

TEXPERS 21st Annual Conference - 2010

A Primer to Include Minority and Women Owned Firms In Your Investment Program

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Why Are We Having This Discussion

Minority and Women Owned Business Enterprises (MWBE) Have Historically Been:

- Overlooked
- Under-represented
- Underestimated
- Misunderstood
- Excluded

Why Utilize MWBE Managers

Diversity

Diversification

Social Remediation

Performance

Law

Universe Statistics

Type Of Ownership	Number of Firms
African American	52
Asian American	23
Latino	21
Other Minority	11
Women	64
Total	171

Universe Statistics

Strategies Offered:

- Equities – All types Including International
- Fixed Income – All types Including International
- Private Equity - All types
- Real Estate
- Absolute Return
- Consulting
- Fund-of-Funds
- Brokerage

MWBE vs. NON-MWBE

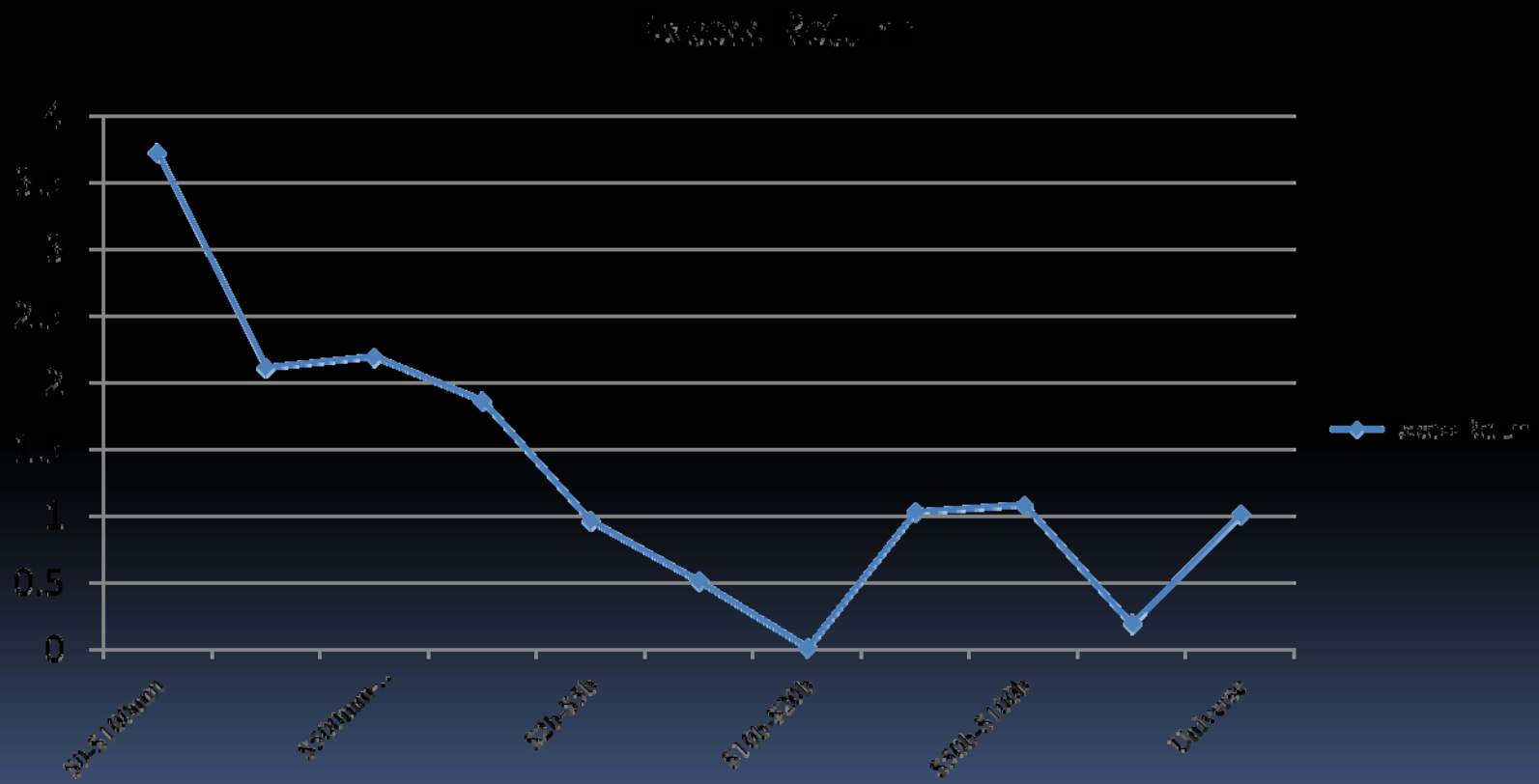
MWBE Firm Characteristics

- Process Based on Fundamental / Technical Criteria
- Professionals have attained quality education and training at Non-MWBE firms
- Smaller Size Advantage
- Higher Percentage of Employee Ownership
- Long Term Focus

Non-MWBE Firm Characteristics

- Process based on fundamental / technical criteria
- Professionals have attained quality education and training at Non-MWBE firms
- Larger size can be a positive or negative
- Long / Short Term Focus
- Fee Advantage

Size vs. Value Added



Source: Progress Investments, e-vestment alliance

Proof Statements

In a 2008 white paper produced by Northern Trust, Ted Krum, VP Portfolio Management writes;

- Investors with minimum assets under management requirements often excluded top-performing managers. Roughly 40% of core U.S. equity managers in the top quartile of performance managed less than \$2 billion.
- Emerging investment managers outperformed larger firms at the median, as well as at the top and bottom quartile levels. This result was consistent across all major style groups and implies that manager-selection skill may be better rewarded when applied to the small-firm universe.
- Small firms delivered better performance in down markets.

Proof Statements (cont'd)

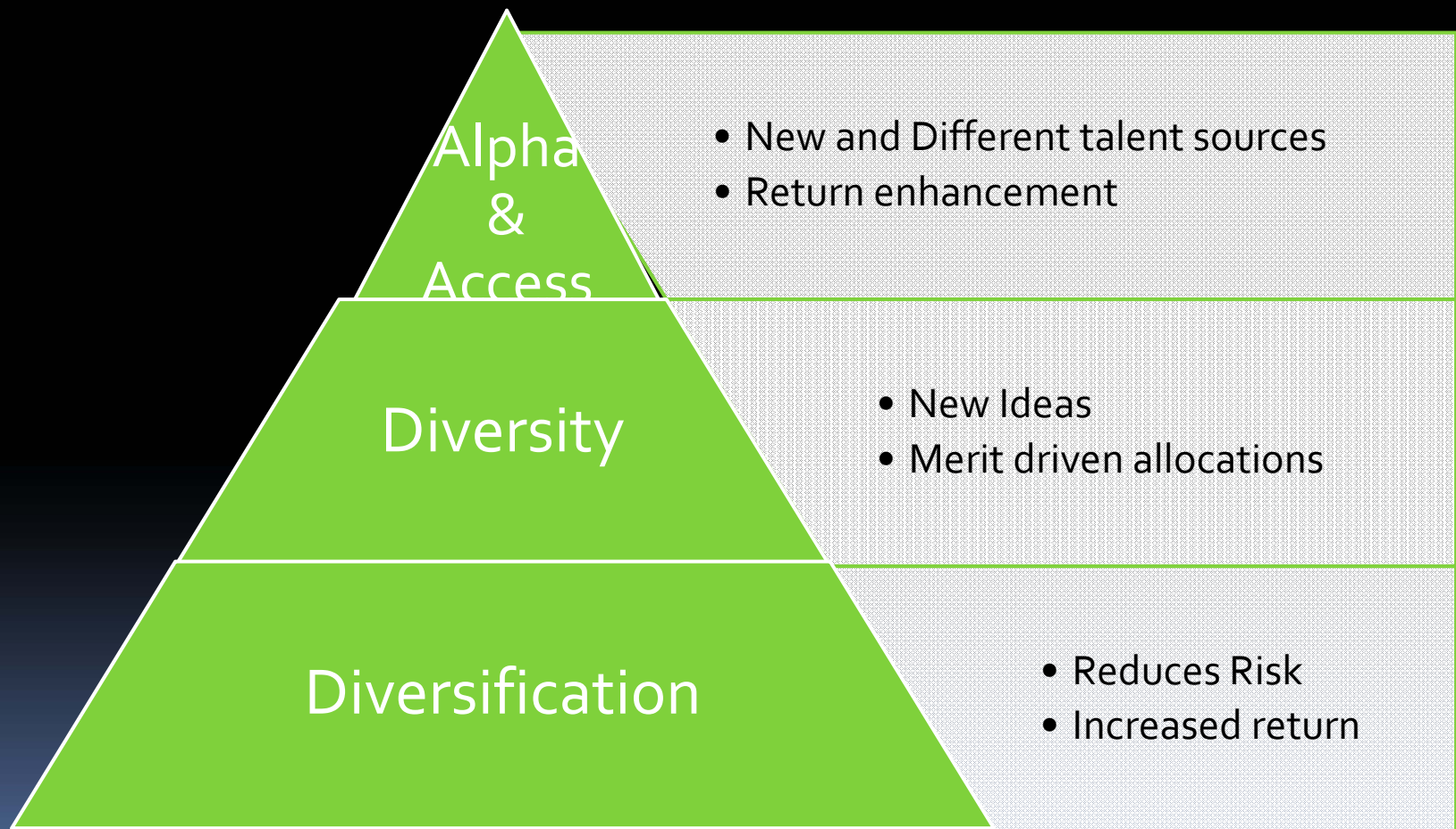
A 2007 paper produced by Fiduciary Investment Solutions shows;

- Firm growth for Large Core products > \$2b led to less concentrated portfolios and lower risk adjusted returns
- Similar results for Large Growth while Large Value was inconclusive
- Firms managing small capitalization securities with assets <\$500mm were more positively correlated with risk adjusted return

Similarly a 2006 research piece from Leading Edge Investment Advisors produced the following;

- Emerging managers perform better in both up-markets and down markets when compared to their larger counterparts
- Emerging Managers had Excess Return, Sharpe Ratio, Information Ratio and a higher tracking error
- Emerging Managers perform better when market volatility is high

Investment Thesis



Representative Sample

- Arkansas Teacher Retirement
- CALPERS
- CALSTERS
- Chicago Policemen's Annuity and Benefit Fund
- City of Kansas City Employees' Retirement Fund
- City of Philadelphia Board of Pension and Retirement
- Detroit General Retirement System
- District of Columbia Retirement Board
- Illinois Municipal Retirement Fund
- Illinois State Board of Investment
- Indiana Public Employees' Retirement Fund
- Los Angeles City Employees' Retirement System
- Los Angeles County Employees Retirement Association
- Maryland State Retirement & Pension System
- Massachusetts Bay Transportation Authority Retirement Fund
- Michigan Department of Treasury
- Minnesota State Board of Investment
- Municipal Employees' Annuity & Benefit Fund of Chicago
- New York City Board of Education Retirement System
- New York City Employees' Retirement System
- New York City Fire Department Pension Plan
- New York City Police Pension Plan
- New York State Common Retirement Fund
- New York State Teachers' Retirement Fund
- Ohio Public Employees
- Oregon Public Employees Retirement Fund
- Pennsylvania Public School Employees' Retirement Fund
- Pennsylvania Treasury Department
- Public School Teachers' Pension Fund of Chicago
- San Antonio Fire and Police Pension Fund
- San Francisco City & County Employees' Retirement
- San Joaquin County employees' Retirement Association
- Seattle City Employees' Retirement System
- Shell Oil
- State of Connecticut Retirement Plans and Trust Funds
- State University Retirement System of Illinois
- Teachers' Retirement System of Texas

Source: Progress Investments

Implementation

- Be Clear and Committed to your Objectives
- Gain a thorough understanding of the universe
- Identify holes in your investment program and allow for flexibility
- Identify what types of MWBE providers can be helpful (Brokers, PE, Hedge Funds)
- Allocate a meaningful number (Allocation) to the effort
- Choose the most effective implementation approach for your plan
- Selection criteria should not sacrifice alpha

Implementation Strategies

- Utilize your consultant's product (if available)
- Utilize your consultant's expertise (if available)
- Hire a consultant to assist with the project
- Direct hire
- Manager of Managers or Fund of Funds
 - Index Focused
 - Alpha Focused – Best of Breed
 - Customized
- Directed Brokerage

Summary

Adding MWBE Firms enhances your investment program through:

- Increased risk adjusted and absolute return
- Reduced risk
- Reduced concentrations with large firms
- Increased diversification
- Increased Flexibility

QUESTIONS ?



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