CalPERS

Investment Committee

California Public Employees' Retirement System

Agenda Item 5d

August 19, 2013

ITEM NAME: Contracts Administration: Infrastructure Board Investment Consultant – Letter of Engagement Renewal

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight – Action

RECOMMENDATION

Approve a one-year term extension for the Letter of Engagement (LOE) for Contract No. 2008-4936 for Meketa Investment Group, Inc. (Meketa) to continue serving as the Board's Infrastructure Investment Consultant through March 1, 2015.

EXECUTIVE SUMMARY

Staff is requesting the Investment Committee (IC) approve a new LOE for a one-year term for Meketa to continue services. Approval of this request will result in a new LOE for continued services to the IC through March 1, 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 LOE supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services, as specified in the proposed LOE (Attachment 1).

BACKGROUND

Since 2009, the IC has selected Meketa as its Board's Infrastructure Investment Consultant through a competitive bidding and evaluation process.

The competitive selection process includes:

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

The IC considers Board Consultant contracts approximately one year prior to expiration so a determination can be made to either extend the LOE arrangement or release an RFP. The current LOE is scheduled to expire on March 1, 2014, as part of the Inflation-Linked Asset Class (ILAC) Spring-Fed Pool.

Per Board Resolution No. 92-04B-4 (Attachment 2), 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 if the IC does not extend the ILAC Spring-Fed Pool. For additional information on the ILAC Spring-Fed Pool extension request, reference the August 19, 2013, agenda item 5c, Contract Administration: Inflation-Linked Asset Class Spring-Fed Pool – Term Extension.

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

ANALYSIS

Staff recommends the IC establish a new one-year LOE for Meketa from the ILAC Spring-Fed Pool. This recommendation is dependent upon the extension of the ILAC Spring-Fed Pool. Establishing a new one-year LOE with Meketa will ensure the continuation of services by the Board's Infrastructure Investment Consultant. All costs and contracting parameters will remain the same, with the exception of the extension of the term date.

BUDGET AND FISCAL IMPACTS

Currently, Meketa is serving as the Infrastructure Consultant at an annual cost of $106,250, and is included in the annual ILAC Spring-Fed Pool budgeted amount of $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 be $106,250.

The fiscal impact of this 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

Approval of a new LOE for Meketa to continue consulting services as the Infrastructure Consultant, and the extension of the ILAC Spring-Fed Pool, will ensure uninterrupted service to the IC. Failure to approve the one-year extension and approve a new LOE may cause an interruption of services to the IC.

ATTACHMENTS

Attachment 1 – Proposed Letter of Engagement
Attachment 2 – CalPERS Resolution No. 92-04B-4, Contracts & Procurement of Goods and Services – Contract Duration

____

CAROL MOODY
Interim Chief Operating Investment Officer

CalPERS

California Public Employees' Retirement System
Letter of Engagement # ___ for Contract Number 2008-4936
CalPERS Infrastructure Program Advisory 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

The Contractor, Meketa Investment Group, (Meketa), shall provide consulting services in connection with the above-noted contract and engagement as follows:

INDEPENDENT ADVISOR TO THE INVESTMENT COMMITTEE

1. Provide opinion to the Committee on investments above staff's delegation of authority.

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

3. 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.

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

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

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

STRATEGY AND POLICY ANALYSIS

1. Review and opine on investment policies and delegations of authority.
2. Review and opine on strategic and annual plans.
3. Provide forecasts of asset class returns for total fund asset allocation purposes.
4. Provide quarterly analysis of market developments, market conditions, and macro-level view of market opportunities to the Committee.

PERFORMANCE ANALYSIS AND MONITORING

1. Prepare quarterly investment performance reports and portfolio risk analysis.
2. Provide guidance on performance measurement methodologies.
3. Review and opine annually on appropriateness of asset class benchmarks.

SPECIAL PROJECTS

In limited circumstances, the Infrastructure Board Investment Consultant may be engaged to perform work for staff on special projects, or to provide opinions to staff regarding specific investment transactions if the Infrastructure Board Investment Consultant possesses unique knowledge or expertise that is not available through other providers. Such an engagement must be initiated by staff and approved by the Committee.

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

Assigned Staff	Hourly Rate	Total Estimated Hours	Total Cost Not to Exceed
Staff Level Consultant Staff Level Analyst Staff Level Administrative	N/A	N/A	$212,500

C. Invoices

Invoices shall be submitted by Contractor on a monthly basis, in arrears for work performed and/ or upon final approval of deliverables by CalPERS Staff. Combined total of all invoices shall not exceed $212,500, 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 March 2, 2014, and shall expire on June 30, 2015, unless otherwise agreed upon between CalPERS and the Contractor through a new or amended letter of engagement.

Approved and Accepted:

___________________________	___________________________
CAROL MOODY	STEPHEN MCCOURT
Interim Chief Operating Investment Officer	Managing Principal
CalPERS Investment Office	Meketa Investment Group
Date:___________	Date:_____________

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.

* * * * * * *

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