TEXAS TRS’ EMERGING MANAGER PROGRAM DIRECTOR ON THE FUTURE OF DIVERSITY AND ASSET ALLOCATORS

By the National Association of Investment Companies
This past March, Kirk Sims was tapped to head the $5.7 billion Emerging Managers Program of the Teacher Retirement System of Texas. His duties include supervising the system’s new Emerging Manager 3.0 Program, an expansion of its existing emerging manager’s program by way of a $3 billion capital infusion over the next three to five years.

Formerly a Senior Investment Officer for the Teachers’ Retirement System of the State of Illinois where he oversaw its $750 million Emerging Manager Program, Sims now looks to increase the number of diverse-owned firms in the approximately $150 billion Trust’s portfolio. The NAIC recently spoke with Sims about his objectives for the EM program. Here’s what he had to say:

**NAIC:** How do you plan to put your stamp on Texas TRS’ emerging managers’ program to make it your own?

**SIMS:** I think that part of what I need to do is work on integrating with the team to find out what the needs of the plan are – which allows us to have a better blueprint for what the program wants to do going forward. It’s not so much thinking of how I’m going to put my stamp on the program as opposed to making the program work in the best way possible for the plan. Given that it covers every asset class we’re taking some time to sit with every asset class and see what their priorities are. Once I get that information then we’ll work to try to integrate that feedback into the book.

**Can you give me an idea of how you’re prioritizing things right now in terms of your to-do list?**

I’m spending time making sure that I’m in all of the meetings for the various asset classes here, including public market, private equity, real estate, infrastructure, etc. Learning what and how those particular asset classes are viewing the world. I’m spending time on the road at various organizational events which allows me a chance to touch the general marketplace as far as managers, and that’s also across all asset classes. And I’m also spending time with the partners, getting up to speed and getting them up to speed on what to expect from my involvement with this particular program.

**You have a bit of experience with emerging manager programs by way of Illinois Teachers. What are some of the things which you’ve learned and how do you plan to apply them to your current position?**

I make it clear to people the experience at Illinois teachers was invaluable because you had to do everything yourself. It was a direct program, so I underwrote each manager and that is really important when you’re dealing directly with the emerging managers across every asset class, instead of working through a consultant or through a partner. This experience now allows me to have more in-depth and productive conversations with prospective managers here at TRS of Texas.

**What are some of your personal goals with the program -- what would you like to see 3, 5, 10 years down the road?**

I can give you an idea of what I would like. I would like for the innovations bucket to have allocated $2 billion of capital, demonstrating that we have started doing more creative investments – whether that be standalone, seed investments or joint ventures. Hopefully, that book of capital will show some evidence of that taking place. The other thing I would like to see is an improvement in the number of diverse/women managers that are in the portfolio. The percentage is currently around 54%, but I want to see that number increase over time.
Is there any idea yet as to what your plans are for private equity at this point?
Our partner in the private equity space is GCM Grosvenor and we have had a long working relationship with them already from our legacy investments. The TRS Board has allocated an additional $2 billion pool of new capital that we’re looking to apply for the private equity and real estate asset classes. This allocation will allow us to build new relationships and expand existing relationships. That bucket of capital is what we call EM innovations and that will be the primary source for a lot of activity within private equity and real estate going forward.

If I were a CIO or a decision-maker at a plan that has no EM program, what would you say to me in terms of the value of having one?
The value of an EM program is the opportunity to identify alpha and invest in it at an early stage. In addition, smaller managers should be nimbler and hopefully generate returns that larger competitors cannot. In the era of mega-funds, if a plan has concerns about adding alpha to possible beta performance or wanting to find more niche opportunities, then EM programs allow plans the ability to access managers that can provide differentiated exposure. When you combine the possible performance benefits with the ability to build strong and lasting relationships with managers, the EM program opportunity is quite valuable.