Investment Committee

California Public Employees' Retirement System

Agenda Item 5a

August 19, 2013

ITEM NAME: Contract Administration: Primary Pension Consultant – Contract Extension

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight **–** Action

RECOMMENDATION

Approve a one-year extension for Contract No. 2010-5543 for Wilshire Associates, Inc., (Wilshire) to continue serving as the Board's Primary Pension Consultant through June 30, 2015.

EXECUTIVE SUMMARY

Staff is requesting the Investment Committee (IC) approve the extension of the contract approximately one year prior to the expiration date. Approval of this request will result in a contract extension for continued services to the IC through June 30, 2015.

STRATEGIC PLAN

This item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. Approval of the one year extension of the contract supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services to the IC, as specified in the contract, and as outlined in the *Role of the Private Asset Class Consultant Policy* (Attachment 1).

BACKGROUND

Since 1983, the IC has selected Wilshire as the Primary Pension Consultant through successive competitive selection processes.

The initial term of the current contract with Wilshire was from July 1, 2010 to June 30, 2013, with two successive one-year extension periods through June 30, 2015. Typically, the IC reviews Board Consultant contracts one year prior to expiration so a determination can be made to either extend the contract or release a request for proposal (RFP). On June 11, 2012, the IC exercised the option to utilize the initial extension period of the contract through June 30, 2014.

ANALYSIS
At this time, staff is requesting the IC consider their option to extend the contract for an additional one-year period to June 30, 2015. The current contract Statement of Work is included for reference as Attachment 2.

An RFP will be required to procure a new contract for a Primary Pension Consultant should the IC elect to continue to seek these services beyond June 30, 2015. Staff will return to the IC in 2014 with the option to initiate an RFP.

BUDGET AND FISCAL IMPACTS
The cost for FY 2012-13, based on fees negotiated at the onset of the contract is $3.3 million. The one-year extension for Wilshire to continue serving as the Primary Pension Consultant, based on the graduated rate sheet, will be $3.3 million.

The fiscal impact of this one year extension was included in the *FY 2013-14 Annual Budget Proposal* and reported to the Finance and Administration Committee during the April 2013 meeting.

BENEFITS/RISKS
Extending Wilshire's existing contract as the Primary Pension Consultant will ensure uninterrupted service to the IC through June 30, 2015. Failure to approve the extension of the contract may result in an interruption of services to the IC.

Attachment 1 – Statement of Investment Policy for Role of the Private Asset Class Board Investment Consultants
Attachment 2 – Agreement No. 2010-5543, Statement of Work

CAROL MOODY
Interim Chief Operating Investment Officer

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

Asset Class Glossary: Investment & Risk Management Policy: Role of Private Asset Class Board Investment Consultants July 25, 2013

Co Investment
A Direct Investment made by CalPERS where CalPERS has an existing commitment to a fund which is also investing in the company.

Customized Investment Accounts
An investment structure in which CalPERS partners with a firm that has distinct investment expertise in an industry, geographic region or investment style and has demonstrated the ability to provide top quartile returns. Other than the General Partner, CalPERS would be the sole investor. This structure may have an individual mandate or may invest alongside other similarly structured funds on the same investments with different terms.

Direct Investment
An investment that is made directly or indirectly by CalPERS in a company.

Fiduciary Standard of Care
The consultant or external resource shall discharge its duties with respect to this system solely in the interest of the participants and beneficiaries by acting with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.

Fund
A co-mingled investment vehicle through which investments are made. Funds are usually structured as Limited Partnerships.

Investment Pool Consultants
An individual or organization who are contractually retained or have been appointed to a pool by CalPERS to provide investment advice but who do not exercise investment discretion.

Private Asset Class Board Investment Consultant
An individual or organization that provides specialized professional assistance to the Investment Committee related to an asset class regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory service to the Investment Committee.

Prudent Person Opinion
An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151 (c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the

circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.

STATEMENT OF WORK

Contractor agrees to provide for CalPERS, Primary Consultant services in accordance with the terms and conditions set forth herein.

A. Special Advisor

1. Monitor and review how the Investment Office staff is adhering to CalPERS investment policy.
2. Monitor global markets and economic conditions, and recommend modification to portfolio structure and asset allocation as warranted and prepare a written analysis of their observations and recommendations as requested by the Investment Committee.
3. Advise the Board, Investment Committee and staff on new investment vehicles and techniques or major changes in existing practices with the industry, and upon request, prepare a comprehensive analysis and recommendation of these activities for CalPERS.
4. Annually perform a comprehensive review of each internal investment management program. Benchmark the internal programs against industry standards and best practices. Provide a written report to the Committee.
5. Attend all CalPERS Board meetings including committee and subcommittee meetings, as requested by the Board.

B. Communication and Reporting

1. Provide comments, written reviews and recommendations to keep the Board informed and abreast of pertinent information regarding the total portfolio.
2. Provide ongoing written reporting to the Board with regular reviews and opinions on the performance progress of the fund.
3. Provide periodic written program reviews, research, detailed market analysis and trends, and advice on specific pension topics, as requested.
4. Review and provide written opinions as an independent fiduciary on all reports prepared by staff.

C. Policy

1. Annually evaluate CalPERS investment asset allocation and investment objectives and provide a written report with recommendations to the Investment Committee.

2. Complete work as required in preparation of the asset allocation analysis for the asset/liability workshop. Asset allocation analysis should include working with CalPERS actuarial consultant and internal actuarial staff on asset allocation modeling (including methodology and specifics) linked to funding and liability management. In addition, review and comment on Investment Office's asset allocation analysis for the workshop.

3. Review and comment on all investment opportunities, asset class annual plans, new initiatives and agenda items and provide a written report as requested by the Investment Committee.

4. Review, comment, and provide an independent recommendation on investment policies drafted by staff, outside advisors, or specialty consultants to ensure overall consistency of CalPERS policies. Work with the Policy Subcommittee and Investment Committee in the review, analysis, and revision of investment policies.

D. Performance Reporting

1. Provide CalPERS with a comprehensive performance report for the fund with sufficient level of detail meeting the Investment Committee's needs, this report should include individual asset class performance, individual portfolio performance, total fund, a report such as the Wilshire large fund universe, affiliate funds and other funds administered by CalPERS, in a format prescribed by CalPERS. The report will include return attribution characteristics, risk analysis and a global economic outlook.

2. Review, opine, and provide recommendations on the total fund policy benchmark.

3. Review and approve all requests or changes for portfolios, benchmarks or composites. Review and provide written opinions of custom benchmarks for domestic equity, international equity, and global fixed income portfolios as requested by the Investment Committee and Investment staff.

4. Review, approve and provide written comments on annual staff performance plans. Quarterly verify all performance measures and calculations. Complete year-end calculation on quantitative measures in staff performance plans. Analyze for reasonableness the benchmarks, measurements and appropriateness of all factors within staff performance plans.

E. Manager Search and Selection

1. Maintain a broad database of external investment managers including their philosophies, organizations, performance, and client bases. Manager

information should be available for a wide range of managers including equity, bond, international, currency overlay, options and futures managers, as well as small and emerging and disabled veteran owned firms.

2. Review with the Investment Committee and CalPERS staff the System's needs for particular manager styles and, as requested by the Investment Committee, screen prospective managers for suitability with respect to those needs.

3. In the event the Investment Committee should engage in a manger search during the contract terms, assist staff as requested, which may include but not be limited to, development of Requests for Proposals (RFP's), development of evaluation factors and methods, preparation of background material, and interviewing managers.

F. Manager and Program Monitoring

For CalPERS existing and any new managers:

1. Evaluate managers' performance consistent with their benchmarks/performance objectives (including style benchmarks), guidelines, and risks undertaken.

2. Advise CalPERS staff and the Investment Committee on questions or issues that arise in the course of administering the external manager programs. For example, advice on appropriate benchmarks, investment guidelines, or fee structures for various external managers.

3. Assist CalPERS staff in reviewing written guidelines to establish cause for termination. As needed, prepare analyses on problem managers.

4. As requested, provide reports to the Investment Committee (e.g. analysis and trends in external money management).

5 As requested, provide commentary on manager termination recommendations.

6. Advise CalPERS staff and the Investment Committee on questions or issues that arise in the course of administering the external manager programs on strategic issues related to structure, policy and benchmarks.

7. For CalPERS existing and new Hybrid Investments, which are those investments (outside the AIM, Real Estate and ILAC programs) that are structured in a limited partnership (LP), limited liability corporate (LLC) form, or as an individual security form, such as Collateralized Debt Obligations (CDO), Collateralized Loan Obligations (CLO), Credit Linked Note (CLN), Special Purpose Entity (SPE), or Structured Investment Vehicle (SLV).

    a. Review and opine on staff due diligence analysis.

b. Provide written recommendation to the Committee and Chief Investment Office on the investment merits of proposed investments.

c. If approved for funding and prior to execution, review and opine on the investment terms and conditions within associated investment documents.

d. For all funded and active investments, provide monitoring services with respect to applicable investment policies and their ongoing viability. In addition, include performance analysis in their quarterly performance report to the Committee.