

CalPERS Funnels More Into Emerging Managers

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By [Chris Larson](#)

The [California Public Employees Retirement System](#) is giving a significant vote of confidence to its emerging managers program, allocating more than half a billion dollars in new investments in the past month. Experts say pensions across the country continue to show interest in smaller, start-up managers as well.

The \$240 billion CalPERS announced this week that it's putting an additional \$300 million in emerging managers, bringing its investments through such firms – generally defined as younger firms with less than \$2 billion under management – to well over \$2 billion. This week's allocations come just a month after the pension handed out \$350 million to other emerging managers.

Among the recipients this round is a brand new quantitative equity shop, New York-based [Quotient Investors](#). The \$150 million CalPERS allocation is the firm's first outside business. CalPERS also awarded \$150 million to [Leading Edge Investment Advisors](#), the San Francisco-based manager of emerging managers. Leading Edge will divvy the money among seven emerging managers.

CalPERS now has more than \$2.2 billion invested through emerging managers. That comprises more than \$1.9 billion invested through two Manager Development Programs – in which the pension takes a minority equity stake in a young firm, as well as giving the firm money to invest – and \$303 million in funds of funds, including \$153 million invested last month through another manager of emerging managers, Philadelphia's [FIS Group](#).

The pension has long been a believer in funding emerging managers. Proponents say younger firms can provide extra returns because they tend to be more nimble – and hungrier – than larger, more established firms. A CalPERS spokesman says the pension has not put a cap on how much it may invest in emerging managers, whether directly or through funds of funds, or a timeline for additional investments.

"Investments will be on an opportunistic basis," he says. "We are always looking for new great opportunities."

Leading Edge president and CIO Clayton Jue declines to say what managers he'll fund with the CalPERS money, citing competitive reasons. The firm, which Jue founded in 2005, now manages about \$700 million, and he expects more inflows soon.

"I think the level of interest this year will be as high, or higher, as it was last year," Jue says. "The out-performance across smaller managers is evident, and I think that will continue to generate high interest. I'm expecting a very busy year."

Deb Boedicker, principal at [Strategic Investment Group](#), which oversees CalPERS's manager development programs, thinks the concept of emerging managers has "gained a critical mass. It's really gained visibility and acceptance." She cites other public and corporate pensions like the [California State Teachers Retirement System](#), the Connecticut state pension, [Boeing](#) and [IBM](#), each of which now has its own emerging manager program. Driving the interest is, of course, alpha. "If the concept wasn't delivering the returns, it would have died on the vine," Boedicker says.

CalPERS's latest direct investment is with Quotient, a new firm founded by three former professionals from [DIAM USA](#), a Japanese-owned firm that manages about \$6 billion in U.S. and global equity products, mainly for large Japanese institutions. Quotient's client service and sales director, Julia Peter-Kerr, says CalPERS is the firm's first client. Quotient will manage \$100 million of CalPERS' assets in a large-cap core strategy, and \$50 million in a small-cap core product.

The other managing partners at Quotient are Andre Bertolotti, director of investment strategy and research, and William Yost, director of portfolio management and trading. The Quotient team took its track record from DIAM, and hopes the CalPERS money will spark further interest in the young firm. "We certainly hope to take advantage of being an emerging manager and to grow the business that way," Peter-Kerr says. "But we also feel we can compete against all the competition out there."

Boedicker thinks pensions will have no problem identifying plenty of qualified emerging managers. "The industry is finally catching up and realizing there's a universe of wonderful talent," she says.