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How To Become a CalPERS Emerging Manager: Part 1

By Stephen Dalton

Nothing compares to becoming an emerging manager for the largest pension fund in the country. The California Public Employee's Retirement System **(CalPERS)** has over $240 billion in assets, and is a national leader in the pursuit of top emerging manager (also known as developing manager) talent.

CalPERS' first emerging manager program, known as the Manager Development Program I **(MDPI)** was started back in 2000 with the hiring of Strategic Investment Group **(Strategic)** to build out a $2 billion program utilizing emerging managers. Eight emerging firms were funded under that program. To date, Strategic has successfully negotiated exits from two of them.

Deborah Boedicker, Principal of Arlington, VA-based Strategic Investment Group, said "If you roll back the clock, there had never been emerging manager programs of this kind with a venture component before MDP I. CalPERS was truly innovative establishing this as the first program of its kind."

Since the success of that initial program, Strategic, one of CalPERS' partners, now manages the **MDP II**, a program designed primarily to assist in the creation and/or development of investment management firms with less than $2 billion in assets. The program is an opportunity for CalPERS to seek superior investment returns while providing opportunities to new and emerging firms that may not have the long-term track record, assets under management and marketing clout to compete against institutional giants.

As in MDP I, under MDP II CalPERS and Strategic will take an equity position in each candidate firm. In addition, Strategic will offer advice to each selected firm with respect to business management and business development.

Strategic was founded in 1987 as a provider of discretionary, customized manager-of-manager programs for all asset classes. Since inception, Strategic has been investing in emerging managers, both with and without equity participation, acting as a seasoned, experienced, and proven partner in emerging manager programs. Today, Strategic and its affiliates manage approximately $52.6 billion in assets (as of December 31, 2007).

In more recent news, CalPERS and Strategic announced earlier this month that they have selected Quotient Investors, LLC **(Quotient)** as the first emerging manger of the Manager Development Program (MDP II). Strategic expects to add 2 or 3 additional managers to the MDP program for each year in the future.

Quotient is a quantitative equity management firm located in New York City, and formed in 2007. The firm offers a range of quantitative U.S. equity products, including structured equity, small cap, and 130/30. Quotient was founded by its three managing partners: Andre Bertolotti;

William Yost, Director of Portfolio Management and Trading; and Julia Peter-Kerr, Director of Client Service and Sales. Prior to founding Quotient, the team had worked together at DIAM USA, Inc. (formerly DLIBJ Asset Management USA, Inc.).

The firm will manage a U.S. Structured Large Cap Equity strategy and a U.S. Small Cap Equity strategy. The firm intends to focus primarily on institutional investors. According to Boedicker of Strategic, "Quotient were allocated $150 million, $100 million will go into their structured large cap equity strategy and $50 million is going into their small cap equity strategy."

"Quotient represents a very attractive initial investment to the MDP II," said Hilda Ochoa-Brillembourg, President of Strategic Investment Group in a press release. "The experienced investment team employs a sophisticated investment process which applies proprietary industry-specific models to seek to exploit pricing inefficiencies. The managing partners also benefit from having worked in entrepreneurial environments within larger firms, and as a result, possess the maturity and strong business management skills that will enable them to build a solid business foundation for the firm."

"This represents a unique opportunity for us to partner with CalPERS and Strategic to bring a strong suite of equity products to the institutional investor community. This is the type of focus and support we were seeking," said Andre Bertolotti, Director of Investment Strategy and Research.

"This selection of Quotient Investors by Strategic is another step advancing our commitment to emerging managers," said Russell Read, CalPERS' Chief Investment Officer. "These firms give us access to a larger number of managers to generate positive, long-term investment returns and reflect the diversity of the market."

Boedicker adds, "Quotient is an interesting firm. They are a quantitative equity firm and one of the things from Strategic's point of view that is so impressive to us is their investment process. They've had roughly a 10-year history, prior to founding Quotient, of managing quantitative equity strategies and have had a very successful strategy history. I think their investment process is very leading edge and their risk management analytics are extremely robust. Finally one of the aspects they have, which is very important for a quantitative firm in particular, is a commitment to ongoing research. It's getting harder for all active managers to try to add value. Therefore, it's very important for all firms, young and old to have a strong commitment to innovation."

Boedicker continued by saying, "Emerging Managers bring focus and energy to the task of managing assets and they haven't yet grown to a size where they may be encumbered with other management responsibilities that could dilute that focus. All they are about is delivering great returns. It is a laser-like focus and a fire in the belly they possess. I think that energy and focus is very common within young firms. It helps keep them on task. I do think they are diamonds in the rough too, and these types of emerging manager programs in general are very important to the long term development of the investment management industry."

"It's important for young firms to have choices and they do have several choices in how to get started," explains Boedicker.

1. They could go to a traditional private equity firm and get capital in exchange for an ownership interest.
2. They could go to another emerging manager of managers that only has a fund, do RFPs, and compete to get assets within an EM program.
3. Ours, the third option, is bringing not only assets but working capital, a long term partnership and an investor that knows the industry. CalPERS and Strategic know this industry, while a private equity firm may not.

"With Strategic you would also get a long-term partner who understands your business and who is there to make sure you have the support you need. Some firms feel the close partnering and support the MDP program brings is the best solution for them. An emerging manager gets the publicity of this kind of program, the potential to receive a $150 million allocation, and the support of someone like strategic who has been investing in emerging manager for 20 years. All of those things line up arguably to help you grow faster and healthier than perhaps some of the other choices."