

Governor Phil Murphy

ICYMI: New Jersey's \$95 Billion Pension Fund Unveils Emerging Managers Program to Diversify Portfolio, Build the Next Generation of Investment Talent

04/27/2022

New Program Kicks Off with Proposed Investment of up to \$250 Million in Barings LLC to Help New Jersey Access Smaller Managers, Broaden Market Diversification

TRENTON – The Murphy Administration today officially unveiled a new Emerging Managers initiative being launched by the Department of the Treasury's Division of Investment in order to further diversify the private markets portfolio for the State of New Jersey's roughly \$95 billion pension fund, including the first proposed investment of up to \$250 million under the new program.

"I applaud Treasury and the Division of Investment for putting the wheels in motion and casting a wider net to attract a broader range of diverse investment opportunities, including investment managers from underserved communities," said **Governor Phil Murphy**. "We are essentially putting together a farm team to build up the next generation of talent - emerging managers who have the skills, but not necessarily the access, to make it to the major leagues."

The Division of Investment (DOI) formally presented the initiative to the State Investment Council (SIC) at its latest meeting today after being reviewed by the SIC's Investment Policy Sub-Committee earlier this month. In doing so, DOI also proposed its first investment in the new program – up to \$250 million in a separately managed investment vehicle by Barings Funds & Co-Investments.

The Barings investment will broaden the pension fund's diversification, help the division access smaller managers, and capture potential attractive returns in small to mid-size growth and buyout funds. Barings has a reputation for employing an open-door policy and a proactive origination program that includes a network of relationships, including members of its team who serve in leadership roles in organizations focused on increasing women and diverse representation in the asset management industry, such as the Toigo Foundation, the Hispanic Heritage Foundation, NAIC (<https://naicpe.com/>), and PEWIN (<https://pewin.org/>).

"This platform will enhance the pension fund's exposure to a broader range of fund managers, including diverse fund managers," said **State Treasurer Elizabeth Maher Muoio**. "The Division of Investment has a fiduciary duty to invest pension fund assets for the financial benefit of the fund's beneficiaries – New Jersey's hardworking public employees. I applaud the Division of Investment for identifying this unique opportunity, exploring it, and acting upon it."

The Emerging Managers program is centered around a platform of Separately Managed Accounts (SMAs) that will source, conduct due diligence on, invest in, and oversee allocations to emerging managers. DOI will begin by investing with large, well-established asset management firms with adequate resources and expertise, selecting firms who are long-term primary investors with the ability to anchor first-time funds and scale with the underlying funds throughout their development.

DOI will establish specific customized criteria for each SMA in order to ensure a diverse pool of fund managers. The SMAs will help in identifying successful emerging fund managers who fit into the broader DOI portfolio and can "graduate" into direct relationships with the division.

"By creating an emerging managers program that targets growing firms there is value to be had in both the way we conduct business and as a strategy to create added returns. These managers will bring both a very high quality and a fresh view point to money management," said **Deepak Raj, Chair of the NJ State Investment Council**. "This platform will enhance exposure to unique and niche opportunities that are too small for larger funds."

DOI intends a target investment size of up to \$250 million in each SMA, which would be allocated to approximately 10-25 underlying private equity funds.

Additionally, DOI is planning to conduct an Emerging Managers Symposium later this year to engage the prospective talent pool and promote the new program to as wide of a universe as possible.

"The Division of Investment continually seeks to allocate capital to the best risk-adjusted investment opportunities available. As part of that effort, we consistently look for ways to add improvements across our portfolios," said **Shoaib Khan, Acting Director of the Division of Investment**. "The Emerging Managers Platform is a dedicated program to source, vet, and invest in some of the brightest talent at an earlier stage of an investment firm's life cycle to the benefit of our overall portfolio."

DOI intends to gradually build out the program, starting first with private equity where the universe size is largest, historic track records of success have been built, and new fund creation is most plentiful. Given the broader and unique offerings from emerging fund managers, most of the opportunity would be focused on the earlier to mid-stages of private equity, namely seed, venture capital, growth, and replacement capital. DOI is effectively creating a mechanism to invest in emerging managers within the different asset classes, with private equity being the first asset class sleeve and potential opportunities for other classes to follow.

Emerging manager-focused funds will allow DOI to participate in early stage funds where it does not currently participate because of size, track record, and Assets Under Management (AUM) constraints. This will help identify experienced spinout teams, independent sponsors, and seed investments with the potential for enhanced returns. In turn, it is anticipated that this will enhance exposure to lower middle market opportunities, which have historically outperformed relative to larger capitalization funds.

Governor Phil Murphy

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