Investment Committee

California Public Employees' Retirement System

Agenda Item 7a

November 18, 2013

ITEM NAME: Contracts Administration: Extension of Existing Investment Manager Contracts

PROGRAM: Investment Office

ITEM TYPE: Organizational Systems & Controls – Action

RECOMMENDATION

The Investment Office recommends that the Investment Committee (IC) approve a one-year contract extension for external investment manager contracts, consistent with procurement policies adopted by the Board.

EXECUTIVE SUMMARY

The Investment Office selects and monitors the performance of external investment managers on an ongoing basis. There are 42 external investment manager contracts that require IC approval to extend the contract duration. Approving the contract extensions will ensure compliance with procurement policies and improve operational efficiency. A list of the contracts recommended for extension is included 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 extension of the external investment manager contracts supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services.

INVESTMENT BELIEFS

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 8 – Costs matter and need to be effectively managed
- Investment Belief 10 – Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

BACKGROUND

In February 2012, the Board of Administration (Board) adopted the Board Governance Policy which identified the roles and powers reserved to the Board and clarified the delegations to each committee and to staff. Based on the Board Governance Policy and the IC delegation (IC-11-01), the IC's role in the selection of external investment managers was revised from the selection of external investment managers to oversight of external investment managers. In this context, overseeing external investment managers is defined as the IC requiring adequate information to monitor and provide direction and support, as appropriate. The Chief Investment Officer delegation (INV-12-01) specifies that staff has the authority to select and monitor external investment managers.

Per Board Resolution No. 92-04-B4 (Attachment 2), all contracts for goods and/or services can be for no more than a five-year period unless otherwise extended by the Board. Previously, the IC approved external investment managers and granted a one-year extension of the contracts during the annual asset class program reviews. The IC no longer selects and approves the external investment managers, so staff has developed an approach to obtain approval for these investment manager contracts that exceed the five-year duration.

ANALYSIS

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 external investment management contracts will avoid interruption of services from these external investment managers, assist in keeping the costs of external management services low and retain current alignment of interests between CalPERS and its existing external investment managers.

With the Board's authority to extend the contract duration, the Investment Office recommends that the IC extend the external investment manager contracts for an additional year. Investment staff will continue to select and monitor the performance of external investment managers consistent with the Board Governance Policy and the IC delegation. All external investment manager contracts have a provision that allows the contracts to be terminated with a 30-day notice.

Annually, staff will seek IC approval for one-year extensions for all external investment manager contracts.

BUDGET AND FISCAL IMPACTS

Not approving the extension of the duration of these contracts for one year could result in the higher costs for investment management services to the Investment Office. Should the current contracts fail to be renewed, additional fiscal impacts could include:

- Higher fees and staff resource costs associated with negotiating and establishing new external investment manager solicitations and contracts
- Misalignment of interests between CalPERS and external investment managers

BENEFITS/RISKS
The review and approval of one-year extensions of the external investment manager contracts, on an annual cycle, would streamline processes and ultimately create a cost-savings by reducing staff's involvement in the procurement process. The simplification of taking all contracts at one time streamlines the process and eliminates the operational risk of a contract not being extended. This will be consistent with the alignment of interests between CalPERS and investment managers. Failure to approve the investment manager contract extensions may cause interruption of critical services and may impede the execution of the Board's fiduciary duty to CalPERS members and beneficiaries.

ATTACHMENTS
Attachment 1 – External Investment Manager Contract Extension List
Attachment 2 – Board Resolution 92-04B-4

CAROL MOODY
Interim Chief Operating Investment Officer

Investment Managers

Contract No.	Contractor Name	Pool / Asset Class	Effective Date	Expiration Date [1]	Strategy
2006-4120	Alliance Bernstein L.P.	Fixed Income	11/22/06	Undefined	International Fixed Income
2008-4966	Artio Global Management, LLC	Fixed Income	12/31/09	Undefined	High Yield Fixed Income
2000-2089	Baring Asset Management	Fixed Income	09/01/00	Undefined	International Fixed Income
2006-4154	BlackRock Financial Management	Fixed Income	05/15/07	Undefined	International Fixed Income
2007-4581	CitiMortgage, Inc.	Fixed Income	06/28/08	Undefined	Member Home Loan Program Servicer
2008-4960	Columbia Management Investment Advisors	Fixed Income	03/16/09	Undefined	International Fixed Income
2008-4965	ING Investment Management Co.	Fixed Income	06/16/09	Undefined	International Fixed Income
2008-4963	J.P. Morgan Investments Management Inc.	Fixed Income	06/24/09	Undefined	International Fixed Income
2008-4962	Logan Circle Partners, LP	Fixed Income	03/16/09	Undefined	International Fixed Income
2001-2621	Nomura Corporate Research and Asset Management Inc.	Fixed Income	02/01/02	Undefined	High Yield Fixed Income
2001-2620	Pacific Investment Management Company Inc.	Fixed Income	02/01/02	Undefined	High Yield Fixed Income
2006-4121	Pacific Investment Management Company Inc.	Fixed Income	02/15/07	Undefined	International Fixed Income
96-129	Pareto Partners	Fixed Income	10/01/96	Undefined	Currency Overlay Management
2000-2091	Rogge Global Partners	Fixed Income	09/01/00	Undefined	International Fixed Income
2008-4958	TCW Asset Management Company	Fixed Income	03/16/09	Undefined	High Yield Fixed income
2008-4961	The Putnam Advisory Company, LLC	Fixed Income	03/16/09	Undefined	High Yield Fixed income
2002-2658	Alliance Bernstein L.P.	Global Equity	04/01/02	Undefined	Active Emerging Markets Equity
2002-2945	Arrowstreet Capital, LP	Global Equity	01/01/03	Undefined	Active Non-U.S. Equity
2012-6691	Ashmore Equities Investment Management (US) LLC	Global Equity	07/31/13	07/30/18	Emerging Markets Small Cap
2000-2263	Baillie Gifford Overseas Limited	Global Equity	05/01/01	Undefined	Non-U.S. Core
2012-6693	Dimensional Fund Advisors, LP	Global Equity	08/29/13	08/28/13	Emerging Markets Small Cap
2002-2657	Dimensional Fund Advisors, LP	Global Equity	04/01/02	Undefined	Emerging Markets Equity
2006-4182	First Quadrant, LP	Global Equity	03/01/07	Undefined	U.S. Equity Long/Short Enhanced Index
2007-4439	FIS Group, Inc.	Global Equity	12/31/07	Undefined	Emerging Manager Fund of Funds
2002-2659	Genesis Asset Managers, LLP	Global Equity	04/01/02	Undefined	Emerging Markets Equity
2000-2266	Grantham, Mayo, Van Otterloo & Co. LLC	Global Equity	05/01/01	Undefined	International Equity
2007-4529	J.P. Morgan Investments Management Inc.	Global Equity	04/01/08	Undefined	U.S. Equity Long/Short
2006-3943	Lazard Asset Management, LLC	Global Equity	10/27/06	Undefined	Emerging Markets Equity
2007-4440	Leading Edge Investment Advisors	Global Equity	12/01/07	Undefined	Emerging Manager Fund of Funds
2000-2274	Nomura Asset Management, USA, Inc.	Global Equity	07/01/01	Undefined	Active Non-U.S. Equity
2007-4442	Progress Investment Management Company, LLC	Global Equity	07/28/08	Undefined	Emerging Manager Fund of Funds
2000-2097	Pzena Investment Management, LLC	Global Equity	09/01/00	Undefined	Domestic Active Equity Portfolio
2011-6219	STUX Capital Management	Global Equity	04/01/12	Undefined	Domestic Equity
2005-3725	T. Rowe Price Associates, Inc.	Global Equity	03/01/06	Undefined	U.S. Equity Enhanced
97-288	The Boston Company Asset Management	Global Equity	05/29/98	Undefined	Domestic Active Equity Portfolio
2012-6692	Wasatch Advisors	Global Equity	Upon Execution	06/30/18	**Anticipate this contract to be executed by 11/15** Emerging Markets Small Cap
2008-4657	Pacific Investment Management Company Inc.	Global Equity (formerly AIPD)	07/15/08	Undefined	Fixed Income: Moderate Duration Stable Value
2006-3954	Pyramis Global Advisors Trust Company	Global Equity	07/31/06	Undefined	Emerging Market Equity
2012-6541	State Street Bank and Trust Company (SSGA)	Global Equity (formerly AIPD)	09/28/12	Undefined	Long-Term Care Fund
2007-4632	State Street Bank and Trust Company (SSGA)	Global Equity (formerly AIPD)	05/15/08	Undefined	Small-Mid Cap Equity
2008-4662	The Boston Company Asset Management	Global Equity (formerly AIPD)	07/07/08	Undefined	Cap Growth Strategy
2012-6705	Hamilton Lane Advisors	Private Equity	06/20/13	06/19/18	Enhanced Liquidation

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