

Emerging Managers



CalPERS has been investing in emerging managers for more than 30 years. Our approach is well-founded: Multiple studies show that emerging managers can offer outperformance, particularly in less efficient markets. Our engagement with emerging managers aligns with a unified, opportunity-driven view of risk and return across private markets. Our goal is to improve the funded status by identifying differentiated talent, accessing underappreciated opportunities, and cultivating future investment leaders.

Emerging managers are new or relatively small investment firms meeting specific criteria related to assets under management, track record length, and fund size.

CalPERS defines emerging managers as follows:

- » Public market managers with under \$5 billion in assets under management
- » Private market managers with a fund size under \$2 billion and on their first, second, or third institutional fund or separate accounts

Emerging Manager Program Objectives

- » Investment outperformance
- » Access overlooked investment opportunities
- » Cultivate the next generation of external portfolio managers*

* An ancillary benefit of the program is the increase of diverse managers to our portfolio.

Our Investment Approach

- » **Direct:** CalPERS makes these investments without intermediaries.
- » **Fund of funds:** An external advisor invests in emerging managers on our behalf.
- » **Seeding and staking:** An advisor seeds and/or purchases equity stakes in underlying general partners that meet the definition of an emerging manager.

What We Look for in Emerging Managers

- » Niche strategies or significant sector experience with demonstrated success
- » Coherent and well-executed investment strategies
- » Repeatable and scalable investment theses

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Emerging Manager Advantages

- » They can capitalize on market inefficiencies.
- » Early partnerships can lead to preferred economics and potentially higher median returns.
- » Lower middle-market segments can offer attractive opportunities with reduced competition.

Strategic Partnerships

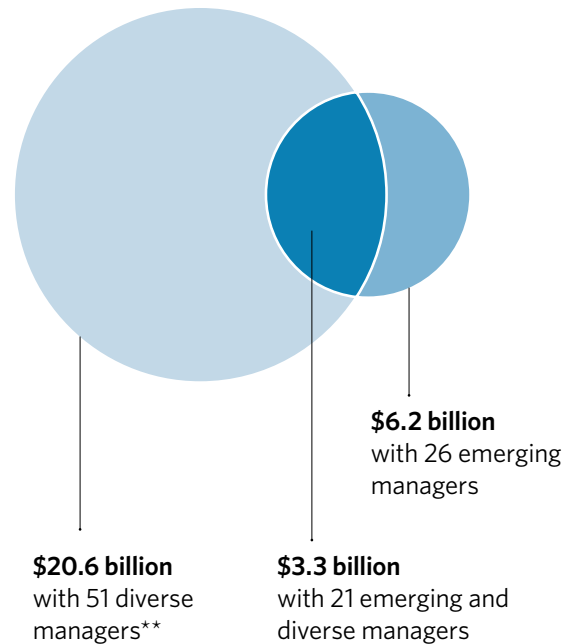
- » In 2023, CalPERS, as an anchor limited partner, committed \$1 billion to create an investment ecosystem to help emerging managers mitigate risk, accelerate growth, and deliver risk-adjusted returns. We will invest in early-stage entrepreneurs to build relationships with high-performing, next-generation managers.
- » Our commitments to GCM Elevate (\$500 million) and TPG Next (\$500 million) will provide operational support and guidance to firm founders across key non-investment functions to spur growth and foster long-term success.

Sustainable Investments (SI)

The SI team coordinates CalPERS' emerging manager strategy and is responsible for:

- » Manager sourcing
- » External engagement
- » Managing fund of fund/seeding and staking platforms
- » Driving total fund initiatives
- » Addressing legislative requirements
- » Supporting research
- » Board and stakeholder communications

CalPERS' Cumulative New Investments with Diverse and Emerging Managers *since January 1, 2022*



** A "substantially diverse" manager is a firm that is 25% or more owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community; or where the diverse members represent 25% of the fund's carried interest.

To learn more about the CalPERS Sustainable Investments Program, visit
www.calpers.ca.gov/investments/sustainable-investments-program.