Agenda Item 5c

August 19, 2013

ITEM NAME: Contracts Administration: Inflation-Linked Asset Class Spring-Fed Pool – Term Extension

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight **–** Action

RECOMMENDATION
Approve a one-year term extension for the Inflation-Linked Asset Class (ILAC) Spring-Fed Pool to allow for the continuation of services as the Board's Infrastructure Investment Consultant through March 1, 2015.

EXECUTIVE SUMMARY
Staff is requesting the Investment Committee (IC) approve a one-year term extension for the ILAC Spring-Fed Pool for the continuation of services.

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 ILAC Spring-Fed Pool supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services.

BACKGROUND
The ILAC Spring-Fed Pool was established in 2009, through the competitive selection process. The purpose of establishing the ILAC Spring-Fed Pool was to provide special project services related to Infrastructure, Forestland and Commodities. Since 2009, Meketa Investment Group, Inc. (Meketa) has served as the Board's Infrastructure Investment Consultant, as part of the ILAC Spring-Fed Pool.

Per Board Resolution No. 92-04B-4 (Attachment 1), all CalPERS contracts for goods and/or services can be for no more than a five-year period unless otherwise extended by the Board. The ILAC Spring-Fed Pool will reach the end of its contracted five-year term on March 1, 2014.

ANALYSIS
The typical duration for a standard RFP, and the current expiration date of the ILAC Spring-Fed Pool, will result in a several month period in which the Board would be without an Infrastructure Investment Consultant.

Staff therefore recommends the IC utilize the exception process outlined in Board Resolution No. 92-04B-4 to extend the entire ILAC Spring Fed-Pool beyond the five-year limit.

Resolution No. 92-04B-4 allows the Board to extend contracts beyond the five-year maximum term upon an affirmative determination by the Board that a longer term is necessary to fulfill the Board's duty to serve the interests of CalPERS members and beneficiaries. Extending the ILAC Spring-Fed Pool will avoid an interruption of services from the current ILAC Spring-Fed Pool of contractors. All costs and contracting parameters will remain the same, with the exception of the extension of the term date.

Staff plans to return to the IC for approval to initiate a new RFP for the Board Infrastructure Investment Consultant in the fall of 2013. The new RFP will be a single award contract and will not utilize a spring-fed pool structure.

BUDGET AND FISCAL IMPACTS

The ILAC Spring-Fed Pool is budgeted annually for $700,000. The cost for the proposed extension of services through FY 2014-15, based on fees negotiated at the onset of the contract, would remain the same. Additional information about the cost of Meketa's services, as the Board's Infrastructure Investment Consultant is outlined in Agenda Item 5d, Contract Administration: Infrastructure Board Investment Consultant – Letter of Engagement Renewal.

The fiscal impact of this extension was included in the *FY 2013-14 Annual Budget Proposal.*

BENEFITS/RISKS

Approval of a one-year extension of the ILAC Spring-Fed Pool will support the continuation of the Board's Infrastructure Investment Consultant Services through March 1, 2015. This will also accommodate the typical RFP development timeline. Failure to approve the one-year extension may cause an interruption of services to the Board.

ATTACHMENTS

Attachment 1 – CalPERS Resolution No. 92-04B-4, Contracts & Procurement of Goods and Services – Contract Duration

CAROL MOODY
Interim Chief Operating Investment Officer

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

Subject: Contracts & Procurement of Goods and Services - Contract Duration

No. 92-04B-4

WHEREAS, On [DATE OF ADOPTION], the Board of Administration of the California Public Employees' Retirement System passed Resolution No. 92-04B-1, describing PERS' policies regarding contracts for goods and services;

WHEREAS, Resolution No. 92-04B-1 requires that PERS' contracts for goods and/or services be no more than five years, except when the Board has made an affirmative decision that a longer term is necessary to fulfill the Board's duty to serve the interests of System members and beneficiaries, including the interest in defraying administrative expenses;

WHEREAS, The Public Contract Code ("PCC") grants to the Department of General Services ("DGS") the authority to restrict the duration of contracts awarded by State agencies; this DGS-imposed limitation is generally three years, with five years approved on an exceptional basis;

WHEREAS, PERS' existing Contract Management Procedures governing contracts for goods and/or services are consistent with the above-described DGS limitation; and

WHEREAS, The Board has determined that, in some circumstances, such a five year duration limitation may run counter to the best interests of System members and beneficiaries (including the interest to defray reasonable administrative expenses).

RESOLVED, that, pursuant to the foregoing, the Board's Policy Statement, Operational Guidelines and Contract Management Procedures concerning PERS' contracts for goods and services shall be revised to permit the award of a contract for more than a five year term, under the following circumstances:

A. The Board affirmatively determines that such a longer term is necessary to fulfill the Board's duty to serve the interests of

System members and beneficiaries, including the interest in defraying administrative expenses;

B. Such a determination shall only be made after considering the following factors (among any others that the Board may deem prudent under the particular circumstances):

1. The impact of a longer term upon the System's interests in obtaining quality services at a reasonable cost; and

2. The System's ability to monitor the performance of contractors with such lengthy contract terms, and to take corrective action (including expeditious termination of the contract) if necessary to fulfill the Board's fiduciary duties.

RESOLVED, that the Board hereby delegates to its Chief Executive Officer the authority and responsibility to implement the revisions and activities described above, provided such actions are regularly reported to the Board.

RESOLVED, that this Resolution shall be effective immediately upon adoption, and is cumulative to all other delegations to the Chief Executive Officer.

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I hereby certify that on the 19th day of April, 1995, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

William Dale Crist

WILLIAM DALE CRIST
President, Board of Administration
Public Employees' Retirement System

I understand and accept this delegation.

Dated: 4/19/95

James E. Burton

JAMES E. BURTON
Chief Executive Officer
Public Employees' Retirement System