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## CalPERS commits \$200m for new RE programme

**The nation's largest public pension fund has approved a new programme for emerging real estate managers, marking a new approach to its emerging manager investment strategy.**

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The \$224 billion California Public Employees' Retirement System (CalPERS) is earmarking up to \$200 million for a new programme for emerging real estate managers. The five-year programme will be designated for managers with less than \$1 billion in assets under management, no more than three prior commingled funds or separate account investment vehicles and a focus on assets in urban California markets. CalPERS will review the progress of the programme after two years.

"Our top goal is to achieve appropriate risk-adjusted earnings," said Rob Feckner, CalPERS board president, in a statement. "We also hope to find investment opportunities in underserved sectors for sound long-term returns and to increase diversity among our pool of real estate investment managers."

The new programme replaces CalPERS' existing approach, which encompasses 10 active emerging manager investment strategies with more than \$885.5 million in allocations from the pension fund. Although "some emerging managers had positive performance, overall emerging managers have not met investment expectations and have underperformed benchmarks," the fund's investment officers wrote in documents posted on CalPERS' website.

Reasons cited for the prior poor performance include a lack of a structured programme and investment strategy; poor oversight of inexperienced managers; poor governance rights for CalPERS; lack of discipline and focus on strategy during a market upswing; and lack of size and experience to weather a downturn.

The new programme will allow CalPERS' real estate team "to use a 'walk before you run' approach, giving time to test programme assumptions and enhance investment discipline with the goal of producing more consistent successful outcomes," the officers said.

The programme design will include a 50 percent leverage limit at the asset and fund level and involve a modest co-invest from emerging managers, which will be selected, overseen and mentored by up to four experienced investment managers, according to the documents. The programme will have an opportunistic risk classification comprising multiple property types and may consist of more than one investment strategy, the documents noted.

Qualified emerging managers represent a small universe of about 20 to 50 firms, according to Crosswater Realty Advisors, which served as a consultant to CalPERS in the research, design and development of the programme.