Investment Committee

California Public Employees' Retirement System

Agenda Item 5a

August 18, 2014

ITEM NAME: Contracts Administration: Infrastructure Board Investment Consultant – Selection of Finalists for Interview

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight – Action

RECOMMENDATION

Approve the recommendation by Staff to interview 1) Courtland Partners, Ltd., 2) Meketa Investment Group, Inc., and 3) StepStone Group, LP, as Finalists for the Infrastructure Board Investment Consultant (Consultant).

EXECUTIVE SUMMARY

Staff requests Investment Committee (IC) approval to advance the recommended firms to the Finalist Interview stage of the Infrastructure Board Investment Consultant RFP.

STRATEGIC PLAN

This agenda supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization.

INVESTMENT BELIEFS

This item supports CalPERS Investment Belief 4 that long-term value creation requires effective management of three forms of capital: financial, physical and human.

BACKGROUND

The role of the Consultant is to act as an independent fiduciary advisor to the IC. The Consultant will provide independent review and recommendations on Strategy and Policy Analysis, Performance Analysis and Monitoring, and other Special Projects, as requested by IC.

The current Infrastructure Board Investment Consultant contract with Meketa Investment Group Inc. began on March 2, 2009, and terminates on March 1, 2015.

ANALYSIS

On April 25th, 2014, CalPERS released Request for Proposal (RFP) No. 2013-7086 to solicit for an Infrastructure Board Investment Consultant.

CalPERS received four proposals by the final filing date of May 29, 2014.
All proposals received passed the preliminary review and were scored as specified in the RFP, based upon responses to the following categories:

- Organization and Background
- Professional Staff
- Strategy and Policy Analysis
- Performance Analysis and Monitoring
- Independent Advisor to the Committee
- Additional Information

One proposer did not receive the minimum of 100 points required to advance to the Fee Proposal Evaluation phase. The three recommended Finalists submitted proposals with the most comprehensive and relevant responses.

The three firms recommended for moving on to the interview phase, and each firm's corresponding scores are detailed in the table below. Staff has prepared a firm profile (Attachment 1) for each firm recommended to the IC for the Interview phase.

	Infrastructure Board Investment Consultant				
Current Rank	**Proposer**	**Total Proposed Fees for Five Years**	**Technical Proposal Score**	**Fee Proposal Score**	**Total Score**
1	StepStone Group LP	$583,000	137	300	**437**
2	Meketa Investment Group	$644,062	156	272	428
3	Courtland Partners, Ltd.	$825,000	104	212	316

Interviews provide the IC an opportunity to consider each of the recommended Finalist's proposal including fees and any other specific areas of the proposal for which clarification is necessary.

Each firm interviewed will have 30 minutes before the IC (5 minutes for introduction, 10 minutes for presentation, 10 minutes for questions and answers, and 5 minutes for conclusion). At the conclusion of each firm interview, the IC will have time to briefly discuss and/or comment on the firm's interview. After the discussion and/or comment period, each member of the IC will individually score the proposer.

Upon completion of all of the interviews, staff will score the Finalists using the "trimmed average" scoring methodology set forth in the RFP. The final interview score of each Finalist will be combined with the Finalist's Technical and Fee Proposal scores and the Finalists will then be ranked from highest to lowest. The distribution of maximum possible points is as follows:

- Technical Proposal: 200 points maximum
- Fee Proposal: 300 points maximum
- Board Interview : 500 maximum

Total Combined Score: 1000 points maximum

BUDGET AND FISCAL IMPACTS
The anticipated term of the contract, as a result of this RFP, will be for a five-year term with annual costs to be negotiated. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in April 2014.

BENEFITS/RISKS
The selection of the Infrastructure Board Investment Consultant supports the IC in meeting its objectives to prudently manage the System and provide members and beneficiaries with benefits, as required by law.

Approving the recommended Finalists for the Consultant will minimize any interruptions to the provision of critical consultant services to support the IC in its fiduciary duty to the beneficiaries.

Failure to make a recommendation or approve Staff's recommendation may result in lack of access to key advisory services including the IC's access to an independent fiduciary to provide opinions on the prudent and optimal management of the System with matters related to the Infrastructure program.

ATTACHMENTS
Attachment 1 – Finalist Profile Summary

WYLIE TOLLETTE
Chief Operating Investment Officer

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

INFRASTRUCTURE BOARD INVESTMENT CONSULTANT SERVICES

Request for Proposal No. 2013-7086

FINALIST PROFILE SUMMARY

Courtland Partners, Ltd.

Meketa Investment Group

StepStone Group, LP

COURTLAND PARTNERS, LTD.
Finalist Profile

A. OVERVIEW

Courtland Partners, Ltd., (Courtland) provides services to pension plan sponsors, corporations, financial institutions, and other institutional investors for real estate, infrastructure, and real estate-related holdings, and includes tax-exempt institutional investors, public and private, Taft-Hartley pension plans, in addition to foundations, endowments, and sovereign wealth funds.

Since 1995, Courtland has offered institutional real estate related investment consulting services inclusive of public equity, public debt, private equity, and private debt. Their business lines have expanded to cover infrastructure, timber and agriculture. Additional services provided include:

- Real estate operating company evaluations
- Performance measurement and analysis
- Portfolio monitoring
- Transaction management
- Portfolio reporting services
- Manager/partner selection
- Investment evaluation
- Manager/partner fee structuring

This firm is an Ohio limited liability company, 100% owned, directly or indirectly by two active principals with offices in Ohio and California. Courtland advises over $44 billion in reals asset, of which 80% represents public pension plans with fiduciary relationships with large state funds. Their five largest clients include two investment boards (Washington State Investment Board and State of Wisconsin Investment Board) and three retirement systems (Pennsylvania Public School Employees Retirement System, North Carolina Retirement System, and Hawaii Employees Retirement System).

B. PROFESSIONAL STAFF

The proposed key personnel assigned to the CalPERS account are:

- Michael Humphrey, Managing Principal
- Daniel Moore, CFA, CAIA, Senior Consultant
- Jay Morgan, Senior Consultant, Director of Research
- Susan Yelin, Director of PMR Database
- Daniel P. Butler, CFA, CAIA, Senior Analyst
- Douglas Pautsch, Consultant/DVBE

Collectively, these individuals have over 90 years of experience ranging from six to twenty-two years in the industry.

C. ORGANIZATIONAL HIGHLIGHTS

Courtland specializes in real asset investment consulting choosing to focus exclusively on real estate consulting. This includes:

- Global due diligence process
- Real asset consulting: Timber, Agriculture, and Infrastructure
- Policy and strategy
- Research
- Performance measurement
- Workouts and monitoring

Headquartered in Cleveland, Ohio, Courtland has offices in Los Angeles, New York, Philadelphia, Raleigh, Sand Francisco, Seattle and London, and employs a staff of 38.

MEKETA INVESTMENT GROUP
Finalist Profile

A. OVERVIEW

Meketa Investment Group (Meketa) provides general consulting services and private market advisory services to a broad range of clientele. They serve Taft-Hartley funds, public funds, foundations, endowments, corporations and non-profits, defined benefit plans, defined contribution plans, health plans, OPEBs and VEBAs, and high net worth families.

Since 1978, Meketa has provided full service investment consulting and advisory services. This firm's general consulting services include:

- Initial fund review
- Investment policy design and asset allocation
- Liability and liquidity studies
- Manager evaluation, selection and monitoring
- Fund coordination
- Fund reporting and review
- Board/staff/trustee education

Meketa's Private Markets Services include:

- Private equity
- Private debt
- Infrastructure
- Real estate
- Venture capital
- Natural resources/timber

Meketa largest clients include CalPERS, CalSTRS, and Arizona State Retirement System. As of September 30, 2013, Meketa's regulatory assets under management have been calculated to be approximately $3 billion.

B. PROFESSIONAL STAFF

The proposed key personnel assigned to the CalPERS account are:

Proposed Team:

- Stephen P. McCourt, CFA, Managing Principal
- Christopher P. Tehranian, Senior Vice President, Head of Infrastructure Research
- Michael H. Dean, Executive Vice President, Head of Real Assets

- Steven Hartt, CAIA, Senior Vice President
- Mike Burke, Associate

Private Markets Investment Committee:

- John A. Haggerty, CFA, Managing Principal, Director of Private Market Investments
- Stephen P. McCourt, CFA, Manage Principal
- James E. Meketa, Managing Principal
- Alan Spatrick, CFA, Managing Principal, Compliance Officer
- Peter S. Woolley, CFA, CLU, ChFC, Managing Principal
- Frank Benham, CFA, CAIA, Managing Principal, Director of Research

C. ORGANIZATIONAL HIGHLIGHTS

Meketa is an employee-owned consulting and advisory firm offices located in Boston, Miami, San Diego, and London. Meketa's staff of over a 100 includes 60 investment professionals, of which over a third are CFA charter holders. This firm has comprised an ESG Committee with outreach initiatives involving youth, health and wellness, the environment, and homelessness and hunger.

STEPSTONE GROUP, LP
Finalist Profile

D. OVERVIEW

StepStone Group, LP, (StepStone) is a global private markets firm representing public and corporate pension plans, sovereign wealth funds, endowments, trusts, foundations and family offices.

Formed in 2007, StepStone has provided the following services:

- Primary fund investments
- Secondary investments
- Co-investments
- Mezzanine investments
- Portfolio monitoring and reporting

StepStone is a Delaware limited partnership with a broad equity ownership and oversees approximately $60 billion of private markets. In 2013, StepStone established a business unit dedicated to providing infrastructure and real assets advisory services to institutional investors. StepStones clients include the Pennsylvania State Employees' Retirement System, New York City Employees' Retirement System, and the New York Police Pension Fund.

E. PROFESSIONAL STAFF

The proposed key personnel assigned to the CalPERS account are:

- David Altshuler, Partner
- Brenden Woods, Partner
- Tom Keck, Partner
- Kate Budiselik, Vice President
- Thomas Bradley, Partner
- Monte Brem, Chief Executive Officer
- Jose Fernandez, New York
- David Jeffrey, Partner
- Mark Maruszewski, Partner
- Michael McCabe, Partner
- Jay Rose, Partner
- Suzanne Taville, Managing Director

The combination of the firm's experience spans over 150 years of providing investment and advisory services in infrastructure and real assets.

F. ORGANIZATIONAL HIGHLIGHTS

StepStone is managed by 19 Partners and supported by over 110 professionals. The firm has eight offices in San Francisco, San Diego, New York, London, Beijing, Hong Kong, Seoul, and Sao Paulo. Due to the global locations of StepStone's offices, the firm is operated under a broad geographic distribution. This firm believes its California locations will be beneficial for CalPERS.