



CASE STUDY:

How do I create an effective emerging manager program with limited staff?

Client

\$150 billion US public pension plan

Challenge

Create a successful emerging manager program in private equity for an investor with limited in-house staff resources looking for exposure to first-, second-, and third-time funds, including diverse managers, that could deliver competitive returns

Solution

- > HarbourVest Horizon created a separately managed account (SMA) to invest in emerging managers for the client, including ongoing investment oversight
- > Highly collaborative partnership defined by frequent dialogue and continual review of opportunities

Commitment

\$200 million initial commitment, followed by an allocation of \$300 million across two \$150 million tranches

Strategy

US primary

Geography

United States

Success Indicators

- > Enabled client to build relationships with a broad pool of emerging managers, several of which graduated to core program
- > Strong returns being generated by the program
- > Client chose to expand program, and is considering an additional allocation to manage funds transitioning to a core program

BACKGROUND

A \$150 billion US public pension plan (“the client” or “pension fund”) initiated a competitive search for a private equity SMA manager in 2008. The objective was to select a long-term partner that would help the pension fund, which had limited in-house staff resources, create a successful emerging manager program.

The client’s goal was to invest in first-, second-, and third-time managers, including those with diverse profiles, that could potentially graduate to its core portfolio. The client also sought to optimize levels of staff oversight for the program to ensure a level of engagement appropriate to its resources. In addition, because of the client’s high profile, it required strict attention to economics and fees at the underlying manager level and transparency on how the program would operate.

SOLUTION

HarbourVest Horizon (“Horizon”) created a multi-part strategy to meet the client’s needs. Drawing upon its experience and established sourcing processes, through which it reviews hundreds of emerging and diverse managers annually, Horizon set up an appraisal process to identify and analyze suitable investment prospects.

Horizon also formalized measures to connect the pension fund’s staff with underlying managers to increase the likelihood of eventual graduation. These included a periodic pipeline review between Horizon and client staff and meetings between client staff and promising fund managers. These curated interactions ensured client time was used efficiently, while still providing the opportunity to build relationships with managers to help inform future graduation decisions. Horizon additionally provided clarity on the fees and economics of the underlying managers to meet the client’s need for transparency.

More broadly, firmly aligning it with the client’s values, Horizon actively engages with programs and trade associations across the industry that encourage diversity in the finance industry, and fosters a dialogue of inclusion with Fortune 500 companies on how they might work with diverse managers.

OUTCOME

The program has performed well against private equity benchmarks. Managers that were part of the initial commitment raised capital for subsequent funds directly from the client, graduating to its core portfolio. In 2014, the pension fund allocated an additional \$300 million to the program in two \$150 million three-year tranches, which closed in 2015 and 2018, respectively.

In early 2018, Horizon was able to use its market position to source an allocation to a difficult-to-access fund. Though the opportunity size exceeded the original parameters set forth in the SMA, Horizon's close relationship with the pension fund led it to believe that the opportunity would be of interest. Working flexibly with the client, Horizon executed on a plan to draw on both the 2015 and 2018 investment tranches to give the client exposure to a top-tier manager it would not otherwise have been able to access.

VALUE-ADDED SERVICES

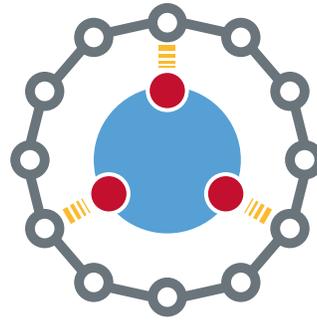
- > **Customized Portfolio Reporting:** Horizon provides quarterly and annual reports, as well as monthly pipeline updates, enabling the client to actively take part in building the program.
- > **Knowledge Transfer/Staff Training:** Horizon hosted the pension fund's investment team to enhance its capabilities by sharing ideas, opportunities, and industry knowledge. Topics have included how to conduct due diligence on emerging managers, key differences between emerging and core managers, and developments in the emerging manager industry.
- > **Fund Manager Relationship-Building:** Horizon helped create a structure to facilitate frequent and open communication between the client and the underlying pool of emerging managers. This allowed the client to independently build relationships, which would help facilitate the potential graduation of emerging managers to its core program. As part of this process, Horizon ensured that transparent and timely feedback was given to the general partners considered on the client's behalf.

CUSTOMIZED SOLUTIONS

HarbourVest has worked closely with investors for more than three decades to selectively implement custom account solutions. We collaborate with our clients to understand their goals, build a roadmap to achieve these objectives, and construct private markets portfolios tailored to meet their risk-return requirements. HarbourVest strives for transparent communications and operational excellence and provides comprehensive back-office infrastructure and rigorous institutional risk controls.

To learn more about Custom Solutions, please visit us online at www.harbourvest.com/expertise/emerging-diverse-investment.

CORE PORTFOLIO GRADUATION



EMERGING MANAGER SELECTION



DEDICATED EXPERTISE

