

# Emerging and/or Diverse Managers in the Investment Portfolio (Board Education)

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# Key Topics

- Commitments to Emerging and/or Diverse Managers
  - Purpose and Investments Beliefs
  - Research and Observations
- Program Structure
  - Sustainable Investments Mosaic Platform - TPG Next and GCM Elevate
    - How it fits in CalPERS emerging and diverse manager strategy
    - Deep dive on the Mosaic Platform
  - Private Equity Direct Investments

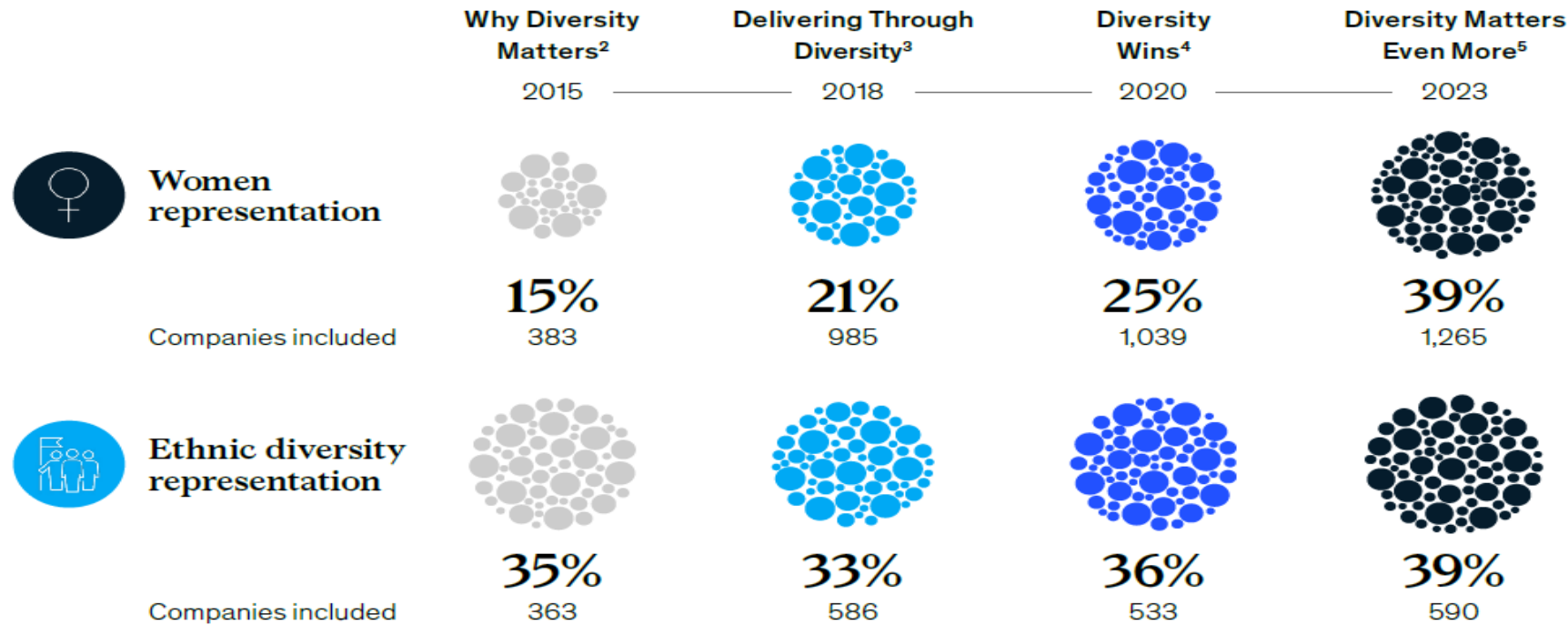
# Purpose and Investments Beliefs

- CalPERS diversity, equity, and inclusion efforts focus on improving investment returns that can lead to an increased funded status
- CalPERS Investment Beliefs highlight the importance of diversity to enhance performance
  - Incorporating diversity improves the performance of our organization and the returns of our investment partners
- CalPERS seeks a high-performing portfolio by investing directly in scale opportunities and indirectly into the next generation of investment management talent

# Correlation between Diversity and Performance

The business case for diversity on executive teams and financial outperformance.

Difference in likelihood of outperformance of 1st vs 4th quartile<sup>1</sup>



1. Likelihood of financial outperformance vs the regional industry median. p-value for regression analysis <0,01.

2. Gender: n = 383; ethnicity: n = 363; US, UK and Latin America. Average EBIT margin 2010–13.

3. Gender: n = 985; Australia, Brazil, France, Germany, India, Japan, Mexico, Nigeria, Singapore, South Africa, UK, and US; ethnicity: n = 586; Brazil, Mexico, Singapore, South Africa, UK, and US; average EBIT margin 2011–15.

4. Gender: n = 1,039; 2017 companies for which gender data available in 2019 plus Denmark, Norway, and Sweden; ethnicity: n = 533; 2017 companies for which ethnicity data available in 2019; average EBIT margin 2014–18.

5. Gender: n = 1,265; 2019 companies for which gender data available in 2022 plus Canada, Colombia, Egypt, Israel, Italy, Malaysia, New Zealand, and Spain; ethnicity: n = 590; 2019 companies for which ethnicity data available in 2022 plus Canada and New Zealand; average EBIT margin 2017–21

In 2023, 8 new countries were incorporated in gender analyses and 2 new countries for ethnicity analyses

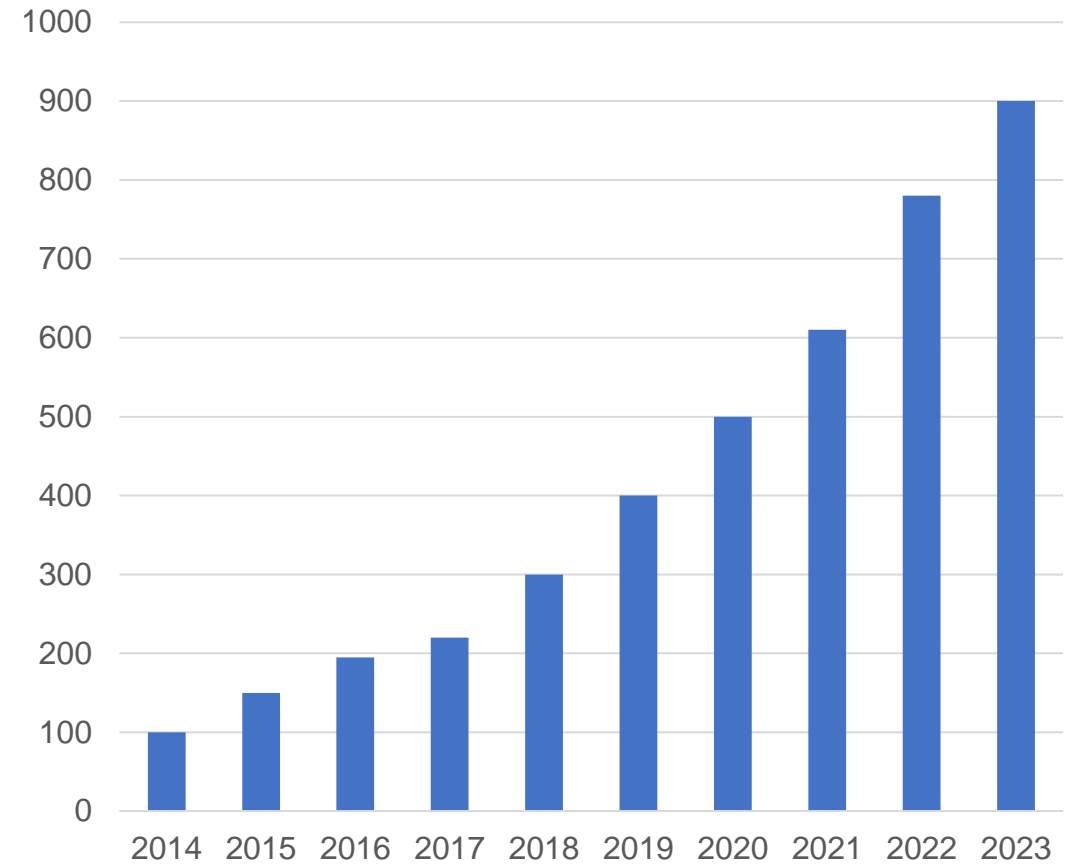
# Additional Research

- Knight Foundation research:
  - Returns: 2017 study showed women and minority owned mutual funds were overrepresented in top-quartile performers
  - Underrepresentation: 2021 study stated diverse managers represent 1.4% of the \$82 trillion in AUM
- Boston Consulting Group and Cambridge Associates: “Private equity and venture capital firms whose ownership is predominantly women or people of color may unlock access to differentiated deal flow (i.e., an increase in the variety of investments in a portfolio) for their limited partners and other investors”
- Willis Towers Watson: “Investment teams with diversity, in particular ethnic diversity, tend to generate better excess returns”

# Diverse Manager Acceleration

- A 2024 Report by Fairview Capital illustrates a steady increase in women- and minority-owned firms
  - Doubling every 3-4 years
- Growth continued to rise despite economic volatility and uncertainty in 2023
- Despite continued growth, women and/or minority-owned firms remain significantly underrepresented in the market
  - Just 6% of the Private Equity industry in 2023

Universe of Diverse Owned Private Equity Firms



# Diverse Talent Correlated with Outperformance

- The National Association of Investment Companies has produced several reports showing that their diverse-manager members outperform benchmarks
  - In 83.3% of periods measured based on net MOIC, NAIC Private Equity Index outperformed the Burgiss Median
  - In 76.5% of vintage years studied, NAIC Private Equity Index produced higher net IRRs than the Burgiss Median
- According to data from Barings and Pitchbook:
  - 32% of women-led funds are top-quartile performers, and 68% performed above the median
  - Women-owned firms manage approximately 1.6% of U.S.-based Private Equity AUM

# Key Research Observations

- Research shows correlation between diversity and outperformance
- Diverse firms are an undercapitalized investment opportunity
- The universe of diverse investment firms is growing but remains underrepresented



# CalPERS Emerging Manager Program

- CalPERS has been investing with emerging managers for 30 years and seen several iterations and restructures
- In 2012, CalPERS undertook a complete review and restructure of our program as part of the legislatively mandated Emerging Manager Five-year Plan
- Becoming law in 2021, AB 890 requires CalPERS to deliver a report to the California Legislature on new allocations to emerging and/or diverse managers
- Mosaic Platform – In 2022, CalPERS makes anchor commitments to GCM Elevate (\$500M) and TPG Next (\$500M)

# CalPERS Mosaic Platform

- Invest in next-generation managers with a strong potential for success, but not yet scaled for CalPERS direct investment, by partnering with GCM Elevate and TPG Next
- Provide operational support and guidance to firm founders across key non-investment functions to help accelerate growth and enable long-term success
  - Capital formation; back office, middle office, and operational due diligence readiness; legal; human resources; and technology
- Able to invest in managers earlier and across their lifecycles facilitates deeper relationships, discounted terms, and co-investment opportunities for CalPERS

# Mosaic Platform versus PE Direct Diverse Strategy

- The Mosaic Platform is part of CalPERS efforts to enhance returns by investing in next-generation managers
- Sustainable Investments manages the Mosaic Program
- Mosaic outsources to advisors GCM Grosvenor and TPG Next, who have the resources to evaluate firms not yet scaled for direct investment by CalPERS
- In addition, Private Equity invests directly in firms based on net performance and portfolio fit
  - Private Equity seeks to maximize portfolio net returns in accord with legal requirements
  - Private Equity manages the general partner relationship
  - Investment partners may fill out Sustainable Investment's Emerging and Diverse Manager Questionnaire
  - After an investment has been made and based on voluntary disclosure, Sustainable Investments determines whether it qualifies under AB 890 as an emerging or diverse manager for reporting to the California legislature
  - Private Equity engages with investment partners on how diversity in human capital can enhance returns

# Bibliography

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[Don't Judge a Page by it's Number](#), Barings, June 2023