Agenda Item 5e

August 19, 2013

ITEM NAME: Contracts Administration: Board Investment Consultant Request for Proposal – Private Equity Program

PROGRAM: Private Equity

ITEM TYPE: Independent Oversight **–** Action

RECOMMENDATION
Approve the Statement of Services to be Performed and the initiation of the request for proposal (RFP) process for the Board Investment Consultant for the Private Equity Program.

EXECUTIVE SUMMARY
This agenda item outlines the initiation of the Board Investment Consultant RFP for the Private Equity Program. The current contract with Pension Consulting Alliance, Inc., (PCA) began on July 1, 2009, and is scheduled to terminate on June 30, 2014.

Per Resolution No. 92-04B4, staff requests approval from the Investment Committee (IC) to release an RFP to procure a new contract for the Private Equity Investment Consultant for a term of up to five years. Additionally, staff requests the IC's feedback on the draft Proposal Evaluation Sheet (Attachment 1).

Contracted services will be inclusive of specialized professional assistance regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory services to the IC.

STRATEGIC PLAN
This item 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 2) and the use of a competitive selection process supports CalPERS mitigation of operational risks.

BACKGROUND
The Private Equity Board Investment Consultant provides specialized professional assistance regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory services to the IC.

In March 2012, the IC approved an extension of the current contract through June 30, 2014, to allow for continuity through the implementation of the Private Equity Strategic Plan.

ANALYSIS

Upon approval by the IC, the RFP will be released in August 2013, and staff anticipates a contract could then be executed by May 2014. This RFP will reflect the updated Statement of Services to be Performed (Attachment 2) as identified in the *Role of the Private Asset Class Board Investment Consultants Policy*.

The competitive selection process for the Private Equity Investment Consultant is anticipated to take approximately 10 months from the time of RFP release to full execution of the resulting contract. The RFP will be designed to solicit qualified bidders who are capable of providing specialized professional assistance. Significant attention from Investment Office (INVO) senior and executive management will be required to successfully complete the selection process.

The proposed key activities and anticipated dates are as follows:

Proposed Key Activities and Anticipated Dates	
Anticipated Dates	**Key Activity**
August 2013	RFP release
Preliminary Review and Staff Evaluation Period	
October 2013	Staff evaluates and scores technical and fee proposals
Interview and Selection Period	
November 2013	Staff Evaluation Committee Interviews (Optional)
November 2013	Staff presents finalists to the IC for consideration
December 2013	IC reviews staff recommendations
December 2013	Investment Committee conducts oral interview and selects finalist for contract award
Contract Negotiation, Preparation and Execution	
February 2014 - April 2014	Contract negotiations and preparation
May 2014	Contract execution

The approach and methodology for the Preliminary Review and Staff Evaluation Period will be scored by a combination of high-score and consensus scoring and will focus on the candidates' technical expertise and a robust minimum qualification review. Staff will present a list of qualified candidates to the IC for consideration. Members of the IC will advise staff how many candidates, typically two to four candidates, the IC would like to interview.

At the conclusion of those interviews, staff will rank each finalist utilizing a proposal evaluation sheet, as approved by the IC, enlisting a combination of the high-score methodology for the technical evaluations, and consensus score methodology for fee proposal evaluation.

The sum of the technical evaluations, fee proposal evaluations, Evaluation Committee Interviews (optional) and the IC interview scores will be combined and the candidate receiving the highest overall score will be notified of the Notice of Intent to Award.

The draft Proposal Evaluation Sheet details the proposed evaluation criteria that will be included in the RFP as an exhibit, pending approval by the IC. The draft Proposal Evaluation Sheet categories, assigned score, and weighted totals are detailed below:

Proposed Evaluation Sheet Scores and Weights		
Proposal Evaluation Sheet Section	**Maximum Score**	**Weight**
Proposal Questionnaire Response	200	20%
Fee Proposal	300	30%
Investment Committee Interviews	500	50%
Total Combined Maximum Score	1000	100%

BUDGET AND FISCAL IMPACTS

The current Private Equity Board Investment Consultant, PCA, has served in this role since July 2009 at the annual cost of $495,000.

The anticipated term of the new contract, as a result of this new RFP, will be for a five-year term with annual costs to be negotiated.

BENEFITS/RISKS

Approving the initiation of the competitive bidding process for the Board Investment Consultant for the Private Equity 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 the interruption of key services.

ATTACHMENTS

Attachment 1 – Draft Proposal Evaluation Sheet
Attachment 2 – Proposed Statement of Services to be Performed
Attachment 3 – Exhibit 1 to Attachment 1, Statement of Investment Policy for Role of the Private Asset Class Board Investment Consultants

____

CAROL MOODY
Interim Chief Operating Investment Officer

DRAFT

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

PRIVATE EQUITY CONSULTANT SERVICES

PROPOSAL EVALUATION SHEET

Firm's Name ______________________________

I.	**PROPOSAL QUESTIONNAIRE RESPONSE**	**Maximum Points**	**Proposer's Points**
	Quality of Organization, Background and Team	66	______
	Quality of Services to be Provided	67	______
	Alignment of Proposal with CalPERS needs	67	______
	TOTAL TECHNICAL POINTS*	**200**	______

* The highest scoring proposals, as determined by CalPERS, will continue in the evaluation process.

II.	**FEE PROPOSAL**	**Maximum Points**	**Proposer's Points**
	Fee Proposal Evaluation	300	______
	TOTAL FEE POINTS	**300**	______

COMBINED SECTION I AND II TOTAL POINTS	**Maximum Points**	**Proposer's Points**
Section I Total Points	200	______
Section II Total Points	300	______
TOTAL SECTIONS I AND II POINTS**	**500**	______

** The highest scoring proposals, as determined by CalPERS will be Finalists.

Firm's Name ______________________________

PROPOSER SELECTED AS FINALIST? Yes ☐ No ☐

BACKGROUND AND REFERENCE CHECKS

If conducted, background and reference checks satisfactory? Yes ☐ No ☐ N/A ☐

III.	**INVESTMENT COMMITTEE INTERVIEWS**	**Maximum Points**	**Proposer's Points**
	Investment Committee Interviews	500	________
TOTAL INVESTMENT COMMITTEE INTERVIEW POINTS		**500**	________

GRAND TOTAL COMBINED POINTS	**Maximum Points**	**Proposer's Points**
Total Technical Points	200	________
Total Fee Points	300	________
Investment Committee Interview Points	500	
GRAND TOTAL POINTS	**1000**	________

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.

I. 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 Investment Committee, as needed.

II. 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.

III. INDEPENDENT ADVISOR TO THE INVESTMENT COMMITTEE

a. Attend Investment Committee as requested by staff and/or when Private Equity Program reviews occur.

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

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

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

e. Perform an annual review of the program and provide an opinion(s) on performance, risk, manager selection and monitoring processes, internal control processes and staffing.

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

g. 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:

h. Manage assets for CalPERS.

i. Perform work for staff on special projects.

j. Provide opinions to staff regarding specific investment transactions.

IV. 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

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.