the emerging manager survey were canvassed for the women and minority owned manager survey.
- Five of the 11 institutional peer investors responded to the survey between March and April 2014. CalPERS data and peer fund responses reflect asset values and other information as of June 30, 2013, with the exception of one fund that provided data as of September 30, 2013.
- Callan and CalPERS followed up with the six peer funds that did not respond to the survey via phone, email, and in person, when possible, to solicit their input, but were unable to secure survey participation at this time.
- The survey results do not aggregate CalPERS data into averages or other calculations. CalPERS data is instead separated from the peer group to facilitate comparisons unless otherwise noted.
- The funds that responded to the survey are not identified in this report. Survey results are aggregated and specific responses are not attributed to individual respondents.

Appendix 2

CalPERS Definitions for Women and Minority Owned Firms

- CalPERS definition of woman- and minority-owned firms used in the Survey is as follows:
 - *Diverse Investment Management Business*: A for-profit enterprise, regardless of size, physically headquartered in the United States or its trust territories, which is owned and operated by women and/or ethnic minority group members.
 - *Ethnic Minority Group Members*: United States citizens and permanent residents who are African American, Asian American, Hispanic American or Native American based on 2010 US Census classifications.
- The Report data includes Diverse Investment Management Businesses in the following categories at the time of CalPERS investment:
 - *Substantially Diverse*: A firm that is 25% to 49% women and/or ethnic minority group member owned.
 - *Majority Diverse*: A firm that is 50% or greater women and/or ethnic minority group member owned.
- In private market asset classes such as Private Equity and Real Estate, Diverse Investment Management Businesses should determine employee ownership by women and/or ethnic minority group members based on carried interest participation in each of the funds managed by the business. In public market asset classes such as Global Equity, and ARS/Hedge Funds, Diverse Investment Management Businesses should determine employee ownership by woman and/or minority group based on participation in the investment advisor entity for each of the funds managed by the business.

Source: CalPERS Emerging Manager Five Year Plan.