Investment Committee

California Public Employees' Retirement System

Agenda Item 5b

August 19, 2013

ITEM NAME: Contracts Administration: Back-Up to the Primary Pension Consultant – Letter of Engagement Renewal

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight **–** Action

RECOMMENDATION

Approve a Letter of Engagement (LOE) for a one-year term for Contract No. 2009-5105 for Pension Consulting Alliance, Inc., (PCA) to continue serving as the Board's Back-Up to the Primary Pension Consultant through June 30, 2014.

EXECUTIVE SUMMARY

Staff is requesting the Investment Committee (IC) approve an LOE for PCA to continue services. Approval of this request will result in a new LOE for continued services to the IC through June 30, 2014. The current LOE is due to expire on September 30, 2013. The proposed LOE is provided as Attachment 1.

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 LOE supports CalPERS mitigation of investment and operational risks by ensuring the continuation of consulting services to the IC.

BACKGROUND

In 2009, the IC selected PCA as the Back-Up to the Primary Pension Consultant through successive competitive selection processes. This process includes:

- The release of a Request for Proposal (RFP)
- A competitive selection process
- Establishment of a Spring-Fed Pool (SFP) of consultants
- Through the SFP, consultants are engaged with LOEs

The IC typically considers Board Consultant contracts approximately one year prior to expiration so a determination can be made to either extend the LOE or release a new RFP. The maximum term of the existing contract with PCA was from August 18, 2009 to June 30, 2014.

ANALYSIS
At this time, staff is requesting the IC consider their option to renew the LOE for a one-year period ending June 30, 2014. No further extensions will be available on this contract after June 30, 2014. Should the IC determine to continue seeking these services, a new RFP will be required.

BUDGET AND FISCAL IMPACTS
The cost of the one-year extension, based on fees negotiated at the onset of the contract is $112,500. Currently, PCA is serving as the Back-Up Primary Pension Consultant at an annual cost of $112,500.

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
Renewal of the LOE for services provided by PCA's existing contract as the Back-Up to the Primary Pension Consultant will ensure uninterrupted service to the IC. Failure to approve the new LOE may cause an interruption of services to the IC.

ATTACHMENTS
Attachment 1 – Proposed Letter of Engagement

CAROL MOODY
Interim Chief Operating Investment Officer

California Public Employees' Retirement System
Letter of Engagement # ___ for Contract Number 2009-5105
Back-Up to the Primary Pension Board Investment Consulting Services

Unless otherwise expressly altered in this Letter of Engagement, all terms and conditions of the above-noted Contract remain in full force and effect.

A. Project Description

Under the direction of the Investment Committee and Investment Office Staff, Pension Consulting Alliance, Inc. shall provide general investment consulting services to the CalPERS Investment Committee in connection with the above-noted contract as follows:

1. Conduct a review of agenda item(s) for all regular Investment Committee meetings, attend all regular Investment Committee meetings, and be prepared to respond to questions or provide opinions as requested by the Investment Committee; and

2. Prepare for, attend and participate in Investment Committee workshops as requested by the Investment Committee for the Asset Allocation Workshop, assist in the development of assumptions, review and comment on materials, and participate in all pre-meetings; and

3. Provide written second opinions to those issued by the primary pension consultant as requested by the Investment Committee or CalPERS staff; and

4. Provide independent analyses and recommendations upon request by the Investment Committee or CalPERS Investment Office staff regarding: asset allocation strategies, investment policies, industry trends and views, general investment portfolio management, asset and sector performance and attribution assignments, investment risk assessment. Including, but not limited to:

   A. Discuss targeted investments (outside of the Responsible Contractor Program), including infrastructure, affordable housing, etc.

   B. Discuss emerging manager policy and procedures

   C. Participate in Investment Beliefs development

5. Maintain general availability to meet the needs of the Investment Committee and CalPERS Investment Office staff. Including, but not limited to:

   A. Attend regular meetings with the Board chair and vice-chair to discuss/prepare for Investment Committee meetings.

B. Staff, Estimated Billable Hours, and Total Cost of Services

Assigned Staff	Hourly Rate	Total Estimated Hours	Total Cost Not to Exceed
Senior Actuary/Managing Director Actuary/Senior Vice President/Vice President Analyst	See Below	See Below	$112,500*/year

*Voluntary fee reduction of 10%, per quarterly invoice

This work is project and/or deliverables based. Fees noted above are based on completion of the work and/or provision of deliverables outlined in this Letter of Engagement.

C. Invoices

Quarterly invoices shall be submitted by the Contractor in arrears for work performed. Combined total of all invoices shall not exceed the total project cost of $112,500.00 per year for the term of the Letter of Engagement, payable in quarterly increments of $37,500, and shall be inclusive of all travel and other expenses. All invoices shall be submitted no later than 90 days of services being rendered.

D. Effective and Expiration Dates

This Letter of Engagement is effective as of 10/01/2013, and shall expire on 6/30/2014, unless otherwise agreed upon between CalPERS and the Contractor through a new or amended Letter of Engagement.

Approved and Accepted:

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CAROL MOODY	ALLAN EMKIN
Interim Chief Operating Investment Officer	Managing Director
CalPERS Investment Office	Pension Consulting Alliance, Inc.
Date:___________	Date:_____________