



# Investment Committee

## Agenda Item 5c

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**November 13, 2023**

**Item Name:** Emerging and Diverse Manager Report to the Legislature (AB 890)

**Program:** Sustainable Investments

**Item Type:** Action

### **Executive Summary**

The intent of this agenda item is to present the second CalPERS' Diversity in the Management of Investments Report to the Investment Committee. The report is mandated by Assembly Bill (AB) 890 and will be submitted to the California State Legislature (Legislature).

### **Strategic Plan**

This agenda item supports the Strategic Plan goal to strengthen the long-term sustainability of the pension fund.

### **Investment Beliefs**

This agenda item supports:

- Investment Belief 10: Strong processes and 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, and corporate boards) is important

### **Background**

In October 2021, AB 890 was signed into law requiring CalPERS and the California State Teachers' Retirement System (CalSTRS) to submit a report to the Legislature commencing on March 1, 2023, and annually thereafter. The bill sunsets on January 1, 2028. According to the bill's author, Cervantes, AB 890 is intended to ensure transparency and promote the inclusion of women and minority owned managers in the asset management industry. Known supporters of the bill include the New America Alliance and Association of Asian American Investment Managers.

It is important to note that California state law (enacted through the passage of Proposition 209 in 1996) prohibits state agencies from discriminating against or granting preferential treatment to any individual or group based on race, sex, color, ethnicity, or national origin in public contracting. As such, CalPERS cannot establish any participation goals for, or provide preferential treatment to, external managers based on race, sex, color, ethnicity, or national origin. Similar restrictions exist under federal law and the US Constitution. CalPERS may, however, collect data and other information regarding diverse characteristics for annual reports to the Legislature.

In September 2022, the CalPERS Board approved staff's recommendations for the Emerging Manager Program Objective and the emerging and diverse manager definitions.

The first CalPERS Diversity in the Management of Investments 2021-22 Fiscal Year Report was submitted to the Legislature on March 1, 2023.

## **Analysis**

Assembly Bill 890: Diversity in the Management of Investments 2022-23 Fiscal Year Report contains information related to CalPERS investments with emerging and diverse managers and among other things, provides the manager's name and commitment amount of each emerging and diverse manager. This report contains emerging and diverse manager activity from July 1, 2022, through June 30, 2023. The activity is displayed by asset class and across CalPERS' Total Fund.

The report is based on contracts entered into on and after July 1, 2022, and includes:

- Name of each emerging or diverse manager
- Emerging or diverse managers were first engaged
- Amount managed by each emerging or diverse manager by asset class
- Total amount allocated by CalPERS in the applicable asset class
- Total Assets Under Management (AUM) of each asset class

During the reporting period, CalPERS allocated funds to seven managers that met the emerging manager definition in Private Equity for a total allocation of approximately \$1.2 billion. And for the same reporting period, CalPERS allocated funds to nine managers that met the definition of diverse manager, for an allocation of approximately \$1.6 billion. The Assembly Bill 890: Diversity in the Management of Investments 2022-23 Fiscal Year Report will be submitted to the Legislative on March 1, 2024.

## **Budget and Fiscal Impacts**

None. CalPERS has team members that manage the emerging and diverse manager program and the mandated legislation.

## **Benefits and Risks**

Benefits:

This item satisfies the California State Legislature reporting requirement.

Risks:

None.

**Attachments**

Attachment 1 – Emerging and Diverse Managing Report to the Legislature (AB 890)-PPT

Attachment 2 – Assembly Bill 890: Diversity in the Management of Investments 2022-23 Fiscal Year Report

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Michael Cohen  
Interim Chief Operating Investment Officer

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# Emerging and Diverse Manager Report to the Legislature (AB 890)

Sustainable Investments

November 13, 2023

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# Assembly Bill (AB) 890 Legislation

- All emerging and diverse manager commitments during the investment period July 1, 2022, through June 30, 2023
- This report is due to the California State Legislature on March 1, 2024

# AB 890 Report Requirements

- Name of each emerging or diverse manager
- Emerging or diverse managers first engaged or contracted
- Amount managed by each emerging or diverse manager by asset class
- Total amount allocated by CalPERS in the applicable asset class during the fiscal year
- Total Assets Under Management (AUM) of each asset class

# CalPERS' Investment Beliefs

Our CalPERS' Investment Beliefs state that strong processes, teamwork, and deep resources are needed to achieve CalPERS goals and objectives and highlight the importance of diversity of talent in this process

# Emerging Manager Program Objective

CalPERS' Investments mission is to manage the CalPERS investment portfolio in an efficient and sustainable manner to generate risk adjusted returns to pay benefits now and into the future

The Emerging Manager Program objective:

- 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 portfolio management talent

# Emerging Manager Definition

CalPERS Emerging Manager definition is based on the overall firm’s AUM, length of track record, and/or the specific fund’s size when applicable

Public Assets		
	Global Equity	Global Fixed Income
Firm AUM	≤ \$5B	≤ \$5B

Private Assets			
	Private Debt	Private Equity	Real Assets
Length of Track Record	First, Second, or Third Institutional Fund	First, Second, or Third Institutional Fund	First, Second, or Third Institutional Fund or Separate Account
Fund Size	≤ \$2B	≤ \$2B	≤ \$2B

# Diverse Manager Definition

CalPERS diverse manager definition is based on the total percentage of firm ownership or fund economics, and meet one of following tiered thresholds:

## Substantially Diverse

- A firm that is 25% to 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive 25% to 50% of the fund's carried interest

## Majority Diverse

- A firm that is over 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive more than 50% of the fund's carried interest

# CalPERS Allocations to Emerging and Diverse Managers

- During the current reporting period, CalPERS allocated to seven managers that met the emerging manager definition, across the Private Equity asset class, for a total allocation of approximately \$1.2 billion
- For that same period, CalPERS allocated to nine managers that met the definition of diverse, for an allocation of approximately \$1.6 billion

# Summary of Allocation by Asset Class

SUMMARY OF ALLOCATION BY ASSET CLASS				
\$Millions				
	Total Assets Under Management as of June 30, 2023	Allocation to External Managers July 2022 – June 2023	Allocation to Emerging Managers July 2022 – June 2023 <sup>2</sup>	Allocation to Diverse Managers July 2022- June 2023 <sup>2</sup>
Private Equity	\$59,709	\$8,925	\$1,158	\$1,633
Global Equity	\$208,763	\$5,000	\$0.0	\$0.0
Global Fixed Income	\$122,200	\$21,800	\$0.0	\$0.0
Real Assets	\$70,400	\$12,472	\$0.0	\$0.0
Private Debt	\$10,255	\$9,250	\$0.0	\$0.0



1. AUM figures for each asset class are represented as Net Asset Value
2. The allocations to external managers, emerging managers and diverse managers are total dollars committed

## Next Steps

- Coordinate with the Legislative Affairs Division to submit the AB 890 Report to the California State Legislature on March 1, 2024
- Next year, we will report out on Fiscal Year 2023/24

# Questions

# Appendix

## Minority group members

- United States citizens and permanent residents who are African American, Asian American, Hispanic American, Native American, Pacific Islander, or Other, based EEO-1 US Census classifications

## Person of the LGBTQ+ community

- Includes people who identify as Lesbian, Gay, Bi-sexual, Transgender, Queer, and more

**Assembly Bill 890: Diversity in the Management of Investments  
2022-23 Fiscal Year Two Report**

**March 1, 2024**

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## Section 1: Introduction

The California Public Employees' Retirement System (CalPERS), headquartered in Sacramento, provides retirement and health benefits to more than two million public employees, retirees, and their families. CalPERS is led by a 13-member board of administration consisting of member-elected, appointed, and ex-officio members.

For more than 30 years, CalPERS has developed and implemented emerging manager programs and invested with emerging and diverse managers. We are committed to equality of access and opportunity for our business partners and staff. As the nation's largest public pension fund, within the nation's most ethnically and culturally diverse state, we believe diversity and inclusion in our workforce, workplace, and marketplace improve business performance.

For purposes of its 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 (AUM), length of track record, and/or the specific fund's size when applicable. An overview of current CalPERS Emerging Manager Program definitions across asset classes can be found in Section 2 of this report.

CalPERS has a fiduciary duty which requires the Board and staff to work in the best interest of our members. The mission of the CalPERS Investment Office is to manage the investment portfolio in an efficient and sustainable manner, to generate risk adjusted returns to pay benefits now and into the future. 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.

It is important to note that California state law (enacted through the passage of Proposition 209 in 1996) prohibits state agencies from discriminating against or granting preferential treatment to any individual or group based on race, sex, color, ethnicity, or national origin in public contracting. As such, CalPERS cannot establish any participation goals for, or provide preferential treatment to, external managers based on race, sex, color, ethnicity, or national origin. Similar restrictions exist under federal law and the U.S. Constitution. CalPERS may, however, collect data and other information regarding diverse characteristics for annual reports to the California State Legislature (Legislature).

CalPERS investments with emerging and diverse managers are not limited to dedicated emerging manager programs. CalPERS is committed to equal access and opportunity for all investment managers, who may submit an investment proposal to CalPERS at any time. CalPERS has made significant efforts to communicate our investment strategies and criteria for making investment decisions to the manager community, including emerging managers, to help ensure that investment proposals are aligned with CalPERS objectives.

Chapter 472, Statutes 2021, Assembly Bill 890 (AB 890) requires CalPERS to submit a report to the Legislature on the status of achieving appropriate objectives and initiatives,

as defined by the CalPERS Board, regarding participation of emerging and diverse managers responsible for asset management within the CalPERS investment portfolio.

The report must include the following information:

- Name of each emerging or diverse manager
- The year these emerging or diverse managers were first engaged, or under contract to provide services
- Amount managed by each emerging or diverse manager by asset class at the end of the prior fiscal year
- Total amount allocated by CalPERS in the applicable asset class during the fiscal year
- Total AUM of each asset class

The information regarding emerging managers encompasses CalPERS investments made through direct relationships, including with fund of fund advisors, as well as with underlying funds in fund of funds.

Information regarding diverse managers encompasses CalPERS investments with both emerging and non-emerging managers.

To prepare this report, CalPERS utilized information provided directly from managers on a voluntary basis to indicate if they met the definition established for a diverse manager by identifying the gender, ethnicity, race and sexual orientation classification of the ownership or fund economics of the entity. In addition, CalPERS utilized information provided to staff in due diligence and monitoring, and via fund of funds vehicles and partnerships. The data collected are incorporated into this report.

## **Section 2: Emerging Manager Program Objectives and Definitions**

During the September 2022 CalPERS Board meeting, staff received approval of their recommendations to define emerging and diverse managers, as well as the objective of the Emerging Manager Program.

### Emerging Manager Program Objective

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 portfolio management talent.

Emerging Manager Definitions

The term emerging manager is based on the firm’s overall AUM, length of track record, and/or the specific fund’s size, when applicable. The qualification thresholds vary across asset classes for reasons related to the nature of respective asset classes (e.g., private vs. public).

Private assets include Private Debt, Private Equity and Real Assets. The emerging manager definition for these assets is based on length of track record that includes first, second, or third Institutional Fund or Separate Account when applicable, as well as the fund size being less than, or equal to \$2 billion dollars.

Public assets include Global Equity and Global Fixed Income. The emerging manager definition for these assets is based on AUM totaling less than, or equal to \$5 billion dollars.

Private Assets			
	Private Debt	Private Equity	Real Assets
Length of Track Record	First, Second, or Third Institutional Fund	First, Second, or Third Institutional Fund	First, Second, or Third Institutional Fund or Separate Account
Fund Size	≤ \$2B	≤ \$2B	≤ \$2B

Public Assets		
	Global Equity	Global Fixed Income
Firm AUM	≤ \$5B	≤ \$5B

### Section 3: Diverse Manager Definition

In 2013, CalPERS definitions for women and minority owned firms were established for the basis of an External Manager Diversity Survey. The definitions were developed with the input of several stakeholder groups including the Association of Asian American Investment Managers, National Association of Securities Professionals, National Association of Investment Companies, New America Alliance, and the Toigo Foundation. Staff also reached out to diversity consultants and conducted research into diversity definitions used by peer investors and public agencies.

Applying CalPERS initial definition of diversity as a compass, as well as conducting additional outreach and research, staff identified four core demographics (i.e., gender, ethnicity, sexual orientation and other) as diversity identifiers. CalPERS Board approved the following diverse manager definitions based on the total percentage of firm ownership or fund economics:

- **Substantially Diverse:** A firm that is 25% to 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive 25% to 50% of the fund's carried interest
- **Majority Diverse:** A firm that is over 50% owned by women and/or ethnic minority group members, and/or a person of the LGBTQ+ community, or where diverse teams receive more than 50% of the fund's carried interest

Minority group members include United States citizens and permanent residents who are African American, Asian American, Hispanic American, Native American, Pacific Islander, or Other, based EEO-1 US Census classifications. Person of the LGBTQ+ community Includes people who identify as Lesbian, Gay, Bi-sexual, Transgender, Queer, and more.

California law prohibits State agencies from discriminating against or granting preferential treatment to any individual or group based on race, sex, color, ethnicity, or national origin in the operation of public contracting. CalPERS therefore may not grant preferential treatment to emerging or diverse managers based on the above characteristics. Women and minority managers are more likely to be emerging managers; as a result, an ancillary benefit of our Emerging Manager strategies may be the increased diversification of CalPERS external fund managers.

## Section 4: CalPERS Year Two Annual Commitments

The following table lists CalPERS allocations made to emerging managers during the reporting period of July 1, 2022, through June 30, 2023.

In this reporting period, CalPERS investments with emerging managers were not limited to dedicated emerging manager programs. All Private Equity investments with the seven emerging managers listed below were made directly and outside of a dedicated emerging manager program. The total allocated to these seven emerging managers was approximately \$1.2 billion dollars.

<b>EMERGING MANAGER ALLOCATIONS JULY 1, 2022 – JUNE 30, 2023</b>				
<b>Emerging Manager</b>	<b>Asset Class</b>	<b>Year First Engaged</b>	<b>Allocation Date</b>	<b>Allocation Amount (\$ Millions)</b>
Base10 Partners	Private Equity	2022	February, 2023	\$50
Coalesce	Private Equity	2023	May, 2023	\$150
Coefficient Apex	Private Equity	2023	May, 2023	\$100
Crosspoint Capital Partners	Private Equity	2023	January, 2023	\$300
Patient Square Equity Partners	Private Equity	2023	January, 2023	\$300
Prysm Capital	Private Equity	2023	February, 2023	\$100
SR One	Private Equity	2023	March, 2023	\$90
SR One	Private Equity	2023	April, 2023	\$68
<b>Total Allocated to Emerging Managers</b>				<b>\$1, 158</b>

The following table lists allocations made to diverse managers for the period July 1, 2022, through June 30, 2023. CalPERS invested with nine diverse managers, all in Private Equity for an approximate total of \$1.6 billion dollars. All Private Equity investments with diverse managers in this reporting period were made directly and outside of a dedicated emerging manager program.

<b>DIVERSE MANAGER ALLOCATIONS</b>					
<b>JULY 1, 2022 – JUNE 30, 2023</b>					
<b>Diverse Manager</b>	<b>Asset Class</b>	<b>Demographic/ Characteristic</b>	<b>Year First Engaged</b>	<b>Allocation Date</b>	<b>Allocation Amount (\$ Millions)</b>
Base10 Partners	Private Equity	Majority Diverse/ African American	2022	February, 2023	\$50
Bond	Private Equity	Substantially Diverse/ Woman-Owned	2022	December, 2022	\$75
Canaan Partners	Private Equity	Substantially Diverse/ Woman-Owned	2023	January, 2023	\$200
Coalesce	Private Equity	Majority Diverse/ Woman-Owned	2023	May, 2023	\$150
General Catalyst	Private Equity	Substantially Diverse/ African and Asian American	2023	February, 2023	\$300
General Catalyst	Private Equity	Substantially Diverse/ African and Asian American	2023	March, 2023	\$200
Goodwater	Private Equity	Majority Diverse/ Asian American	2021	October, 2022	\$100
Prysm Capital	Private Equity	Majority Diverse/ Asian American	2023	February, 2023	\$100
SR One	Private Equity	Majority Diverse/ Asian American	2023	March, 2023	\$90
SR One	Private Equity	Majority Diverse/ Asian American	2023	April, 2023	\$68
Valor Equity Partners	Private Equity	Majority Diverse/ Hispanic and Asian American	2013	April, 2023	\$300
<b>Total Allocated to Diverse Managers</b>					<b>\$1,633</b>

The following table summarizes allocations made to all external managers, emerging managers, and diverse managers for the period of July 1, 2022, through June 30, 2023. The table also reflects each asset classes AUM as of June 30, 2023.

SUMMARY OF ALLOCATION BY ASSET CLASS				
\$Millions				
	Total Assets Under Management as of June 30, 2023 <sup>1</sup>	Allocation to External Managers July 2022 – June 2023 <sup>2</sup>	Allocation to Emerging Managers July 2022 – June 2023 <sup>2</sup>	Allocation to Diverse Managers July 2022- June 2023 <sup>2</sup>
Private Equity	\$59,709	\$8,925	\$1,158	\$1,633
Global Equity	\$208,763	\$5,000	\$0.0	\$0.0
Global Fixed Income	\$122,200	\$21,800	\$0.0	\$0.0
Real Assets	\$70,400	\$12,472	\$0.0	\$0.0
Private Debt	\$10,255	\$9,250	\$0.0	\$0.0

## Section 5: Conclusion

CalPERS believes that emerging managers are important to investment strategies and the overall performance of the Total Fund. 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.

It is CalPERS’ belief that organizational cultures promoting diversity are vital to improving the long-term performance of our organization, as well as the businesses and markets in which we invest. Our Investment Beliefs state that strong processes, teamwork, and deep resources are needed to achieve CalPERS goals and objectives and highlight the importance of diversity of talent in this process.

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

<sup>1</sup> AUM figures for each asset class are represented as Net Asset Value (NAV)

<sup>2</sup> Allocations to external managers, emerging managers, and diverse managers are listed as NAV in Global Equity and Global Fixed Income; and by dollars committed in Private Equity, Private Debt and Real Assets.

## Section 6: Appendix

The following tables show CalPERS allocations made to emerging and diverse managers during the year one reporting period of January 1, 2022, through June 30, 2022.

The total allocated to the seven emerging managers for this reporting period was \$480.5 million dollars.

EMERGING MANAGER ALLOCATIONS JANUARY 2022 – JUNE 2022				
Emerging Manager	Asset Class	Year First Engaged	Allocation Date	Allocation Amount (\$ Millions)
Base 10 Partners	Private Equity	2022	January, 2022	\$50.0
Butterfly Equity	Private Equity	2022	February, 2022	\$125.0
Rincon	Real Assets	2021	May, 2022	\$49.8
Lisanti Capital Growth	Global Equity	2022	April, 2022	\$69.9
Paragon	Real Assets	2013	April, 2022	\$29.9
Rondure Global Advisors	Global Equity	2022	April, 2022	\$70.8
Sack Properties	Real Assets	2013	May, 2022	\$85.1
<b>Total Allocated to Emerging Managers</b>				<b>\$480.5</b>

CalPERS invested with 12 diverse managers, across three different asset classes for an approximate total of \$3.2 billion dollars.

<b>DIVERSE MANAGER ALLOCATIONS</b>					
<b>JANUARY 2022 – JUNE 2022</b>					
<b>Diverse Manager</b>	<b>Asset Class</b>	<b>Demographic/ Characteristic</b>	<b>Year First Engaged</b>	<b>Allocation Date</b>	<b>Allocation Amount (\$ Millions)</b>
Base 10 Partners	Private Equity	Majority Diverse African American	2022	January, 2022	\$50.0
CapVest Partners, LLC	Private Equity	Substantially Diverse Women and Other	2022	February, 2022	\$341.0
Rincon	Real Assets	Substantially Diverse Hispanic	2021	May, 2022	\$49.8
Clearlake Capital Group	Private Equity	Substantially Diverse Hispanic	2009	January, 2022	\$350.0
Francisco Partners	Private Equity	Substantially Diverse Hispanic	2000	February, 2022	\$550.0
Lightspeed Ventures	Private Equity	Substantially Diverse Asian American	2006	March, 2022	\$400.0
Lisanti Capital Growth	Global Equity	Majority Diverse Woman-owned	2022	April, 2022	\$69.9
Paragon	Real Assets	Substantially Diverse Middle Eastern Hispanic	2013	April, 2022	\$29.9
Rondure Global Advisors	Global Equity	Majority Diverse Woman-owned	2022	April, 2022	\$70.8
Sack Properties	Real Assets	Majority Diverse Woman-owned	2013	May, 2022	\$85.1
Thoma Bravo, LLC	Private Equity	Substantially Diverse Hispanic	2021	May, 2022	\$600.0
Veritas Capital	Private Equity	Majority Diverse Middle Eastern	2022	March, 2022	\$625.0
<b>Total Allocated to Diverse Managers</b>					<b>\$3,221.5</b>