CalPERS

Investment Committee

California Public Employees' Retirement System

Agenda Item 5a

April 15, 2013

ITEM NAME: Board Investment Consultant Request for Proposal – Infrastructure Program

PROGRAM: Real Assets – Infrastructure

ITEM TYPE: Independent Oversight – Action

RECOMMENDATION

Approve the statement of Services to be Performed and the initiation of competitive selection process for the Board Investment Consultant Request for Proposal – Infrastructure Program (RFP).

EXECUTIVE SUMMARY

This agenda item outlines information regarding the initiation of the RFP.

Per Resolution No. 92-04B-4, staff requests approval from the Investment Committee to release a request for proposal to procure a new contract for the Infrastructure Board Investment Consultant for a term of up to five years. Contracted services will be inclusive of specialized professional assistance regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory services to the Investment Committee.

STRATEGIC PLAN

This agenda supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. The approval of the statement of Services to be Performed (Attachment 1) and the use of the competitive selection process supports CalPERS mitigation of investment and operational risks.

BACKGROUND

The Infrastructure Board Investment Consultant provides specialized professional assistance regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory services to the Investment Committee.

The current Infrastructure Board Investment Consultant, Meketa Investment Group, Inc. (Meketa) has served in this role since December 2009.

In December 2009, Meketa was engaged through a Letter of Engagement to serve as the Infrastructure Board Investment Consultant. On February 13, 2012, the Investment Committee approved an extension of the current contract to March 1, 2014. Currently, Meketa is serving as the Infrastructure Board Consultant at an annual cost of $106,250.

The contract term with Meketa is March 2, 2009, and is scheduled to terminate on March 1, 2014.

Resolution No. 92-04B-4, Contracts & Procurement of Goods and Services – Contract Duration requires that all contracts and/or services be no more than five years. However, the resolution provides the provision for the Board to consider an additional option to utilize a longer contract term if it is in the best interest of the members and beneficiaries.

ANALYSIS
Upon approval by the Investment Committee, the RFP will be released May 2013, and staff anticipates a contract could then be executed by February 2014. This RFP will reflect an updated statement of Services to be Performed (Attachment 1) as identified in the Role of the Private Asset Class Board Investment Consultants Policy.

The competitive selection process for the Infrastructure Board Investment Consultant is anticipated to take approximately 10 months from the time of release to full execution of the resulting contract.

Key steps and anticipated dates are as follows:

Date	Key Activity
May 2013	RFP release
July 2013	Staff evaluates and scores technical and fee proposals
September 2013	Staff presents finalists to the Investment Committee for consideration
October 2013	Investment Committee conducts oral interview and selects finalist for contract award
November 2013 - January 2014	Contract negotiations and preparation
February 2014	Contract execution

BENEFITS/RISKS
Approving the initiation of the competitive bidding process for the Board Investment Consultant (Infrastructure Program) will minimize any interruptions to the provision of critical consultant services as outlined in the Role of Private Asset Class Board Investment Consultants Policy.

Failure to initiate the competitive bidding process may result in contracting delays and interruption of key services.

ATTACHMENTS
Attachment 1 – The statement of Services to be Performed

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CAROL MOODY
Senior Portfolio Manager
Investment Compliance and Operational Risk

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JANINE GUILLOT
Chief Operating Investment Officer

Services To Be Performed

Subject to the Role of the Private Asset Class Board Investment Consultants Policy (Policy), and amendments or modifications, the Consultant shall provide services as outlined below. In performing these services, the Consultant will, at all times, be subject to and comply with the Policy, and all other relevant CalPERS Investment Policies, which can be found at www.calpers.ca.gov. The Policy is provided as Exhibit 1.

STRATEGY AND POLICY ANALYSIS

a. Review and opine on investment policies and delegations of authority.

b. Review and opine on strategic and annual plans.

c. Provide forecasts of asset class returns for total fund asset allocation purposes.

d. Provide analysis of market developments, market conditions, and macro-level view of market opportunities to the Committee, as needed.

PERFORMANCE ANALYSIS AND MONITORING

a. Prepare quarterly investment performance reports and portfolio risk analysis; Monitor and report on deviations from policy benchmark performance and long-term expected performance.

b. Provide guidance on performance measurement methodologies.

c. Review and opine on appropriateness of asset class benchmarks, as part of the strategic asset allocation process.

INDEPENDENT ADVISOR TO THE INVESTMENT COMMITTEE

a. Provide opinion to the Committee on investments above Staff's delegation of authority.

b. Evaluate whether the investment transactions comply with applicable Committee policy and, if applicable, Staff's delegation of authority and provide opinion regarding compliance.

c. Perform annual reviews of major asset class sub component programs and provide opinion on performance, risk, manager selection and monitoring processes, and on internal control process and staffing.

d. Perform annual review of the program and provide opinion on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.

e. Provide independent advice to the Committee on all aspects of the program and its implementation.

f. Provide analysis and reports consistent with the Policy, as directed by the Committee.

Except as noted in Section III.B.5 of the Policy, the Private Asset Class Board Investment Consultants shall not:

a. Manage Assets for CalPERS.

b. Perform work for Staff on special projects.

c. Provide opinions to Staff regarding specific investment transactions.

SPECIAL PROJECTS

In limited circumstances, the Private Asset Board Investment Consultant may be engaged for roles enumerated in Section III.B.4.a-c of the Policy if the Private Asset Class Board Investment consultant possesses unique knowledge or expertise that is not available through other providers. Such an arrangement must be approved by the Committee prior to engagement. In situations where adequate time is not available to request Committee approval, Staff may request approval from the Chair of the Committee. Upon Approval of the request, Staff will notify the other Committee members.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
ROLE OF PRIVATE ASSET CLASS BOARD INVESTMENT CONSULTANTS

October 15, 2012

This policy is effective immediately upon adoption.

I. PURPOSE

The California Public Employees' Retirement System ("CalPERS") Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Role of Private Asset Class Board Investment Consultants ("Private Asset Class Board Investment Consultants").

II. STRATEGIC OBJECTIVE

The strategic objective of this Policy is to define the roles of the Private Asset Class Board Investment Consultants to support our mission in advancing the financial and health security for all who participate in CalPERS.

III. RESPONSIBILITIES

A. CalPERS Investment Staff ("Staff") is responsible for monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of the Policy at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of any violations and appropriate recommendations for corrective action.

B. The Private Asset Class Board Investment Consultant is responsible for:

1. Strategy and Policy Analysis

a. Review and opine on investment policies and delegations of authority.

b. Review and opine on strategic and annual plans.

c. Provide forecasts of asset class returns for total fund asset allocation purposes.

d. Provide quarterly analysis of market developments, market conditions, and macro-level view of market opportunities to the Committee.

2. Performance Analysis and Monitoring

a. Prepare quarterly investment performance reports and portfolio risk and attribution analysis; Monitor and report on deviations from policy benchmark performance and long-term expected performance.

b. Provide guidance on performance measurement methodologies.

c. Review and opine annually on appropriateness of asset class benchmarks.

d. Validate accuracy of Real Estate incentive fee calculations[1].

3. Independent Advisor to the Committee

a. Provide opinion to the Committee on investments above Staff's delegation of authority.

b. Evaluate whether investment transactions comply with applicable Committee policy and, if applicable, Staff's delegation of authority and provide opinion regarding compliance.

c. Perform annual reviews of major asset class sub component programs and provide opinion on performance, risk, manager selection and monitoring processes, and on internal control process and staffing.

d. Perform annual review of the program and provide opinion on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.

e. Provide independent advice to the Committee on all aspects of the program and its implementation.

[1] This is a current role of the Real Estate Board Investment Consultant that could be re-evaluated over time.

f. Provide analysis and reports consistent with Policy, as directed by the Committee.

4. Except as noted in Section III.B.5, The Private Asset Class Board Investment Consultants shall not:

   a. Manage assets for CalPERS.

   b. Perform work for Staff on special projects.

   c. Provide opinions to Staff regarding specific investment transactions.

5. In limited circumstances, the Private Asset Class Board Investment Consultant may be engaged for roles enumerated in section III.B.4.a-c if the Private Asset Class Board Investment Consultant possesses unique knowledge or expertise that is not available through other providers. Such an arrangement must be approved by the Committee prior to engagement. In situations where adequate time is not available to request Committee approval, Staff may request approval from the Chair of the Committee. Upon approval of the request, Staff will notify the other Committee members.

IV. INVESTMENT TRANSACTIONS – PRIVATE ASSET CLASS BOARD INVESTMENT CONSULTANTS – REAL ASSETS

A. Investment Transactions within Staff's delegated authority

1. Investment transactions less than or equal to $50 million:

   a. Staff will analyze the transaction and make the investment decision.

   b. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant may provide a Prudent Person Opinion to Staff at the discretion of the Senior Investment Officer ("SIO").

   c. The Private Asset Class Board Investment Consultant may observe transaction discussions at the request of the SIO.

2. Investment transactions that exceed $50 million[2]:

[2] All new investments and aggregated commitment of additional capital to a single investment or a single manager within a fiscal year timeframe.

a. Staff will analyze the transaction and make the investment decision.

b. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant will provide a Prudent Person Opinion to Staff.

c. The Private Asset Class Board Investment Consultant may observe transaction discussions at the request of the SIO.

B. Investment transactions exceeding Staff's delegated authority:

1. Staff will analyze the transaction and provide a recommendation to the Committee.

2. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant will provide a Prudent Person Opinion to Staff.

3. The Private Asset Class Board Investment Consultant will participate in transaction discussions.

4. The Private Asset Class Board Investment Consultant will provide an opinion on the transaction to the Committee.

C. Opinion Standard

The Private Asset Class Board Investment Consultant and the Investment Pool Consultants shall provide a Prudent Person Opinion on the merits of a transaction following a fiduciary standard of care.

V. INVESTMENT TRANSACTIONS – PRIVATE ASSET CLASS BOARD INVESTMENT CONSULTANTS – PRIVATE EQUITY

A. Investment Transactions within Staff's delegated authority

1. Investment transactions considered Fund investments, Co-Investments or Customized Investment Accounts that invest alongside other similarly structured funds in the same investments:

a. Staff will analyze the transaction and make the investment decision.

b. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant may provide an independent due diligence report to Staff at the discretion of the SIO.

c. The Private Asset Class Board Investment Consultant may observe transaction discussions at the request of the SIO.

2. Investment transactions considered a Customized Investment Account with an individual mandate that does not invest alongside other similarly structured funds in the same investments or a Direct Investment:

a. Staff will analyze the transaction and make the investment decision.

b. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant will provide a Prudent Person Opinion to Staff.

c. The Private Asset Class Board Investment Consultant may observe transaction discussions at the request of the SIO.

B. Investment transactions exceeding Staff's delegated authority:

1. Staff will analyze the transaction and provide a recommendation to the Committee.

2. An Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant will provide a Prudent Person Opinion.

3. The Private Asset Class Board Investment Consultant will participate in transaction discussions and provide an opinion on the transaction to the Committee.

VI. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS Master Glossary of Terms.

Approved by the Policy Subcommittee:	June 15, 2011
Adopted by the Investment Committee:	August 15, 2011
Approved by the Investment Committee:	October 15, 2012