

	Advisory Panel for Global Financial City Tokyo	Materials	
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Development of Emerging Asset Managers

~Supply of Seed Money and EMP~

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Working Group Report on Asset Management (Overview)

- In the “Report of the Council for Tokyo Global Financial Center Promotional Activities” published in Sept. 2015, strengthening asset management services was identified as the most important issue for Tokyo becoming a global financial center.
- Following this, “Report of the Working Group on Asset Management” was published in June 2016 which discussed about issues and future actions.

(Major Issues and Actions)

- Invite and establish facilities to develop highly skilled financial services professionals
- Secure asset managers
- Disseminate practice of fiduciary duties by asset management firms
- Rationalize and optimize middle and back offices
- Promote entry of new asset management companies

⇒ Consider promoting entry of emerging asset management companies in connection with industrial policy of the TMG

What is the Emerging Manager Program (EMP)?

- The EMP started as a support program by public pensions enabling minority groups, including women and various ethnic groups, to establish asset management companies, and securing diversity in the U.S. asset management industry where the majority involved were white men.
 - Current EMPs may be roughly classified as follows :
 1. Funds managed by racial and ethnic minority groups including African and Latin Americans
 2. Funds managed primarily by women, deemed to be a small group in the finance industry
 3. Start-ups (in an early stage) with funding challenges and/or small-to-medium sized funds for venture capital
 - In the U.S., it is believed that unique “alpha” can be generated when funds are managed by emerging asset managers.
- ⇒In Japan, to introduce EMP to asset owners targeting item 3 above may have a significant effect.
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Major EMP Examples in the U.S.

Asset Owner	Start Year	Investment Amount (Total)	Investment Amount (EMP)	Chief Requirements for Emerging Managers (EM)
The California Public Employees' Retirement System (CalPERS)	1991	\$301B June 2015	\$12B June 2015 (4.0% of Total)	(Global Equity) <ul style="list-style-type: none"> AUM less than or equal to \$2B No requirement for length of track record
New York State Common Retirement Fund	1994	\$178.6B Mar 2016	\$5.6B Mar 2016 (3.1% of Total)	(Public Equity) <ul style="list-style-type: none"> AUM less than or equal to \$2B No requirement for length of track record
New York City Employee Retirement System (NYCERS)	1991	\$167B June 2015	\$12B June 2015 (7.2% of Total)	(Public Equity / Fixed Income) <ul style="list-style-type: none"> AUM less than or equal to \$2B
Teacher Retirement System of Texas	2005	\$134B Aug 2016	\$2B Aug 2016 (1.5% of Total)	
North Carolina Teachers' and State Employees Retirement System	2013	\$104.8B June 2016	Up to \$0.5B	<ul style="list-style-type: none"> AUM less than or equal to \$2B but more than or equal to \$100M
Illinois State Board of Investment (ISBI)	2009	\$15.8B June 2015	Less than or equal to 20% of Total	<ul style="list-style-type: none"> AUM less than or equal to \$100M but more than or equal to \$10M

(Source) Compiled by JIAA with reference to each asset owner's website

CalPERS: EMP Mechanism

- Invest directly or through FoF (Fund of Funds)
 - Allocate \$75 – \$150 million per strategy and/or by emerging manager (EM)
 - Objective to adopt EMP
 - Secure high returns after risk adjustment
 - Create unique investment opportunity
 - Develop next generation talent
- ⇒ Excess returns have not been necessarily achieved against benchmark

CalPERS: EMP Detail

	Asset Class		
	Global Equity	PE (Private Equity)	Real Estate
Program	Emerging Manager Advisor Program	Emerging Domestic Private Equity Managers	Real Estate Emerging Manager Program
Product Size	No requirement	Less than \$1 Billion	No requirement
Firm Assets Under Management	Less than \$2 Billion	No requirement	Less than \$1 Billion
Length of Track Record	No requirement	First or Second Institutional Fund	First, Second, or Third Separate Account or Institutional Fund
Geographic Focus	No requirement	Domestic U.S.	Urban California

- Other than the above, there are EMPs for targeting absolute return hedge funds and bonds (global bonds)

CalPERS: EMP's History (1991-2012)

YEAR	CalPERS Emerging Manager Commitments
1991	CalPERS initiated an effort to retain EMs
1999	\$3 billion initial commitment to Global Equity Manager Development Program
1999	\$50 million commitment to the first emerging managers in the California Urban Real Estate program (California Urban Investment Partners)
2000	CalPERS launched multiple EM programs in several asset classes
2006	Development of the Emerging Managers and Financial Services Database with CalSTRS
2006	\$400 million initial commitment to Emerging Domestic Private Equity Manager Fund of Funds Program
2007	\$350 million initial allocation to Absolute Return Strategies Fund of Emerging Hedge Funds Program
2007	\$100 million initial allocation to Global Equity Manager Development Program(Phase II)
2008	\$200 million increase to Global Equity Manager Development Program (Phase II)
2008	\$150 million initial allocation to Global Equity EM Fund of Funds Program
2008	\$200 million increase to Global Equity Manager Development Program (Phase II)
2008	\$400 million commitment increase to Emerging Domestic Private Equity Manager Fund of Funds Program
2008	\$100 million increase to Global Equity Manager Development Program (Phase II)
2008	\$250 million increase to Global Equity Manager Development Program (Phase II)
2009	\$100 million increase to Global Equity Manager Development Program (Phase II)
2009	\$100 million increase to Global Equity Manager Development Program
2010	\$100 million increase to Absolute Return Strategies Fund of Emerging Hedge Funds
2010	\$100 million increase to Global Equity EM Fund of Funds program
2011	\$250 million increase to Global Equity Manager Development program (Phase II)
2011	\$200 million initial allocation for Real Assets new Real Estate EM Program
2011	\$100 million increase to Global Equity Manager Development Program (Phase II)
2012	\$100 million commitment increase to Emerging Domestic Private Equity Manager Fund of Funds Program

⇒ Introduced "Emerging Manager Five-Year Plan" on Aug. 1, 2012

CalPERS: Emerging Manager Five-Year Plan Overview

- Performance of hired managers has not necessarily met previously expected results
- The “Five-Year Plan” was formulated and introduced in August 2012 to analyze, identify and improve sluggishly performing EMs.

Plan Year	Report Date	Plan Period
1	Mar2014	Aug 2012 - June 2013
2	Mar2015	July 2013 - June 2014
3	Mar2016	July 2014 - June 2015
4	Mar2017 (will be released)	July 2015 - June 2016
5	Jan2018 (will be released)	July 2016 - June 2017



- Progress report of the Five-Year Plan to the California State Senate/Assembly is required by law. (Chapter 701 of the Statutes of 2011: SB 294 Price)

CalPERS: Callan Associates Report

- In Sep. 2013, CalPERS requested Callan Associates to conduct research on EMPs of other public pension funds in the US and a report was published in Feb. 2014.
- The research was conducted to understand the exposures to EMs, EMP's objectives, governance and practical operations.
(For details, please refer to 2nd year report of the Five-Year Plan)
 - EMP manages approximately 13% of assets CalPERS outsources to asset managers. (CalPERS outsources 30% of total assets to asset managers)
 - The largest asset class of EMP is allocated to publicly listed equity. (approx. \$11B, representing 18% of CalPERS' listed equity assets)
 - Other asset classes are: real estate (\$9B, 3%) and PE (\$8B, 19%)

※Primarily based on June 2013 data

CalPERS: Transition Manager Program (TMP)

- In June 2015 a Transition Manager Program (TMP), targeted to ensure risk-adjusted returns, was announced separately from the EMP
 - ⇒ TMP covers more experienced asset managers with larger AUM
(For details, please refer to the 3rd year report of the Five-Year Plan)
- TMP expects to secure access to managers with good performance, to increase the proportion of women and minority groups in CalPERS' portfolio, and to have emerging managers provide growth opportunities (also assuming shifts from EMP).
- TMP allocates \$250M to \$1B per manager/by strategy. After being selected for the program, transition managers are expected to become a regular investment managers for CalPERS in 2-5 years.

CalPERS: TMP Contents

	Asset Class		
	Global Equity	PE (Private Equity)	Real Estate
Program	Transition Manager Program	Transition Manager Program	Transition Manager Program
Product Size	No requirement	No requirement	No requirement
Firm Assets Under Management	\$2 Billion Minimum	No requirement	No requirement
Length of Track Record	No requirement	Third, Fourth, Fifth, and Sixth Institutional Fund	Fourth, Fifth, and Sixth Separate Account or Institutional Fund
Geographic Focus	No requirement	Domestic U.S.	No requirement