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Emerging manager programs will continue expanding by the billions as small firms grow and pensions continue to count on them for fresh ideas and performance, according to a group of executives from large U.S. pensions.

Because emerging asset management firms are often owned by women, minorities or the disabled, they also give pensions more opportunity to add diversity to their manager roster, part of a larger trend that is

putting pressure on even large managers to hire broadly, pension officials said, speaking at an October investment conference held by the **New America Alliance**.

Investment programs that champion emerging, women- and minority-owned managers have expanded significantly in the last year, with a number of large programs in motion to extend this growth, they added.

The **Teacher Retirement System of Texas** is one public pension set to double its emerging manager program to a $4 billion mandate over the next three years, according to panelist **Sylvia Bell**, managing director for investment operations at Texas TRS.
"We are going to be working with our asset managers and consultants to figure out how do we spend the time to find the best new managers, find the best new ideas, find the special talents of these new individuals that are out there," she said on the panel. This will include a plan to help managers transition to larger mandates as they grow. The Texas TRS program includes private equity, real estate, energy and natural resources, public equity and hedge funds.

Similarly, New York City's five public pension funds will add another $500 million to their private equity emerging manager investment program. The city's pension funds already invested a combined $14 billion in emerging managers and $11 billion with women- or minority-owned firms.

"That's a number that we are very proud of and we look forward to doing a lot more work in that area to continue to increase our allocation and to work with the best emerging managers in the country across all asset classes," said **Alex Done**, head of private equity and the emerging manager program at **New York City Retirement System** (NYCRS). "Small managers are very critical to New York City."

The New York City program already helps managers that graduate from the current program size limits.

The **California Public Employees' Retirement System** (**CalPERS**) in the last few months has added a $7 billion transition manager program for mid-sized global equity, real estate and private managers transitioning from CalPERS' $3 billion emerging program, **as reported**. The new transition program is designed to help managers that are not yet large enough to compete with large firms for mandates. NYCERS is also considering whether to purchase stakes in the firms they help grow.

"Directionally, what we think the next step would be for New York City... is having the ability to have more strategic relationships," he says, adding that the idea is in the early stages. "It could run the gamut. It could mean having a [general partner] stake."
The New York City funds earlier this year incorporated questions about diversity into its due diligence process. Panelists emphasized that essential to the programs is the development of diversity at senior levels and holding firms accountable when they lack that diversity.

The **New York State Common Retirement Fund** has $10 billion invested in women and minority owned firms, and half goes through the emerging manager program, says **Anastasia Titarchuk**, the fund's deputy CIO.

"We think we can do a lot more," she says, noting that some of the plan’s emerging managers have been top-performers. "We always talk to our prospective and existing managers and say ’Where are the women?’ and ’Where are the minorities at senior level positions in the organization?’"

But, she added later, performance is key no matter the mandate in question.
"We actively seek diversity, and we put them through the same process that any other firm would go through. The only way you can be in the program long-term and increase your allocation is if you can

show that performance and that’s why our process is the really the same as it would be for any other manager," she said.
Similarly, public pension officials in Illinois – a state seen as a leader in setting **diversity-focused policy** for its managers - is also acting to promote diversity in the investment management industry for the long term.

The **Illinois State Treasurer’s Office**, which manages $25 billion in state funds, three months ago began asking its managers about minorities at all levels from senior leadership to researchers and analysts, said **Rodrigo Garcia**, CIO and CFO at **Illinois State Treasury.**

Ensuring diversity at all levels is essential to developing a pipeline of talent to fill senior leadership going forward, he says.

"Some were resistant at first... The numbers have now begun to flow in," he says.