

*These quarterly reports highlight recent developments and achievements related to Maryland's pension system.*



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## INVESTING WITH EMERGING MANAGERS

### WHAT IS AN EMERGING MANAGER?

Emerging managers are smaller and typically newer investment management firms with fewer assets than more established firms. These firms are often led by experienced investment professionals who have branched out to start their own ventures. The inclusion of emerging managers in an investment portfolio can enhance performance in several ways:

- **Innovation:** Emerging managers often use niche strategies like early-stage tech, quantitative trading, ESG, and small companies to tap into overlooked markets.
- **Agility:** Emerging managers' smaller size allows them to react swiftly to market changes and be nimble in their investment decisions. Their size enables more dynamic risk management and, consequently, may lead to superior risk-adjusted performance in certain market environments.
- **Fee Negotiations:** Investing early with high-performing emerging managers can lead to favorable fee negotiations and greater alignment of interests, as they are more likely to honor lower fees and other benefits in recognition of an institutional fund's early support.

### ABOUT MARYLAND'S EMERGING MANAGER PROGRAM

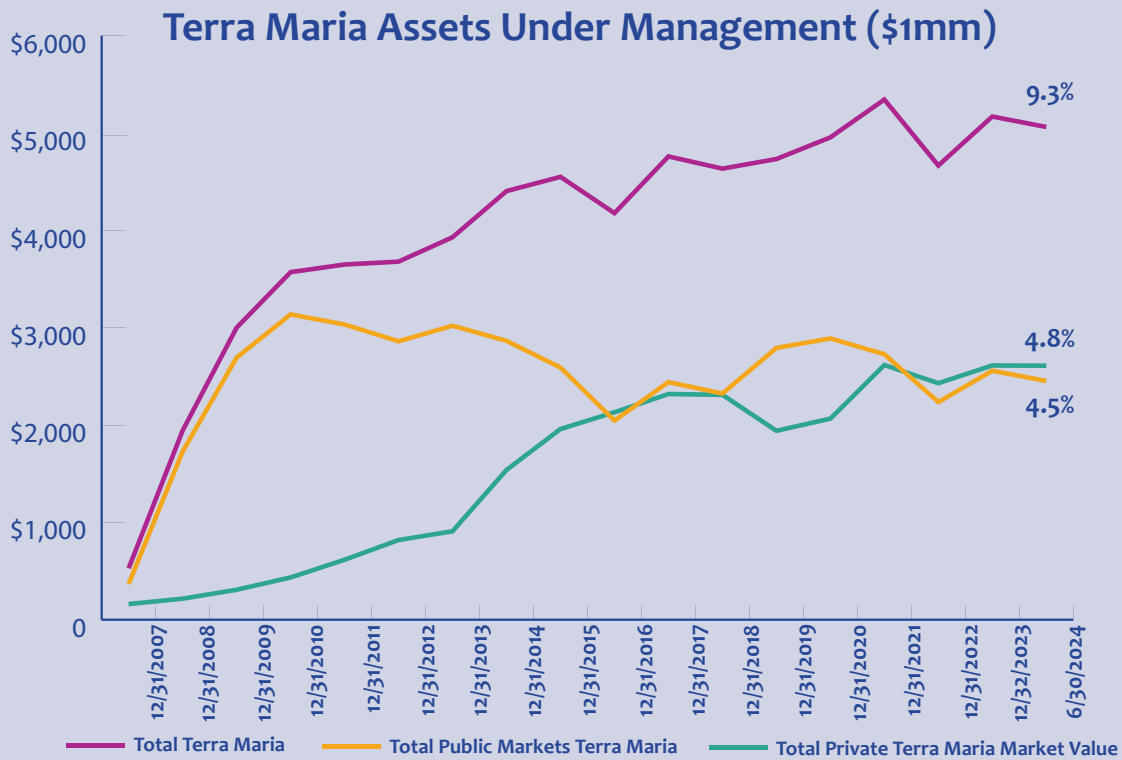
The Maryland State Retirement and Pension System (MSRPS) established an emerging manager program in April 2007, named "Terra Maria." The Terra Maria program intentionally removes barriers in order to provide access to smaller asset management firms, many of which are diverse, that might get overlooked in more traditional institutional investment management search processes.

**Objectives:** The goal of the Terra Maria Program is to generate excess returns while providing access to emerging managers who otherwise might face challenges in earning allocations from a large institutional investor, like MSRPS, due to their smaller size.

**Diversity:** The program places a strong emphasis on diversity, actively encouraging participation by Women- and Minority-Owned Business Enterprises (WMBE). (MSRPS defines a WMBE as a firm that is at least 51% owned and controlled by socially and economically disadvantaged individuals). WMBE firms account for 78% of the Terra Maria public markets portfolio and 67% of the Terra Maria private equity program.

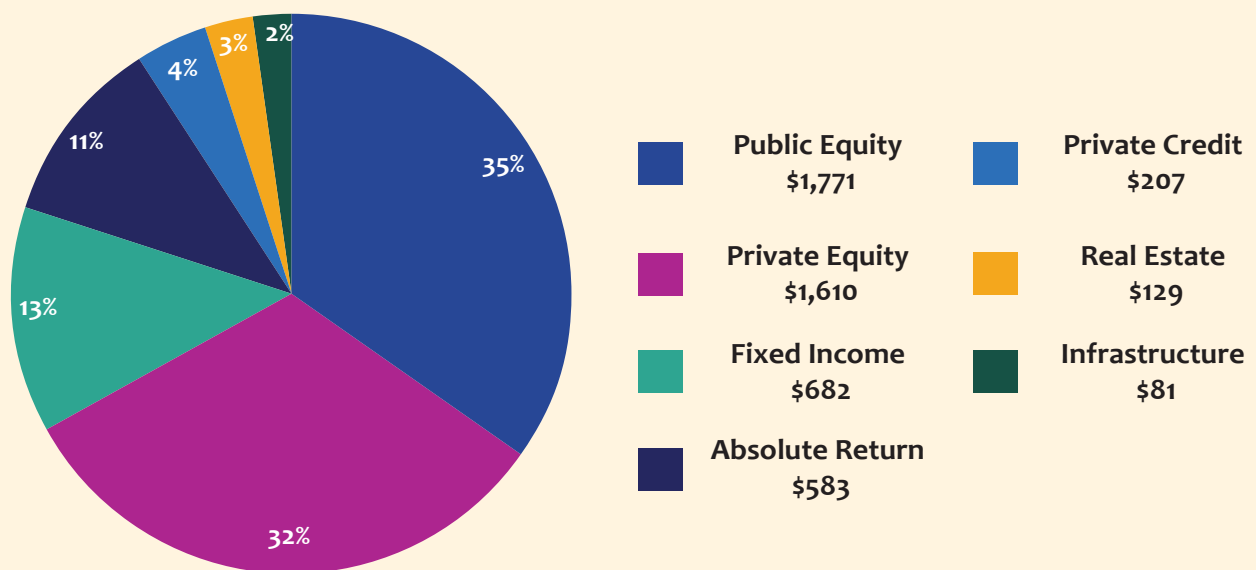
**Evolution:** The Terra Maria Program has grown from an initial \$330 million allocation in 2007 to one of the largest emerging manager programs in the nation with \$5 billion in assets today, representing over 7% of total plan assets. That money is invested in public markets (including US Small Cap, US Micro cap, International, International Small Cap, and Fixed Income), private equity, real estate, infrastructure, private credit, and absolute return strategies. As of 2024, Terra Maria assets in public market securities totaled \$2.4 billion, while private market assets were valued at \$2.6 billion.

**FIGURE 1: TERRA MARIA PROGRAM ASSETS, BY VALUE AND AS A PERCENT OF EXTERNALLY-MANAGED FUND ASSETS**



The figure shows growth in the Terra Maria program over time, highlighting adjustments in strategy that staff have implemented to advance the program.

**FIGURE 2: TERRA MARIA ASSETS UNDER MANAGEMENT (IN MILLIONS) BY ASSET CLASS**



**TERRA MARIA PERFORMANCE IN PUBLIC MARKETS AS OF JUNE 30, 2024:**

Period	Terra Maria Program (TM)	Total TM Index	Excess
3 Months	-0.26%	-0.74%	0.48%
Year to Date	3.74%	2.83%	0.91%
1 Year	9.11%	8.93%	0.18%
3 Years	-0.93%	0.01%	-0.94%
5 Years	4.64%	5.00%	-0.36%
10 Years	4.11%	4.73%	-0.62%
<b>Inception to Date</b>	<b>5.09%</b>	<b>4.87%</b>	<b>0.22%</b>

**BEST PRACTICES FOR EMERGING MANAGER PROGRAMS**

The [Diverse Asset Managers Initiative \(DAMI\)](#) recently released a study on best practices for emerging manager programs. It highlights the importance of having clear goals, balancing internal staff with external consultants, and integrating emerging managers across asset classes. There are over 60 emerging manager programs in the U.S. today including state pension funds, municipal pension funds, corporate pension funds, endowments, and foundations. No two programs are alike as they have various goals relating to diversity, manager graduation, and improving overall fund performance. [Access the report.](#)

The MSRPS Board of Trustees is using insights from the DAMI report to develop policy language for the Terra Maria program, ensuring consistency and transparency through its integration in the Investment Policy Manual. The insights are also guiding enhancements to the program with additional investment staff focused on manager outreach and research. These efforts aim to facilitate interaction between emerging managers and the investment staff to establish potential new relationships and to assist current Terra Maria managers in transitioning into a larger mandate.

*The Maryland State Retirement and Pension System (SRPS) provides retirement, death, and disability benefits for over 420,000 members, including state employees, teachers, police, and judges. A 15-person Board of Trustees, led by the Treasurer and Comptroller, oversees the system. The Board and several committees meet regularly to set policies that guide investment strategy, and to review operations and performance. State Retirement Agency (SRA) staff execute the work to ensure timely benefits distribution and investment of plan assets for a fully funded retirement system.*