

Testimony by Joe Dear

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**Assembly Committee on Public Employees,
Retirement and Social Security**

Chairman Torrico, members of the committee, thank you for the opportunity to appear before you today.

I'm Joseph Dear, Chief Investment Officer at CalPERS.

This morning I'd like to address one of the principal concerns raised in opposition to AB 1743 – that by banning contingency fees, smaller money managers – often women and minority-owned firms – will find themselves effectively shut out from receiving investments from CalPERS.

Essentially, their argument is that as small firms they sometimes feel compelled to hire placement agents to pitch their proposals because they don't have the money to promote their investment ideas like the big financial players do.

They contend that they can't afford to compensate these individuals unless the deal is done. Only then can they pay them for their work by giving them a cut of the investment.

I can't speak for money managers and their marketing campaigns. But I

can speak for CalPERS and its rich legacy of outreach to new and small emerging managers.

And I can say that a ban on contingency fees will in no way hurt the ability of these managers to do business with us.

In fact, my staff and I have worked with a determined zeal to achieve a goal I set when I arrived at CalPERS a year ago: to ensure that no skilled money manager, especially small and emerging ones, should ever feel the need to hire a placement agent to get an investment proposal in front of us.

The reason is simple: Our competitive edge comes from our own concerted efforts to reach out to find the best and most diverse investment skills and ideas the marketplace has to offer.

We have the people ... the programs ... the technological initiatives ... and ... most important ... the commitment to ensure that all good investment ideas that come through our doors get a serious examination.

We believe our aggressive efforts mean money managers will have little need to hire a placement agent to talk with us.

And apparently the vast majority of fund managers we have worked with agree.

In January, we released more than 600 disclosures we collected from money managers.

According to those disclosures, about 80 percent of these managers did not hire a placement agent to seek CalPERS business.

But drill down and you'll see some more revealing numbers: 91 percent of emerging hedge funds ... 66 percent of private equity ... and 65 percent of private equity identified as having diversity ownership – none of these groups saw the need to spend money on a placement agent to get in contact with us.

Let me explain why.

Our outreach stretches across the entire financial landscape ... and across the decades.

- Our 20-year-old private equity program and our nearly 10-year-old California Initiative have more than four billion dollars committed to firms with significant minority participation.
- Ten years ago we created a Management Development Program to invest directly in small and emerging funds in exchange for an equity stake ... and few years later we launched a program for hedge funds.

These two programs have nearly two billion invested in them ... and of these firms are majority owned by women, minorities,

disabled individuals and veterans.

No doubt, these substantial investments of more than six billion dollars do much to spur on a legion of new and skilled small emerging managers.

But that's only part of the work we must do.

To successfully achieve our goal, we must create a wide-open avenue of two-way communication between CalPERS and money management firms, new and old.

This is where our drive and commitment come in.

In the past few years, CalPERS, often in conjunction with our colleagues at CalSTRS, has hosted nearly a dozen workshops designed for small and emerging money managers.

We've held Women in Investments Conferences ... co-sponsored a Legislative Black Caucus Investment Workshop ... and participated in investing events with the Legislative Asian Pacific Caucus and the Latino Caucus.

And just two months ago nearly 100 emerging managers from around the country spent a day in a workshop at which CalPERS and CalSTRS staff explained the ins and outs of doing business with the funds.

The better these potential partners understand how we work and what we

want, the more successful they can be in tailoring and directing their investment proposals to us – all without spending a dime to have a placement agent walk through our front door.

Nor will they have to spend a dime to talk with our new investment officer for diversity.

We've hired a skilled, experienced asset manager for this newly created position, one who will be a key point of contact for emerging managers throughout the industry, across all types of investments and asset classes.

Our new investment officer will help to ensure that the financial industry knows the type of emerging manager we're looking for and the type of investment we're interested in ... and at the same time he will help us uncover new potential partners operating in all corners of the financial landscape.

Finally, I want to mention one more key piece of the communications puzzle that again is designed to drive home the point that no one needs to be paid a million dollars to get in touch with us.

A couple of months ago, we launched a simple yet extremely effective two-way communication tool – a web page from which money managers everywhere can e-mail us their investment proposals.

We monitor the e-mails rigorously ... and in the first two months alone more than 210 proposals have come in.

In fact, I've brought with me this morning some letters I've received from emerging managers we've done business with ... who state clearly that our programs and our outreach were instrumental in their ability to pitch their investment ideas to us ... and none of them saw any need to hire a placement agent.

This is the kind of direct access that gives every money manager, big or small, new or established, what they are really after ... the chance to have his or her investment idea evaluated by CalPERS solely on its merits.

And, ultimately, that may be the most important message we are sending with AB 1743 – our commitment to examine every good investment idea based only on whether it's good for CalPERS.

That's the surest way to guarantee CalPERS success – to guarantee that the money we've been entrusted with will be invested for the sole purpose of serving the more than 1.6 million public employees, retirees and their beneficiaries who are counting on us to help keep their financial future secure.

Thank you.