



Agenda Item 6a

February 18, 2014

ITEM NAME: Annual Report to the California Legislature – CalPERS
Emerging Manager Five-Year Plan

PROGRAM: Targeted Investment Programs

ITEM TYPE: Total Fund – Action

RECOMMENDATION

Approve transmission of CalPERS Emerging Manager Five-Year Plan annual report to the California Legislature pursuant to statutory requirements of Chapter 701 of the Statutes of 2011 (SB 294 Price).

EXECUTIVE SUMMARY

This agenda item seeks approval to submit the Emerging Manager Five-Year Plan, CalPERS Year One Report to the State Legislature.

STRATEGIC PLAN

This item directly supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability.

INVESTMENT BELIEFS

This item supports Investment Belief 3: CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

BACKGROUND

Chapter 701 of the Statutes of 2011 (SB 294 Price) requires CalPERS to complete and deliver a Five-Year Plan that describes our efforts in emerging manager investing. CalPERS shall submit a report to the Legislature, commencing March 1, 2014, and thereafter in compliance with Section 9795 of the Government Code.

ANALYSIS

In August 2012, CalPERS began implementing the Emerging Manager Five-Year Plan concentrating on Portfolio Management and External Outreach work streams. This report describes progress against the work streams over the 11-month period from August 1, 2012 through June 30, 2013.

BENEFITS/RISKS

Failure to comply with the reporting requirements of Chapter 701 of the Statutes of 2011 (SB 294 Price) could result in legal and reputational risk for CalPERS.

ATTACHMENTS

Attachment 1 – Emerging Manager Five-Year Plan, CalPERS Year One Report to the
State Legislature

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EMERGING MANAGER FIVE-YEAR PLAN

Pathway to the Future

CalPERS Year One Report to the State Legislature

March 1, 2014

Cover Letter

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Section 1

EXECUTIVE SUMMARY

In 2012, CalPERS Board of Trustees adopted the *Emerging Manager Five-Year Plan – Pathway to the Future* (Five-Year Plan or the Plan – Attachment 1), which provides a strategic framework to guide CalPERS investments and engagement with emerging investment managers. In conjunction with Chapter 701 of the Statutes of 2011 (SB 294 Price), CalPERS will deliver annual updates to the California State Legislature, reporting on progress and accomplishments toward achieving Plan goals.

The Five-Year Plan includes ten work streams, organized under two areas: (1) Portfolio Management and (2) External Outreach. During Year One of the Plan, covering the period from August 1, 2012 through June 30, 2013, CalPERS made notable progress on nine of the ten work streams. Information about the accomplishments under each of the work streams is detailed in this Year One Annual Report.

Portfolio Management Accomplishments

- Publication of the *Emerging and Diverse Manager Data Report* (Attachment 2) in March 2013, which provides information on the current number, market value, and performance of emerging and diverse managers in CalPERS existing investment portfolio. Among other findings, this report shows that CalPERS currently has \$10.6 billion of assets under management by 371 emerging managers.
- Commitments of an additional \$300 million to Private Equity and Real Estate Emerging Manager Programs.

External Outreach Accomplishments

- Convened more than 300 attendees at a CalPERS-sponsored Emerging and Diverse Manager Forum on December 2, 2012.
- Hosted and actively participated in 15 emerging and diverse investment manager events and meetings, connecting with key stakeholders and providing information about CalPERS Emerging Manager Programs.
- Initiated enhancements to the web based Investment Proposal Tracking System to improve the investment proposal submittal process, as well as improve board reporting and communications related to emerging managers.

This report also includes information about CalPERS Diversity and Inclusion Initiatives which are intertwined and related to the work we are doing under the Five-Year Plan. Diversity and Inclusion projects include:

- Global Equity's U.S. Equity Broker Roster, updated semiannually, on CalPERS website, including identification of women and minority ownership information.
- Diversity and Inclusion Manager and Consultant Survey, initiated in 2013 to gather information about diversity of key competency positions in external manager and consultant firms that CalPERS does business with.

- CalPERS Investment Office expanded recruitment and outreach through LinkedIn and Professional Diversity Network. The CalPERS Investment Office now posts its recruitment notices to diversity, financial, and college and alumni websites.

Staff anticipates reporting the following accomplishments in Year Two of the Five-Year Plan, covering the period from July 1, 2013 through June 30, 2014.

- Completion of Global Equity's Emerging Manager Program restructure, which will increase total commitments to emerging managers in this asset class to \$2.75 billion, representing approximately 10% of externally managed assets.
- Convene an Emerging Manager Investment Review for Private Equity, which will be completed in March 2014.
- Complete a peer benchmarking survey and report findings in March 2014.
- Roll out of the Targeted Investment Programs web page in December 2013, which includes information of interest to the emerging and diverse investment manager community.
- Convene the Emerging and Diverse Manager Spring Forum, scheduled for April 1, 2014.
- Develop information sharing workshops for members of the State Legislature and their key staff.

INTRODUCTION

For more than 20 years, CalPERS has developed and implemented emerging manager programs, as well as invested with emerging managers. For purposes of these programs, emerging managers are generally defined as newly formed or relatively small firms. Each CalPERS asset class has emerging manager definitions based on assets under management and/or length of track record. Appendix I details the current CalPERS Emerging Manager Programs and definitions across asset classes.

CalPERS has a fiduciary duty which requires the Board of Administration and staff to work at all times in the best interest of our 1.6 million members. As such, our objective for investing in emerging manager programs is to generate appropriate risk adjusted investment returns by identifying early stage funds with strong potential for success; accessing unique investment opportunities that may otherwise be overlooked; and cultivating the next generation of external investment management talent.

California law prohibits 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 the operation of public contracting. Therefore, CalPERS may not grant preferential treatment to emerging managers based on the above characteristics. Data shows, however, that women and minority managers make up a higher proportion of emerging managers than of all external managers; therefore, emerging manager strategies can result in greater ethnic and gender diversity among CalPERS external investment managers.

CalPERS investments with emerging managers are not limited to dedicated emerging manager programs. CalPERS is committed to equal access and opportunity for all investment managers, and managers may submit an investment proposal to CalPERS at any time. To facilitate equality of access and opportunity for these managers, we use an internet-based investment proposal submittal process and apply a consistent review process and decision-making criteria in evaluating all investment proposals received. To help ensure that investment proposals are aligned with CalPERS objectives, CalPERS has made significant efforts to communicate our investment strategies and criteria for making investment decisions to the manager community, including emerging managers.

CalPERS dedication to investing with emerging managers is also demonstrated through the inclusion of the Five-Year Plan in the *CalPERS 2013-15 Business Plan* and the *Investment Office 2013-2015 Roadmap*. Both are strategic plans that detail the key priorities and initiatives of the CalPERS enterprise broadly and the Investment Office.

Investing with emerging and diverse managers is also consistent with CalPERS new Investment Beliefs. CalPERS adopted 10 *Investment Beliefs* (Attachment 2) in September 2013, which are intended to provide a basis for strategic management of the investment portfolio, inform organizational priorities, and ensure alignment between the Board and CalPERS staff. In particular, the following Investment Beliefs underpin the work in the Five-Year Plan.

- *Investment Belief 3: CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.*
 - As a public agency, CalPERS has many stakeholders who express opinions on investment strategy or ask CalPERS to engage on an issue. CalPERS preferred means of responding to issues raised by stakeholders is engagement.
- *Investment Belief 10: Strong processes, teamwork and deep resources are needed to achieve CalPERS goals and objectives.*
 - Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.

The Investment Beliefs are not a checklist to be applied to every decision. They are a guide for making decisions that often require balancing multiple, inter-related decision factors. They provide context for CalPERS actions, reflect CalPERS values, and acknowledge CalPERS responsibility to sustain its ability to pay benefits for generations.

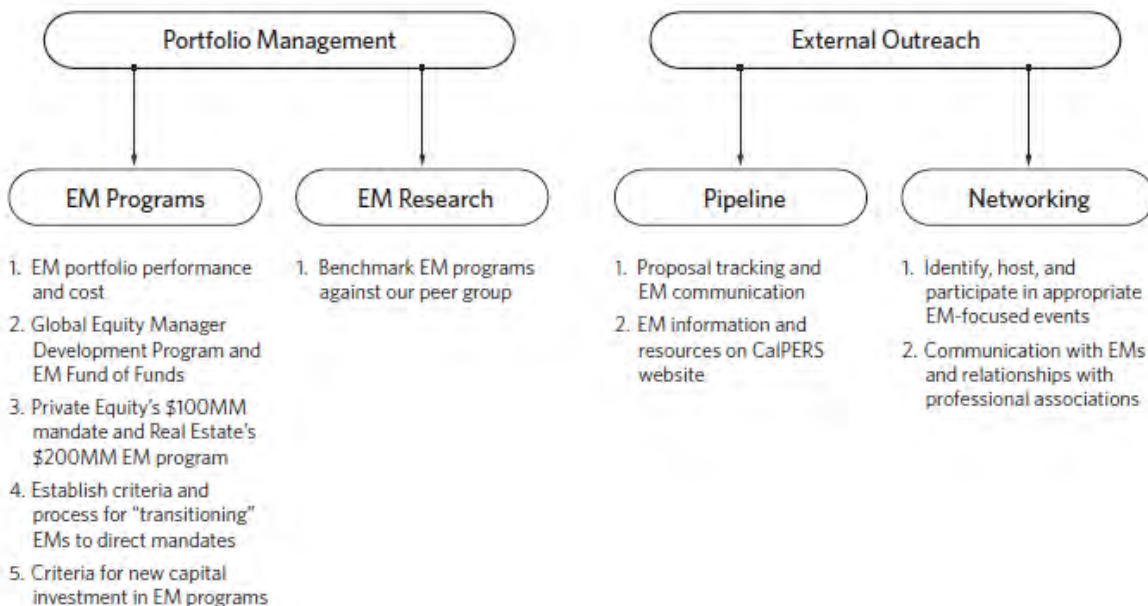
About the Five-Year Plan and CalPERS Year One Annual Report

Chapter 701 of the Statutes of 2011 (SB 294 Price) requires the California Public Employees' Retirement System (CalPERS) to develop and implement a strategic plan for emerging investment manager participation across all asset classes. In August 2012, CalPERS adopted the *Emerging Manager Five-Year Plan – Pathway to the Future* (Five-Year Plan or the Plan), as its emerging manager strategic plan. The Five-Year Plan was delivered to the State Legislature in August 2012, as directed by statute.

The Five-Year Plan details CalPERS strategic efforts related to emerging manager investment strategies in two areas: (1) Portfolio Management and (2) External Outreach. These two strategic areas are further organized into 10 distinct work streams which are detailed below in Exhibit 1.

Exhibit 1

Emerging Manager Five-Year Plan Work Streams



Development of the Five-Year Plan, implementation of the work streams, and monitoring and providing progress reports are the responsibility of the CalPERS Investment Office, specifically through the Targeted Investment Programs unit.

The Plan also requires CalPERS to submit a progress report to the State Legislature by March 1 of each year, from 2014 through 2017, with the last report due on January 1, 2018.

As directed by the statute, this report details the progress made on the work streams of the Five-Year Plan from August 1, 2012 through June 30, 2013. To ensure CalPERS is providing the legislature the most current and comprehensive understanding of our efforts under the Plan, activities that have been initiated since June 2013 have also been noted in each section as “Looking Ahead”. These activities will be captured, in detail, in the Year Two Report.

During Year One of the Plan, staff fast-tracked its efforts and made notable progress on nine of the ten work streams. Many of the work streams are inter-related, overlap, or require feedback from other work streams that are underway or are set to be completed. As CalPERS implements the work streams over the remaining four years of the Plan, there may be a need to make adjustments to the work streams or undertake efforts that are not specifically outlined in the Plan. Staff will include these efforts in the annual reporting under the Five-Year Plan.

In this report, CalPERS updates the State Legislature and other interested parties about the deliverables under the Portfolio Management work streams (*Emerging & Diverse Manager Data Report*, Global Equity Manager Development and Emerging Manager Fund of Funds Program, Private Equity and Real Estate’s Emerging Manager Programs, new emerging manager commitments, and peer benchmark review). This report also provides a progress update on the External Outreach work streams (December 2012 Emerging and Diverse Manager Forum, legislative meetings, stakeholder meetings and events, CalPERS website improvements, and communication plans).

Section 2

CalPERS YEAR ONE ANNUAL REPORT

The following details CalPERS progress on the Five-Year Plan work streams related to Portfolio Management and External Outreach. Staff is reporting on six work streams under Portfolio Management and four work streams under External Outreach.

Each work stream is provided below with its desired outcomes as outlined in the Plan, followed by accomplishments in the reporting period of August 1, 2012 through June 30, 2013, efforts initiated after the reporting period, and next steps.

A. Portfolio Management Initiatives

EMERGING MANAGER PROGRAMS

Emerging Manager Programs Work Stream 1:

Establish performance, cost, and diversity of existing emerging manager portfolio [Years 1-3]

Investment performance of CalPERS Emerging Manager Programs has been mixed. To better understand specific issues related to performance, the first Portfolio Management work stream outlined in the Plan requires CalPERS to identify performance, cost, and diversity of the existing emerging manager investment portfolio.

Desired outcomes within years 1-3 of the Five-Year Plan:

- Identify and implement a consistent and clear set of metrics to assess emerging manager program performance and cost
- Track information regarding the diversity of our investment managers
- Institute a process for evaluating emerging manager program metrics to facilitate appropriate benchmark comparisons and guide program strategy
- Develop appropriate reporting approaches for each asset class and aggregate asset class reports into a Total Fund report

Summary of Accomplishments

❖ *Emerging and Diverse Manager Data Report, March 2013*

Staff presented the *Emerging and Diverse Manager Data Report* (Report) to the Investment Committee in March 2013 (Attachment 3). This report is a significant and extensive collection of data across all asset classes, surveying nearly all current external managers in the investment portfolio. The Report provides the performance and diversity deliverables consistent with the desired outcomes referenced above and stated in the Five-Year Plan. The Report provides

information on the current number, market value, and performance of emerging and diverse managers in CalPERS existing investment portfolio, and shows a total of 371 emerging managers with a total net asset value of \$10.6 billion invested with emerging managers. The information regarding emerging managers encompasses CalPERS investments made through direct relationships including Fund of Funds advisors, as well as with underlying funds in Fund of Funds portfolios. Information regarding diverse managers encompasses CalPERS investments with both emerging and non-emerging managers. The Report provides a comprehensive review of the data collected, as well as staff observations and conclusions.

Looking Ahead:

❖ Establishing the cost of emerging manager programs

Consistent with the deliverables of this work stream, and as part of evaluating the emerging manager program performance and cost, staff has initiated the development of a report highlighting emerging manager program costs in the three major expenditure categories across the Investment Office: (1) investment management fees, (2) staff time, and (3) external outreach. This report will enable CalPERS to understand the financial and human resources required to manage emerging manager programs and how these costs may affect key decision making. Staff expects to have this report completed by Spring 2014.

❖ Establishing consistent emerging manager performance reporting into the Total Fund Report

Staff has initiated this project which will identify the necessary improvements to streamline emerging manager program data collection processes in each of the asset class. One of the biggest challenges in investment reporting is the inconsistency of the systems and data required to track portfolio performance. Unique to the emerging manager investment data collection process, is inconsistency of reporting by fund of funds advisors about investments with emerging managers and diverse managers. Staff expects to complete this effort in Year Three of the Plan.

Emerging Manager Programs Work Stream 2:

Review Global Equity Manager Development Program and Emerging Manager Fund of Funds Program [Years 1-3]

This work stream directs Global Equity staff to review their Emerging Manager Programs. Staff will review the emerging manager programs with three key goals in mind: (1) to achieve superior risk-adjusted investment returns; (2) to continue providing opportunities for new and emerging investment managers; and (3) to incorporate emerging managers into the Global Equity capital allocation model.

Desired outcomes within years 1-3 of the Five-Year Plan:

- Conduct a strategic review of Global Equity Emerging Manager Programs
- Identify a core set of high-performing emerging managers

Summary of Accomplishments

❖ Global Equity Emerging Manager Restructure Program

CalPERS, working in conjunction with its external advisors in Global Equity, has initiated a restructuring of its emerging manager program. The restructure will increase the capital commitment to emerging managers in the Global Equity asset class to \$2.75 billion, representing approximately 10 percent of externally managed assets. This restructuring is intended to better leverage the skills and resources of CalPERS advisors in identifying, selecting, and creating more meaningful relationships with high-potential emerging managers. As a result, emerging managers will be 1) better aligned with CalPERS overall investment strategy for Global Equity, 2) better positioned to deliver impact to the total Global Equity portfolio, and 3) be in closer contact with CalPERS staff.

Looking Ahead:

❖ Global Equity Emerging Manager Restructure Communication Plan

Staff engaged in significant outreach and consultation efforts with representatives of emerging managers in the Global Equity asset class, such as the National Association of Securities Professionals. This outreach process will continue in Year Two of the Plan and include a web-based seminar to communicate on the restructuring in Spring 2014.

Emerging Manager Programs Work Stream 3:

Manage, track, and report progress of Private Equity's \$100 million and Real Estate's \$200 million Emerging Manager Programs [Years 1-5]

Since August 2011, CalPERS has committed an additional \$100 million to its Private Equity Emerging Manager Program and \$200 million to its Real Estate Emerging Manager Program. This work stream focuses on ensuring appropriate management and tracking of these investments so investment performance, cost, and other relevant factors can be evaluated and used for investment decision making.

Desired outcomes within years 1-5 of the Five-Year Plan:

- Develop appropriate metrics and approach for monitoring performance and assessing the success of Private Equity and Real Estate Emerging Manager Programs

- Manage, track, and report progress on an ongoing basis to guide future investments
- Identify key success factors, lessons learned, and best practices for emerging manager program development across asset classes

Summary of Accomplishments

- ❖ Private Equity's Emerging Domestic Private Equity Program - Customized Fund Investment Group (CFIG) Finalized Commitment
 - Siris Partners II, \$9.6 million commitment to a minority-owned firm focused in data/telecommunications, technology, and technology-enabled business service companies in North America.
 - Peak Rock Capital, \$9.5 million commitment to a woman-owned firm focused on debt and equity investments in middle market companies.
- ❖ Private Equity's Direct Fund Commitment
 - Clearlake Capital Partners III, \$50 million commitment to an existing emerging manager investment relationship which was transitioned to a direct mandate with its own commitment in Year One of the Plan. Clearlake is a minority-owned firm focused on industry sectors including business services, communication, consumer products/retail, defense/public safety, energy/power, healthcare, industrials, media and technology.
- ❖ Real Estate's Emerging Manager Program – Canyon Capital Catalyst Fund: Finalized Commitments
 - Rubicon Point Partners, \$30 million commitment to a woman-owned firm focused in office and datacenter property sectors primarily in Northern California.

Looking Ahead:

- ❖ Continued monitoring and management of Private Equity and Real Estate's Emerging Manager Programs investments.

Since the close of the Year One reporting period, Canyon Capital Catalyst Fund finalized three additional commitments that will be outlined in the year two report.

- Pacshore Partners, \$30 million commitment to a minority-owned firm focused on investment strategies in the office and mixed-use property sectors primarily in Southern California.
- Sack Properties, \$30 million commitment to a woman-owned firm focused on investment strategies in the multifamily property sector primarily in Northern California.

- Paragon Commercial Group, \$30 million commitment to a firm focused on investment strategies in the multifamily property sector throughout California.

Staff will work to manage, track, and report on the progress of these investments.

Emerging Manager Programs Work Stream 4:

Establish criteria for “transitioning” emerging managers to direct mandates [Years 1-3]

The goal of this work stream is to establish criteria to evaluate emerging managers’ potential for direct investment mandates. This will be done by building on demonstrated performance and capabilities, actively managing risks, and providing a clear understanding of what is required of emerging managers to compete for additional capital.

Desired outcomes within years 1-3 of the Five-Year Plan:

- Develop criteria for evaluating emerging manager “transition” to direct mandates
- Through fund of fund partnerships and internal managers, engage with existing emerging managers to communicate the criteria for evaluation
- Track and report the number of emerging managers transitioned
- Create appropriate forums and mechanisms for sharing information on transitioning criteria with emerging managers and appropriate stakeholder groups

Summary of Accomplishments

This work stream is the accumulation of research, analyses, outreach, and strategic reviews being conducted during Year One of the Plan. As such, staff does not have specific accomplishments for this work stream to report at this time. The accomplishments and progress made on the other Portfolio Management work streams overlap with the desired outcomes of this work stream.

Looking Ahead:

Staff will continue to work on all Portfolio Management Emerging Manager Program work streams during Year Two of the Five-Year Plan.

Emerging Manager Programs Work Stream 5:

Evaluate and establish criteria for new capital to emerging manager programs [Years 1-5]

The information and lessons learned from CalPERS research, analysis, outreach, and strategic reviews will assist CalPERS in determining prudent targets for emerging manager participation. In developing the emerging manager program strategies, factors

to be considered include availability of new capital for investment, capital allocation among asset classes, percent of assets managed externally, emerging manager performance and costs, and size of the viable universe of emerging managers, while also ensuring alignment with CalPERS investment strategy.

Desired outcomes within years 1-5 of the Five-Year Plan:

- Source and review data regarding emerging manager program performance, cost, and growth potential
- Design and execute targeted research and analysis efforts to develop a deeper understanding of emerging manager performance
- Leverage internal and external insights to assess CalPERS Emerging Manager Programs and to inform the evolution of CalPERS emerging manager commitment
- Establish criteria for success of emerging manager programs
- Evaluate potential for new capital to be invested through emerging manager programs

Summary of Accomplishments

❖ CalPERS Private Equity Emerging Manager Program Consultant Review

Staff engaged Crosswater Realty Advisors (Crosswater) to review the CalPERS Private Equity Emerging Manager Program and make recommendations to the program's structure going forward. The Crosswater analysis resulted in a series of findings and a recommendation leading to the revised Private Equity Emerging Manager Program Review.

Looking Ahead:

❖ CalPERS Private Equity Emerging Manager Program Review (Review)

The purpose of the Review is to identify lessons learned and adopt best practices for evaluating Private Equity investment managers and potential commitment of new capital to emerging managers.

A consultant has been selected to provide in-depth reviews of approximately 12 emerging managers in CalPERS Private Equity portfolio with varying features and investment return results. The consultant reviews will identify characteristics or attributes that may help contribute to an emerging manager's success. These findings will ultimately be presented to a panel of industry experts selected by the Investment Office. Reviews will be presented to the panel in a workshop environment, allowing panel members to discuss and challenge the findings and, ultimately, seek consensus on best practices.

The Review will be completed by March 2014. Staff and consultants will report the findings and discussions to the Investment Committee and during the CalPERS Emerging and Diverse Manager Spring Forum, scheduled for April 1, 2014.

Emerging Manager RESEARCH

Emerging Manager Research Work Stream 1:

Benchmark Emerging Manager Program against our peer group [Year 2-5]

CalPERS is committed to maintaining leadership in emerging manager programs. This work stream directs staff to compare CalPERS Emerging Manager Programs against our peers in the institutional investor community.

Desired outcomes within years 2-5 of the Five-Year Plan:

- Create and implement benchmarking analysis by asset class for emerging manager program design and implementation

Summary of Accomplishments

The goal of this work stream is to understand and compare CalPERS Emerging Manager Programs with those of our peers. Staff has engaged a consultant to conduct a survey to help CalPERS understand our emerging manager investment exposures in comparison with our peers, understand how other programs are implemented, and provide insight into our peer's best practices.

Looking Ahead:

A survey was released to our pension peers in late 2013. Staff expects to report survey results to the Investment Committee in March 2014.

B. External Outreach Initiatives

PIPELINE

Pipeline Work Stream 1:

Improve emerging manager proposal tracking and communication [Years 1-3]

CalPERS is committed to providing equal access and opportunity for submittal and consistent review of emerging manager investment proposals. This work stream aims to improve and enhance the centralized web-based portal system through which all investment proposals are received and routed to the appropriate asset classes for evaluation. The goal of this work stream is also to educate and improve communication with potential emerging manager partners about the investment proposal submittal

process, the decision criteria and process for evaluating investment proposals, and range of potential outcomes.

Desired outcomes within years 1-3 of the Five-Year Plan:

- Develop educational materials and a more robust communication strategy regarding the process and decision making criteria related to the submittal of investment proposals.

Summary of Accomplishments

❖ Investment Proposal Tracking System (IPTS) Improvement

Staff is working to improve the web based investment proposal submission process. Besides improvements to make IPTS easier for investment managers to use, staff has created templates within the system that capture emerging and diverse manager data for improved Board reporting and manager communications. Staff is formulating new response guidelines for more constructive feedback on proposals and identifying outreach opportunities to improve communication with external managers.

❖ Emerging Manager Communications Initiative

The Emerging Manager Communications Initiative within this work stream strives to strengthen communications with emerging and diverse managers and stakeholder groups, as well as facilitate a better understanding of the IPTS submittal and review process. This work entails:

- Review and update procedures and communications strategies
- Improve overall outputs and documentation from IPTS
- Establish improved communications and feedback emerging and diverse managers on the evaluation and decision process
- Improve communications to facilitate stronger working relationships with emerging and diverse managers

Looking Ahead:

❖ Completion of the Investment Proposal Tracking System (IPTS) Improvement and Emerging Manager Communications Initiatives.

The enhanced IPTS system and Communications Initiative will be launched simultaneously in Year Two of the Five-Year Plan.

Pipeline Work Stream 2:***Improve emerging manager information and resources on CalPERS website
[Years 3-5]***

The goal of this work stream is to review and identify enhancements to CalPERS website to provide better and improved access to information about the CalPERS Investment Office, its strategies and processes, and other information important to our external stakeholders.

Desired outcomes within years 3-5 of the Five-Year Plan:

- Conduct research and analysis to evaluate relevant portions of CalPERS website, such as:
 - Outreach and analysis to understand user needs
 - Current tool capability, usability, and utilization assessment
- Define and implement required improvements for the use of the CalPERS website as a critical tool for communication and engagement with emerging managers

Summary of Accomplishments

❖ Targeted Investment Programs Web Page

Staff worked with CalPERS External Affairs to develop the design and content for a new Targeted Investment Programs web page on the CalPERS website. This site will be a central location for interested parties to find information on emerging manager investment programs, CalPERS Five-Year Plan, Investment Office diversity and inclusion initiatives, and other programs for which Targeted Investment Programs staff is responsible.

The site will also host additional information of interest to emerging managers, including CalPERS current investment strategies and opportunities, Five-Year Plan work product releases, and other programmatic areas of interest. Staff recognizes this is an important step to improve information and resources for the emerging manager investment community.

Looking Ahead:

❖ Targeted Investment Programs Web Page

Launched in late December 2013, staff will work with stakeholder groups to publicize the Targeted Investment Programs web page. A detailed report of outreach and metrics related to the site will be provided in the Year Two Report. In addition, staff will continue to evaluate, enhance and improve the web page to meet the information and program needs of CalPERS and the emerging manager investment community.

NETWORKING**Networking Work Stream 1:*****Identify, host, and/or participate in emerging manager-focused events [Years 1-5]***

CalPERS has a long history of hosting and participating in industry association events focused on emerging and diverse managers. This work stream focuses on staff's outreach efforts via conferences, webinars, workshops, and meetings to strengthen CalPERS relationships and improve communications with our stakeholders.

Desired outcomes within years 1-5 of the Five-Year Plan:

- Further strengthen CalPERS presence in emerging manager networks through industry associations
- Co-host four emerging manager investment workshops with the Legislature and CalSTRS over a two year period
- Host webinars focused on emerging managers and/or stakeholder groups
- Continue to participate in conferences and events featuring emerging manager investment programs

Summary of Accomplishments**❖ CalPERS Emerging and Diverse Manager Forum – December 3, 2013**

More than 300 attendees participated in the CalPERS Forum, co-hosted by the Latino, Black, and Asian Pacific Islander Legislative Caucuses and emerging and diverse manager stakeholder groups. During the Forum, staff shared Investment Office efforts related to Emerging Manager programs. "Questions and Answers" from Forum attendees, a video of the discussions, and key materials were posted to the CalPERS website.

❖ CalPERS sponsored or hosted Emerging Manager-Focused Events

CalPERS hosted the New America Alliance (NAA) 2013 National Tour on May 8, 2013 at CalPERS headquarters in Sacramento.

Looking Ahead:**❖ Global Equity Emerging Manager Webinar – February 2014**

Staff has developed a webinar focused on the restructured Global Equity Emerging Manager Program, as reported under Portfolio Management Work Stream 2. This webinar will be conducted to coincide with Global Equity's launch of its restructured Emerging Manager Program during Year Two of the Five-Year Plan. Staff expects to conduct this Emerging Manager webinar in February, 2014.

❖ CalPERS Emerging and Diverse Manager Spring Forum – April 1, 2014

Staff is planning its second CalPERS Emerging and Diverse Manager Forum, which will be held in Sacramento on April 1, 2014. Announcements about the upcoming event have been released to interested stakeholders and other parties. The program will highlight some of the deliverables accomplished in the Five-Year Plan.

❖ CalPERS Legislative Workshops

Staff is working with CalPERS Governmental Affairs Office to develop information sharing workshops for the members of the State Legislature and their key staff. These workshops will focus on Investment Office progress on the Five-Year Plan and other emerging and diverse manager initiatives.

Staff will continue to be available and responsive to legislative members and their staff on questions related to CalPERS investment strategies and programs.

❖ CalPERS sponsored or hosted Emerging Manager-Focused Events

Staff will continue to reach out to external stakeholders to strengthen CalPERS presence in emerging manager networks through industry associations. Staff will also continue to host and/or participate in conferences and events featuring emerging manager investment programs in Year Two of the Plan.

Networking Work Stream 2:

Improve communication with emerging managers and professional associations [Years 1-3]

CalPERS believes that constructive engagement with the emerging manager community is a critical element to continuing our commitment to emerging managers. As such, CalPERS is focused on strengthening efforts in (1) outreach, (2) education and messaging, (3) technology networking tools, and (4) ongoing communications.

Desired outcomes within years 1-3 of the Five-Year Plan

- Improve messaging materials and website for communicating with emerging managers

- Engage directly with the emerging manager community via workshops and interactions with trade and professional associations

Summary of Accomplishments – August 1, 2012 – June 30, 2013

❖ Engagement with Emerging and Diverse Emerging Manager Industry Organizations

CalPERS had multiple engagements and communications with the following major emerging manager investment community stakeholders.

- New America Alliance (NAA)
- National Association of Securities Professionals (NASP)
- Association of Asian American Investment Managers (AAAIM)
- National Association of Investment Companies (NAIC)

❖ CalPERS participation in emerging and diverse manager conferences and events

From August 1, 2012 through June 30, 2013, staff actively participated in the following emerging and diverse manager events:

- Black Economic Council
- Joint Informational Hearing Senate Public Employment and Retirement Committee & Select Committee on Procurement
- Credit Suisse Conference on Small & Emerging Managers in Private Equity, Real Estate and In-State Investments
- NAIC Annual Meeting and Convention
- AAAIM National Conference
- NAA Wall Street Summit
- The Plan Sponsor and Emerging Manager Colloquium hosted by Progress Investment Management Company
- Annual Emerging Manager Conference hosted by the Teachers Retirement System of Texas and the Employee Retirement System of Texas
- NAA 2013 National Tour
- Consortium 2013 hosted by RG & Associates
- NASP Annual Conference

Looking Ahead:

- ❖ Continued participation in emerging and diverse manager conferences and events.

CalPERS will continue to engage with stakeholder groups and participate in their organizations' meetings, conferences, and events related to emerging and diverse managers in the investment area.

Section 3

DIVERSITY AND INCLUSION EFFORTS

Staff has made notable progress on nearly all of the Five-Year Plan's work streams which focus on Portfolio Management and External Outreach. Staff undertook additional efforts related to emerging and diverse investment managers.

As the nation's largest public pension fund, within the nation's most ethnically and culturally diverse state, we recognize 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.

CalPERS is committed to providing equality of access for investment managers and are committed to open communication of our exposures, investment strategies, and criteria for investment decision making.

The projects detailed below are related to CalPERS Diversity and Inclusion initiatives, and as such, are intertwined with our emerging manager program efforts.

❖ Global Equity Internal Equity Brokerage Diversity Reporting

Within CalPERS Global Equity program, approximately 82 percent of the assets are managed by internal staff. The execution of equity trades is also a significant activity associated with internally managed strategies. This trading activity is implemented through a number of brokerage relationships comprising the Internal Equity Brokerage Roster (with separate rosters for U.S. and international brokerages). The brokerage community can apply for potential selection to the roster through a web-based questionnaire available on CalPERS website. The roster is assessed and established by Global Equity staff on a semiannual basis.

Enhancements have been established to the broker selection questionnaire to better identify and report women and minority-owned brokerage firms in the U.S. Equity Brokerage Roster.

For the first time, the U.S. Equity Brokerage Roster is available semiannually on CalPERS website, and includes identification of women and minority ownership information.

This project was completed in late 2013.

❖ Diversity and Inclusion Manager and Consultant Survey

Staff has developed a survey of CalPERS external managers and consultants to identify diversity in key competency positions within their organizations. The survey will also request information on diversity and inclusion policies and programs in their organizations.

The goal of this survey is to understand investment manager and consultant workplace diversity, and how diversity and inclusion is incorporated into their business practices. Staff anticipates this survey will be completed in 2014.

❖ Diversity and Inclusion in CalPERS Investment Office Recruitments

In the fall of 2013, the Investment Office, working with CalPERS Human Resources Office and the Diversity Office, initiated various activities designed to strengthen its diversity and inclusion talent strategy. These efforts were designed to attract, develop, and retain a highly-skilled, diverse, and motivated team. These activities included expanded recruitment and outreach efforts through contracting with LinkedIn and Professional Diversity Network. In addition, the Investment Office now posts job advertisements to other diversity and financial websites and approximately seven college MBA and/or alumni websites.

Other diversity and inclusion initiatives include engagement with external consultants on projects to enhance the Investment Office's Talent Community Strategy and talent pipeline. Some of the key components include:

- Analysis of best practices across institutions with leading diversity practices to identify and understand leading edge strategies and tactics
- Identification of networks for strategic alliances and recruitment advertising venues for facilitation of a diverse candidate pool
- Creation of a structured assessment process for candidates, including competency-based interview questions and behavior-anchored rating scales
- Training and coaching material for hiring managers, including how to assess, interview, and measure candidates

Section 4

CONCLUSION

Our objective for investing in emerging manager programs is to generate appropriate risk adjusted investment returns by identifying early stage funds with strong potential for success; accessing unique investment opportunities that may otherwise be overlooked; and cultivating the next generation of external investment management talent.

CalPERS will continue its efforts to examine and improve its emerging managers programs and to communicate with emerging managers and other interested stakeholders about the goals of our investment programs.

Section 5

APPENDIX I

CalPERS Emerging Manager Programs and 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 as noted on chart below.

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	No Requirement	< \$1B	No Requirement	No Requirement	< \$1B	< \$500M	No Requirement
Firm AUM	< \$2B	< \$2B	< \$2B	No Requirement	No Requirement	No Requirement	< \$1B
Length of Track Record	No Requirement	No Requirement	No Requirement	First or Second Institutional Fund	First or Second Institutional Fund	First or Second Institutional Fund	First, Second, or Third Separate Account or Institutional Fund
Geographic Focus	No Requirement	No Requirement	No Requirement	No Requirement	Domestic US	Domestic US	Urban California

ATTACHMENTS

1. Emerging Manager Five-Year Plan
<http://www.calpers.ca.gov/eip-docs/about/pubs/emerging-manager-five-year-plan.pdf>
2. 2. CalPERS Investment Beliefs
<http://www.calpers.ca.gov/eip-docs/investments/policies/invo-policy-statement/investment-beliefs.pdf>
3. Emerging and Diverse Manager Data Report
<http://www.calpers.ca.gov/eip-docs/about/pubs/data-report.pdf>