COMING SOON


AP/Wide World

Bob Boldt says the emerging manager program coincides with a move toward technology.

CalPERS program ready to go

Emerging manager contracts imminent

By Susan Barreto

SACRAMENTO, Calif. — The California Public Employees' Retirement System's emerging manager program is poised to take off quickly in the coming weeks as contracts finally are signed.

CalPERS is promoting emerging managers and emerging technology in a first-of-its-kind manager development program, which was approved by the board in May.

While contracts have yet to be finalized, trustees of the fund, which had $170 billion as of Dec. 31, have committed up to $4 billion to the program that will not only allocate assets to emerging managers, but also will invest a total of $80 million in the firms in exchange for equity interests in each money management firm.

CalPERS has hired Progress Investment Management Co., San Francisco, and Strategic Investment Management Partners Inc., Washington, to do the due diligence on the emerging managers "to make sure that these firms have a good solid economic footing," said Bob Boldt, CalPERS' senior investment officer.

The development program coincides with an in-house initiative to manage up to $2 billion of CalPERS' domestic equity indexed portfolio with "smart" computers and quantitative models. Some of the young firms Mr. Boldt expects to be hired are using artificial intelligence technology to manage stock portfolios.

A total of $1 billion has been allocated to Progress and $2 billion to Strategic, with another $1 billion to be invested later if suitable firms are found, said Mr. Boldt. The two will oversee the program in a manager-of-managers approach.

The funding for the program

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will come from CalPERS' $60 billion internally managed domestic index equity portfolio.

Hilda Ochoa, president and chief executive officer of Strategic, is working on screening her list of 100 emerging manager firms. She expects to be done with the screening in the next 90 days.

Her list of criteria for candidates includes: a combined asset return and equity ownership return of 30% per year; evidence of strong business leadership and responsibility; ability to attract clients in the first 12 months; and the potential of breaking even in the first year.

HighCrest Capital Partners Group, San Francisco, is working with Progress in locating money managers in which to invest, Mr. Boldt said. Officials at HighCrest did not return phone calls.

Progress has received more than 200 inquiries from interested firms, said Clayton Jue, chief investment officer of Progress.

So far, the list has been narrowed to about six firms, Mr. Jue said. All of the firms on the list are equity firms, although in the beginning the understanding was the program would contain a variety of asset classes. Mr. Jue said. "From our standpoint this (the selection of managers) will all be driven by the high excess return potential."

Naming names

While neither Mr. Jue nor Ms. Ochoa would name the firms that are being considered, *Pensions & Investments* has learned that Arrowstreet Capital LP and NeuWorld Financial are two of the firms are in the running.

It is not known how much the Cambridge, Mass.-based Arrowstreet would manage or how much of a stake CalPERS possibly would acquire.

The firm was launched in June by Bruce Clarke, former chief executive officer of PanAgora Asset Management; and Peter Rathjens, who had been PanAgora's chief investment officer.

"We are hoping to know more in the next 10 days," said Mr. Rathjens, now chief investment officer at Arrowstreet.

The firm welcomes having another outside shareholder in addition to HighCrest Capital, which owns 15% of Arrowstreet, he said.

The new firm has $200 million under management and is investing in international portfolios benchmarked to the Morgan Stanley Capital International Europe Australasia Far East index.

Meanwhile, San Diego-based NeuWorld Financial is banking on its artificial intelligence technology capability to earn a place in the CalPERS program, said Barry Hippensteel, senior vice president of the firm. NeuWorld has $4 million under management in various types of equity portfolios.

Likes artificial intelligence

Indeed, CalPERS seems to be a proponent of NeuWorld's strategy of using artificial intelligence to enhance stock portfolio performance. Final touches are being put on an artificial intelligence system at CalPERS to manage in-house equity strategies.

Mr. Boldt hopes that if NeuWorld is selected for the emerging manager program, his staff will benefit from some cross-fertilization.

The endeavor to create a "developmental" environment was a challenge, Mr. Boldt said. Purchasing high-speed computers, state-of-the-art software and a database followed the official start of the artificial intelligence initiative in September.

The two-member team working on the project is well on its way to creating a model and a methodology to run among three or four separate investment portfolios, he said.

He could not say when the project would be finished: "We have just all kinds of ideas. The hard part is deciding what kinds of ideas to pursue." ■