

# Returned to health

New York State Common Retirement Fund has put scandals behind it and, buoyed by two years of positive performance and limited liabilities overhaul, is looking to boost Asia private equity exposure

**AFTER NEGOTIATING A VERY ROCKY**

road 3-5 years ago, beset with scandal and state and federal investigations, the New York State Common Retirement Fund (NYSCRF) has rebounded solidly – with the private equity portion of its portfolio playing an important role in this result. Art Wang, the fund’s director of private equity, Asia is becoming increasingly prominent in allocations to the asset class.

“I view private equity essentially as a management philosophy that emphasizes an ownership mentality, and an alignment of interests among constituents which enables a focus on long-term corporate value creation,” Wang tells *AVCJ*. “And I believe that the Asian market will soon become the largest in the world. This is why our fund, like many other institutions, has already taken advantage of some compelling investment opportunities there.”

NYSCRF previously invested in a string of major pan-Asian funds, but its recent commitments suggest a more targeted approach to the region. The pension fund regards Asia Alternatives as a strategic partner. It invested \$50 million in each of the fund-of-fund’s second and third comingled vehicles and last year put \$200 million into two managed accounts with the firm. Both accounts made small commitments to Hony Capital V and NYSCRF followed up by investing \$100 million in the fund, its first direct foray into an indigenous China fund.

**Portfolio insight**

NYSCRF, run by New York State Comptroller Thomas DiNapoli, is the third-largest pension plan in the US with invested assets of \$150.3 billion as of the end of March. Contributors include 3,039 state and local government employers, which in turn account for more than one million members, retirees and beneficiaries. The fund paid out \$8.46 billion in 2010-2011.

Fixed income accounts for 30% of NYSCRF’s portfolio and it may invest up to 70% of its assets in equities, of which 10% can be international equities, 5% in real estate and 25% “in any investment that meets prudent investor standards.”

As for performance, the overall fund posted a net gain of 14.6% last year, marking two consecutive years in positive territory. Private equity returned 18.9% compared to 16.2% for

global equities, 8% for fixed income, 9.7% for Treasury inflation protected securities, 26.7% for real estate and 6% for hedge funds.

NYSCRF’s private equity portfolio includes 234 partnerships: 139 buyout, 20 distressed, 24 growth equity, nine opportunistic and 42 venture. Wang notes that the fund has been investing in PE for nearly 30 years, withstanding numerous market cycles and global crises.

“We continue to seek to partner with top-performing PE investors whose interests remain

to build local teams in markets where they aim to invest.

As for the influence of the denominator effect on NYSCRF’s portfolio – many institutional investors had to offload alternative assets in the wake of the global financial crisis as the value of their public portfolios plummeted, pushing alternatives allocations beyond permitted levels –Wang is unconcerned. “We understand that there are some lingering effects at certain peer institutions who are still working through asset allocation limits and liquidity issues,” he says. “New York State Common, however, is in the fortunate position of enjoying fully-funded status along with substantial liquidity.”

**Difficulties past**

All told, this amounts to a robust bill of health for a high profile LP that not so long ago found itself mired in the infamous “pay-to-play” scandal, along with Quadrangle Group and its co-founder Steve Rattner. The details were complex, but in essence, according to a statement issued by New York Attorney General Andrew M. Cuomo in April 2010 when a \$7 million settlement was announced, it centered on influence peddling.

Rattner had paid then-New York State Comptroller Alan Horvesi’s former political adviser-turned-placement agent Hank Morris to arrange an investment of about \$100 million from the LP, which ended up bouncing into a politically-connected relative’s movie project. Hevesi resigned and was replaced in 2007 by Di Napoli, who came in with a clean-up mandate.

Asked about NYSCRF’s current approach to using gatekeepers, Wang says: “We continue to focus on limiting our reliance on intermediaries over time, and emphasizing the direct management of our private equity portfolio.”

He admits, though, that growing a high quality internal investment team capable of comprehensive active management is challenged by limited human resources. “Therefore we will selectively utilize advisers as required to help meet fiduciary obligations, or in special instances to supplement the internal team,” Wang says.

That’s particularly true vis-à-vis NYSCRF’s interests in Asia. “I try to make it out there once per quarter. But that’s not nearly enough for such a large region.”

New York State Common Asia-focused portfolio GPs		
Fund	Vintage	Investment (US\$m)
Avenue Asia Special Situations Fund IV	2006	50
SAIF Partners III	2006	50
KKR Asian Fund	2006	50
CVC Capital Partners Asia Pacific III	2007	100
TPG Asia V	2007	50
Clearwater Capital Partners III	2007	50
Asia Alternatives Capital Partners II	2007	50
SAIF Partners IV	2009	100
KKR China Growth Fund	2010	125
Asia Alternatives Capital Partners III	2011	50
New York Co-Investment Pool Asia Investors*	2011	75
New York Balanced Pool Asia Investors*	2011	125
Hony Capital V	2011	100
Farallon Asia Special Situations II	2011	10
Clearwater Capital Partners IV	2011	75

\* Managed account with Asia Alternatives  
Source: AVCJ Research

closely aligned with ours,” he says. “We also seek to emphasize meaningful diversification by vintage year, investment sub-strategy, industry sector and geographical region.”

Despite the perceived evolution in NYSCRF’s approach to Asia, Wang claims to be indifferent to the pan-regional versus country-specific funds debate, stressing that the ability to deliver superior, risk-adjusted returns is paramount. However, he admits that achieving such returns is largely a function of “local” endeavor, so there is a general preference for local GPs. The fund also encourages its GP partners with global platforms