By **Zoe Hughes**

Tale of Two Emerging Manager Programs

Two of the largest public pension plans in the U.S., **CalPERS** and **New York Common,** have launched alternative programs to target the real estate emerging manager space: separate accounts sourcing programmatic joint ventures with up-and-coming GPs. Run by Canyon Capital and Artemis Real Estate respectively, the two programs are very different; what brings them together is a focus on mentoring.

Canyon: California Catalysts

When Canyon Capital Realty Advisors won the separate account to build the real estate emerging manager program on behalf of the California Public Employees Retirement System (CalPERS), one of their main responsibilities was to provide mentorship to fledgling institutional money managers. That's a capability better handled, perhaps, by a smaller, dedicated GP than a large public pension.

"The mentoring is very individualistic," says Maria Stamolis, managing director at Canyon and head of the $200-million Canyon Catalyst Fund, which houses the CalPERS' emerging manager investments. "In each case we are providing guidance and support to the partner and their team. In addition, we provide perspective on the structuring of the investment as well as guidance on the business plans for the assets."

Even with a specific mandate to "develop" the new managers, Canyon was required to choose candidates who were already successful in their existing field, and self-sustaining. The CalPERS capital was about aiding 'transition and transformation' of the next generation of real estate investment managers. It was not about "survivor" capital.

The Fund

Canyon is focused on finding the best operators, developers and early-stage investment managers who hope to invest on behalf of one of biggest names in the institutional real estate world. There's one important caveat: the managers must all be based in California.

Theodore Eliopoulos, senior investment officer for real assets at CalPERS, said in December 2012 that the California-only rule was a deliberate "walk before [you] run strategy." Over time, and with success, he said, the pension would look to grow beyond the state's borders.

Stamolis says the goal on the front end was to cast a "very wide net" in sourcing managers for the programmatic joint venture account. Roughly 225 managers were identified at the start of the program in late 2012, a number that was reduced to 55 once the California filter was applied. Preliminary negotiations were conducted with 12 prospective managers. Four were ultimately selected and received, in total, about 25 percent of the fund.

Each manager has been allocated between $30 million and $50 million of equity. With leverage limits, that translates into a possible $60 million to $100 million of purchasing power per manager.

Ensuring Success

The four selected managers —Pacshore Partners, Paragon Commercial Group, Rubicon Point Partners and Sack Properties— have different focuses. Rubicon and Pacshore target office, mixed-use and data centers in Northern and Southern California, respectively. Sack targets multifamily throughout the state and Paragon focuses on retail development and redevelopment, particularly grocery and community retail, across California.

"It's very specific," Stamolis says of the investment criteria. "If there's a product type similarity [between the managers], there's no geographic similarity. Managers need to be focused on specific product types and investments that are accretive to the goals of the fund and especially to CalPERS."

In supporting these managers, Stamolis says, "You have to be able to respond and provide specialized guidance depending upon where each manager is in their own company's life cycle, taking into account the goals of fund." For some, the focus is on establishing and enhancing back office capabilities; for others, it's executing on a growth plan or developing support for their pipeline.

It's also about exposure to the institutional real estate ecosystem, including introductions to lenders and brokers. "The CalPERS' seal of approval brings a level of credibility that has augmented the managers' ability to transact," Stamolis adds.

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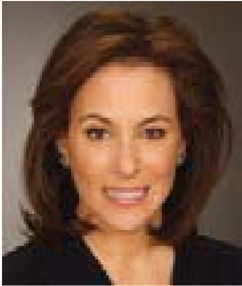
CAN IT WORK?

For all the benefits a relationship with CalPERS can confer, some concerns have been raised that, as a programmatic JV, the management fees won't offset the cost of compliance with CalPERS' reporting standards.

As one former CalPERS' manager said at the December 2012 workshop, the reporting, asset management and organizational investment needed to come up to CalPERS' standards can cost anywhere between $100,000 to $1.5 million. "Because the worse thing in the world is to give someone just enough money for them to go out of business," he said, according to a transcript.

Stamolis understands the challenges facing emerging managers, but adds: "Working for CalPERS does require a high level of compliance and reporting, and everyone understands that going in. The fees are there to cover the resources needed to source and manage the investments of the fund. You morph your reporting to your investors' needs."

Artemis: One Size Does Not Fit All



Deborah Harmon

Two years into their emerging manager investment program, Artemis Real Estate Partners co-founder Deborah Harmon is as passionate about the space as when she first secured the mandate from the New York State Common Retirement Fund.

"It's our responsibility, along with other like-minded firms, to change the face of the real estate industry," Harmon says literally.

In investing the $300-million separate account from New York Common, Artemis has kept a focus on diversity and ownership structures. In sourcing potential managers for its program, Artemis developed a database of more than 300 emerging managers, of which 13 were ultimately selected and received allocations of up to $50 million each. Nearly 80 percent of the managers are minority and women-owned businesses, and all are targeting core-plus strategies, across product types and the country

"We are seeing new emerging managers every day with a wide variety and diversity of firm ownership, strategy and experience," Harmon says. "In our experience, when you invest with emerging managers you can improve the diversity [of your portfolio] and, most importantly, the bottom line. Emerging managers often have an unparalleled will to succeed."

Early focus

What makes the program most unique is that Artemis and New York Common are targeting core-plus investing. That focus is something that Harmon says few, if any, other emerging manager programs share. "While taking a bit less risk on the asset, we can provide more help and take more proportion risk with the manager," she says.

Of the 13 selected emerging managers, two are start-up firms, says Harmon. Artemis is helping the firms' senior executives, who are spinning out from larger organizations, build their teams and infrastructure.

Of the remaining managers, Artemis has targeted established operators and early-stage investment managers to pursue core-plus joint ventures. Among them are Ellis Partners, which is targeting office, industrial and retail in San Francisco's Bay Area; Primestor Development, which is developing a retail JV with Artemis in California; and Capstone Development, which is targeting hotels across the US.

"Our general counsel provides significant mentoring on compliance and our CFO and accounting team facilitate lender introductions. Our portfolio managers oversee our managers, acquisitions and work with the New York Common team, and I focus on providing strategic business development advice" Harmon says.

And that's the key to any emerging manager investing for Harmon: "There is no one-size fits all approach," says Harmon. Especially not for programmatic JVs.

Harmon readily acknowledges that LPs such as New York Common., TRS and CalPERS have been influential in investing and promoting the emerging manager space. But more is needed, she says. "It is critical to increase the access to capital to open the doors for the next generation of real estate investment managers." /