

**SPECIAL REPORT: TOP 100 AFRICAN INFRASTRUCTURE PROJECT DEVELOPERS**



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## Chris Ailman

**Steers the \$190 billion CalSTRS ship towards the horizon**

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Business

COVER INTERVIEW: CHRIS AILMAN

**Chris  
Ailman**

**Steers the \$190 billion  
CalSTRS ship towards  
Africa's horizon**

**THE CAPTAIN**

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## As Chief Investment Officer of the \$190 billion California State Teachers' Retirement System (CalSTRS), **Chris Ailman** has a large ship to steer. He takes *Africa investor's* **Hubert Danso** through the ups and downs

### **Hubert Danso: How did you get started on your path to Chief Investment Officer at CalSTRS?**

Chris Ailman: I was a business economics major with an emphasis in accounting at the University of California in Santa Barbara. I then interviewed with the big eight accounting firms. This was when management information and portfolio design was really just starting to catch on and before modern portfolio theory came to pension plans. I then started with Dean Witter on the Wall Street side running a mid-size institutional portfolio. I worked on Wall Street for about five years for Dean Witter and then I worked for Kidder Peabody.

I then went to work for the County of Sacramento as their Financial Analyst; the title CIO didn't exist back then. I ran their pension plan, defined contribution, 401k plan, bond portfolio and the cash portfolio and I stayed there for 11 years during which time I saw that portfolio grow from about \$300-\$400 million to over a billion. I think it was about in 1991 when we started using the title Chief Investment Officer and I was the CIO for both the county and the employees' retirement system, because the employees' retirement system separated from the County as more of an independent entity so I had a contract with both.

### **your career and what keeps you motivated to continue?**

The hardest thing was to learn about what it's like to lose other people's money. To most people it sounds like it might not be that difficult, but I took that very personally. Even though I worked in the '80s and '90s, I cut my teeth right away in a bear market, and that's a very challenging environment. Learning how to manage a portfolio when it's declining is by far the most challenging part of the job.

I got the chance to work for a very good boss at Sacramento County who taught me a lot about leadership management, as well as a bit about work-life balance. Having worked on Wall Street, a good boss is extremely rare there. I learned a lot of good lessons and one of the best ones was: just because you think something's going to happen, doesn't make it a fact. Wall Street is so full of bravado and strong points of view, and that's a very profound lesson that Wall Street needs to learn.

### **Describe your greatest achievements personally and professionally**

I try and keep my focus on my goals in life, and first and foremost I'm a Christian. Number two, I'm a husband; number three is I'm a father and number four is I'm a Chief Investment Officer. It's hard to keep those

impressed me was that there were quite a few people who had worked with him who would become CIOs, and so we are actually starting up a mentoring programme just for that reason, to try and pass that on, and that would be my hope.

As a fund, CalSTRS, we've won a lot of industry recognition and a lot of awards, and my staff has won awards, and I'm really proud of what we've accomplished. When I got here at the beginning of the 2000s, we were a sleepy fund, nobody really knew much about us. Now we're a globally recognised money manager. And then, I guess when CIO magazine listed me in their top three CIOs; that was a real tremendous honour.

### **How do you spend leisure time away from the office?**

Time away from the office is one of the reasons I stayed in government and didn't go to Wall Street or money management. I talk to CIOs who have left the public fund and yes, they make more money but they've lost control of their calendar. They're now at their clients' and bosses' demands. While this job is demanding, I have more control over my calendar when I travel, and what I do. For years it was all about our daughters; all three of my daughters play volleyball and I got to

“For me, it's all about the challenge of thinking long-term in a short term world”

I left in '96 and went up to the State of Washington to become their Chief Investment Officer, and at the time my wife said we could come back to town for only one of two jobs: the CIO of 'PERS' or the CIO of 'STRS'. Washington's an investment office only. It's very interesting because there're about twenty-eight different trusts to run; very different mandates, different clients, so a lot of variety. The pension plan obviously is the biggest. Then, in 2000, positions at both PERS and STRS opened up. I competed for STRS and came back, and I've been here ever since.

### **What was the most important thing that you learned during the earlier part of**

in priority, but that's what my goal for my whole life has been.

As for my greatest achievements personally, it was being re-baptised as an adult and being there when all three of my daughters were baptised as grown children. By far the biggest achievement is that my wife and I celebrated our thirtieth anniversary last year. That is personally my most proud achievement.

The professional stuff is nice but I think you know that if I didn't have this job, within one week, people wouldn't return my phone calls! We recognise it's the position, not the person.

I listened to another CIO receive his lifetime achievement, and what really

go to their games, even some of their away games and tournaments.

They're now grown; two are out of college and one is still in college and the number one thing I do is bike ride. I'm a very active and avid cyclist. My wife got into cycling first. We're blessed by having beautiful country around here so in summer we'll go up to the Sierras and ride some of the mountain passes.

### **How would you describe your leadership style and what is the mind-set that you encourage within your team at CalSTRS?**

I think the biggest challenge that I've seen within 'STRS' is keeping our team focused. There are so many competing priorities, so

I'm constantly trying to simplify it. The number one goal for us is to achieve an absolute return of seven and a half percent. Obviously we can't control the economy, but I want to keep that in front of them. The next is to beat their benchmark.

My leadership style is really to try and be flexible. I find that people need to be coached and dealt with where they're at. I often say that, with my fixed income staff, when they make a mistake, you put your arm around them and you talk to them, and they beat themselves up. If it's real estate or private equity, you have to act like a rugby coach and probably scream and yell and sweat around the brow just to get their attention. You have to be flexible; you can't just have one style.

#### **How would you describe your personal investment style and approach?**

Because I've been working with big, giant plans that have very long-term horizons,

everybody is euphoric and then also being aggressive when everybody is fearful, that's the time to come in. The secret to investment is to buy low and sell high and it's just really hard to do.

#### **Is there a localisation investment policy within California and is it realistic to give you the deal flow you need?**

We do have a California investment policy. Any time you're a big pool of capital, even in a diverse state like this, we get a lot of pressure to invest inside the State. What we make quite clear in our policy is that we're not going to consider a Californian investment over a better investment, but if everything is equal, then we'll have a preference for California.

I also point out though that California, while it's a very broad, diverse state, is prone to very strong natural disasters so diversification for us is very important. I don't want to own a bunch of LA and San Francisco real

portfolio, where the US would be 50/50, we've stayed two thirds US and that has helped us a great deal in the last five years. In private equity, real estate, even fixed income, we definitely have global slices to the portfolio.

I pay a lot of attention to the global trends of the various regions. With Asia, obviously it's China and Japan which matter the most, but within Europe, it's not just the UK, but the euro bloc. Japan has been a very powerful factor in my career, where it was the market during the 1980s and now for 20 years it's been a flat market. We've been more confident than most and we think it's due for a cultural shift.

#### **How did Africa as an investment destination get on your radar?**

I've been active with the Milken Institute for about 12 years and I attend their global conference. There're always underlying themes that you pick up from the people attending.

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I've always been about planning. I use a lot of word pictures with my staff and the one I use for the board is, we're a big giant cruise ship and the board picks the goal on the horizon, and so what we try do is make subtle course corrections to try and make the most out of it.

We're trying to protect against big storms, but we're not a speedboat, we can't spin on a dime, so my nature is to plan. We have a ten-year business plan to think long-term and right now, I think the biggest struggle with the market for the last ten years has been that the risks are so uncertain and unknown. It's great to have a long-term plan, but you're constantly being buffeted from different sides unexpectedly. For me, it's all about the challenge of thinking long-term in a short term world.

#### **Do you have any preferred sectors as an institution?**

To earn seven and a half percent, we're going to have a tilt towards growth investments such as equity, private equity, parts of real estate. I'm very interested in tapping long-term stable cash flows. I think the hardest lesson we've all learned is, price does matter. In a bull market, people will chase price. It's hard to have the discipline to say no, but maintaining that discipline when

estate when the big earthquake hits, as it's not a question of if, it's a question of when. So we do track it. It's a very diverse state; about 15% of our portfolio is there. I think it's wise for any pension plan or sovereign wealth fund to have a reasonable allocation inside their own country for good will and for development, because obviously the state of California, although small, contributes to our plan.

That said, I don't want to put all my eggs in one basket. In this global age where risk can be as small as one man, it can also be as large as massive climate change shifts and that's going to affect basic resources. I think you've really got to be diversified and aware of your exposures, to manage a portfolio well. It's going to be a very challenging environment. While the population demographics tell you the world's getting pretty stable, I think the environment around the world is going to be uncertain.

#### **Tell us a bit about your international portfolio**

Our portfolio has always had a strong global tilt. In 2000 when I got here I encouraged the board that we should have at least a third of the portfolio outside the US. When it comes to equities, we've maintained a home country bias, so within the global equity

I had about half of my board there, and several of our investment officers, and all of us walked away and said, 'Wow, we're really picking up an underlying current of Africa,' particularly infrastructure and big growth investment in Africa.

The President of Rwanda has come for a couple of years in a row and certainly he's an active President. That helps. We've invested with Actis on energy electricity development across Africa and for us, because we're underweight in emerging markets, frontier markets are a bit rich for our blood, but there's some interesting entry-level electricity energy developments, transportation and water distribution. Part of the challenge is that so many of the problems are regional, but the governments are obviously country-specific, so seeing countries work together to help resolve regional problems can create a better opportunity for everybody.

#### **What's your message to investors contemplating investing in Africa?**

Most importantly, it's not one homogenous market. Africa is a bunch of different regions and a bunch of different countries. So often I hear people talking about emerging markets or frontier markets as if they're one common entity and what we find is massive underlying issues and risks within each of

them. We're still a long way from public entity investment, we'll look at some infrastructure investments and we've looked at some agricultural investments, because certainly from a population and demographic standpoint, there's a lot of opportunity. I would say the demographics and climate change also present enormous risk. You're talking about a very young population and, depending on what happens to all of us with climate change, it could create a lot of stress and potentially conflict.

It is a region where we're going to see some growth. We certainly can see some countries move from frontier market status to emerging market status, but the whole world is going to go through some real dramatic shifts in the next twenty years with climate change and you've got to factor that in to your investment rationale.

#### **What are the practical steps that African leaders can take to make their countries more attractive as investment destinations?**

First and foremost, rule of law; second, try and establish ethics and compliance. Corruption is the first thing that will scare non-domestic investors away, and then finding some level of regional cooperation so that you can solve regional problems.

I'm not political so I'm not backing any particular person, but the President of Rwanda has gone out of his way to include more women in his government and cabinet and I personally think that's an example of a huge difference. Women are not usually the ones that start wars; it's men. So Africa has the chance to start in with a clean sheet and develop out and set its own rules, so that would be very sage advice: rule of law, ethics and include more women.

If I could add another recommendation to any government: think long term. Don't think about four years, but think about 20 years, and plan that way. We've all heard the story a million times. Jamaica and Singapore had the same GDP twenty years ago. Jamaica focused on tourism and Singapore invested in really boring stuff like education and infrastructure, and look at where they are now. Invest for the long term and you'll reap the rewards long-term; maybe not your generation but your kids will be very, very thankful.

#### **What would your advice be to the infrastructure developer that wants to get in your line of sight?**

Right now we're not investing directly, so we would be sending them to one of our managers on the ground, and my advice to them would be to have a clear business structure. Pay attention to risk; not just the risk of your business but what you're doing overall for society. If you're adding value, serving your customer, and if your customer likes you, that's going to make you a more attractive business for other people to invest in.

We're doing a lot of due diligence on our managers. We want them to be on the ground. We don't want them flying from London; we want them there as part of the community and we want to see first-hand that they're adding value to the community. I think that Western capital sources can play a more important role than some of the sovereign wealth funds that want to come in. We want to see long-term sustained development.

#### **How much does Africa make up in your portfolio in investment terms? Do you see this evolving in the next five to ten years as a percentage?**

You've got to keep in mind that two thirds of our portfolio is in the US so that dominates it, so even Japan and the UK aren't a large percentage. Our portfolio is currently invested in about 44 different countries. Africa's barely at the bottom of that with a couple of countries with South Africa being the largest, but I would think that Rwanda, Kenya, Malawi, quite a few could increase in size. I'm a believer in demographics. I look at your part of the world, compared to northern Europe and certainly parts of Asia, and India and Africa is where the future of the world is going to be. How that develops, I've learned it's tough to predict.

Four years ago, everyone loved Brazil. Everything was Brazil, Brazil, Brazil, and when we went down there and looked at it, we said we're not doing this; it's too much chaos. And you can say that about India and a lot of different parts of the world. How you implement, how you structure and how the rules come together; the potential is there. Is it going to be a meaningful part of a portfolio in five or ten years? Demographics would make you want to be hopeful, but you've also got some real challenges with simple basic resources, like clean water, electricity, education. If you invest in those things, invest for the long term there no doubt Africa will be a dominant area.

#### **Do you support co-investments and**

#### **would CalSTRS be open to African co-investment partners in its global investments?**

We do think it's a very good strategy. We've invested in different countries around the world and if you do too well, then you become victimised as a foreigner and they want to chase you out. I like to have local capital involved, we think that's positive and would actively seek co-investing. We're looking for steady, stable cash flows with outsized profits and that's exactly what they would want as well.

The US rule of law has a lot of stability as a very attractive market and we've constantly said to sovereign wealth funds with a very long-term focus that we'd like to co-invest in their country and we'd welcome the opportunity to co-invest with them here. Many of them don't want to be the lead investor in a property in New York or Washington, just like I don't want to be the lead investor in a property in Africa with our name stuck on it. So we think that when it comes to taxes, government regulations, there's just an advantage.

The big difference is that when we team up together, the one loser is Wall Street. Right now, Wall Street would love to have an African fund and our fund bidding against a property because that drives the price up and they make more money. I'd rather see us work together and pool our capital so we eliminate that pressure in some of the feed structures.

#### **Ten years from now, do you anticipate that you will increasingly be looking at direct investing into Africa?**

If I'm honest and look at our structure, I don't think we'll be doing direct investment into Africa. I think the Canadians would be, the Australians, certainly some of the bigger, more established sovereign wealth funds; TEMASEK, ADIA, the Middle Eastern funds that are more inclined and have the staff and have the right business structure. CalSTRS, as a governmental entity, doesn't have the right business structure. I'd be hopeful that they could change our business structure, but I've been saying that for fifteen years and we still haven't. I think others will definitely have offices and do direct investments in Africa. There's no question about it.

It's hard to say if I think Africa would go from a minuscule part of our portfolio, to be part of emerging markets focus in ten years, but that would be nice to see and I think that would actually see success. **Ai**