



Investment Committee Agenda Item 7a

March 13, 2017

Item Name: Contract Administration: Change to Private Equity Board Consulting Contract

Program: Investment Office

Item Type: Action

Recommendation

- 1) Accept the resignation of Pension Consulting Alliance, LLC (PCA) as the Private Equity Board Investment Consultant (the "PE Consultant") effective March 16, 2017.
- 2) Authorize staff to contract with Meketa Investment Group, Inc. (Meketa) to assume the responsibilities of the PE Consultant effective March 16, 2017, for the remainder of the existing contract term.
- 3) Authorize staff to continue utilizing Meketa to complete existing work currently in progress for the Real Assets team, anticipated to be complete on or before June 30, 2017.

Executive Summary

The purpose of this agenda item is to accomplish the resignation of PCA as the PE Consultant to the Investment Committee (the "Committee"), and the simultaneous engagement of Meketa as the new PE Consultant.

Strategic Plan

This agenda item supports Strategic Plan Goal A - Improve long-term pension and health benefit sustainability. The firm acting as the PE Consultant will provide the Committee with advice and recommendations on the Private Equity Program, which plays an integral role in the success and sustainability of the Total Fund.

Investment Beliefs

This item supports CalPERS' Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

Background

The role of the PE Consultant is to act as an independent fiduciary advisor to the Committee and provide opinions on matters relevant to the prudent and optimal management of the Private Equity Program. Additionally, the PE Consultant is to align the execution of contracted services with CalPERS' Investment Beliefs, which (1) are a guide for making decisions, (2) provide context for CalPERS' actions, and (3) reflect CalPERS' values.

CalPERS and PCA are parties to a certain Agreement dated July 1, 2015 for the provision of private equity consulting services to the Committee (the "Current PE Consulting Contract") for a term commencing on July 1, 2015 and, absent earlier termination, expiring on June 30th, 2020. PCA has tendered its resignation as PE Consultant effective March 16, 2017. The current PE Consulting Contract was awarded to PCA at the conclusion of the Private Equity Investment

Board Consultant RFP No. 2013-7039 released on April 30, 2014. Meketa responded to and was included as a Finalist during the RFP and was interviewed by the Committee on October 14, 2014. PCA will continue to act as the Real Estate Board Investment Consultant, the secondary general pension consultant, and the primary adviser for matters relating to the Responsible Contractor Policy.

Analysis

The resignation of PCA as the PE Consultant will, upon acceptance by the Committee, create the immediate need for the Committee to select and engage a qualified firm to assume the duties of the PE Consultant. Private Equity Program procedures require a Private Asset Class Board Investment Consultant to, among other things, provide an opinion on each private equity investment transaction before the transaction may be closed. As a result, if the role of the PE Consultant were to remain vacant for any period of time, the investment process could be significantly and negatively impacted.

Staff recommends that the Committee accept PCA's resignation and immediately authorize Staff to use the exemption to the competitive bid process to engage Meketa, as the new PE Consultant, through a Letter of Engagement using the existing contract with Meketa in the General Investment Consulting Services Spring Fed Pool. Upon approval of the agenda item, the engagement shall be effective March 16, 2017 and terminate on June 30, 2020, unless the Committee directs otherwise. Prior to this termination date, CalPERS expects to prepare a request for proposals to select a PE Consultant for the subsequent five-year period.

Meketa is an established firm with the experienced staff and resources to effectively assume the role of PE Consultant. Meketa previously served the Committee as the Infrastructure Board Investment Consultant from January 2011 through February 28, 2015. Using the existing Spring-Fed Pool contract with CalPERS would allow staff to expeditiously engage Meketa and avoid a lapse in services to the Committee.

Meketa is currently performing work for the CalPERS Real Assets team under a letter of engagement anticipated to be completed by June 30, 2017. Per Policy, the PE Consultant may not perform work for staff without the authorization of the Committee. Staff recommends the Committee authorize Meketa to complete these services in progress for Real Assets staff to maintain business continuity. Meketa, subject to the Policy, shall not perform any additional work for staff.

Budget and Fiscal Impacts

The anticipated term of the proposed Meketa engagement is approximately two and a half years. Meketa's proposed fees for the term are approximately \$1,900,000, representing an increase of approximately \$200,000 over PCA's current fees. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this engagement will be reported to the Finance and Administration Committee in April 2017. Upon approval of the agenda item, the Committee is authorizing staff to procure these services.

Benefits and Risks

The PE Consultant supports the Committee in meeting its obligations to manage the System prudently and provide members and beneficiaries with benefits, as required by law. It is imperative to have a firm in place acting as the PE Consultant, to ensure continuity in the management of the Private Equity Program and minimize any interruptions in the provision of critical services to support the Committee and staff in fulfilling their fiduciary duties. A vacancy in the role of the PE Consultant may cause significant delays in the consummation and execution of investment transactions currently underway, which may hinder staff's ability to meet the return objectives of the portfolio.

Attachments

Attachment 1 – Pension Consulting Alliance, LLC – Letter of Resignation

Attachment 2 – Summary Profile - Meketa Key Persons and Fee Schedule

Attachment 3 – Total Fund Investment Policy – Private Asset Board Investment Consultant

Wylie Tollette

Chief Operating Investment Officer



March 13, 2017

Mr. Henry Jones, Chairman of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95811

Dear Mr. Jones:

Pursuant to our previous discussion, Pension Consulting Alliance, LLC resigns as the Private Equity Board Investment Consultant for the California Public Employees' Retirement System under Agreement No. 2014-7433, as amended, effective March 16, 2017.

Yours truly,

A handwritten signature in black ink, appearing to read "Allan Emkin", is written over a light blue circular background.

Allan Emkin
Managing Director

CC: Ted Eliopoulos, Chief Investment Officer

Attachment 2- Key Persons and Fees

Key Persons

Stephen P. McCourt, CFA – Managing Principal, Co-CEO

- Joined Meketa Investment Group in 1994 and has been in the financial services industry for 20 years.
- A Managing Principal of the firm and a member of the firm's Private Markets Investment Committee (PMIC), which oversees all research and services on infrastructure and other private market strategies.
- The lead consultant for several large institutional funds. His consulting work includes investment policy design, investment strategy development, investment education, and investment manager analysis.
- Additionally, Mr. McCourt heads Meketa Investment Group's Global Macroeconomic Working Group, and manages the firm's external Global Macroeconomic Advisory Committee.

Steven Hartt, CAIA – Principal

- Joined Meketa Investment Group in 2010 and has been in the financial services industry for 30 years.
- A Principal of the firm, Mr. Hartt is a member the firm's Private Equity, Real Estate, Natural Resources, and Infrastructure Investment Teams. Mr. Hartt also leads the firm's Private Markets co-investment program.
- Responsibilities include sourcing opportunities, performing due diligence, monitoring and reporting.
- Prior to joining the firm, Mr. Hartt was a Senior Vice President at Amalgamated Bank where he was in charge of alternative investments where he managed a discretionary private equity portfolio.

John A. Haggerty, CFA – Managing Principal, Director of Private Markets

- Joined Meketa Investment Group in 1996 and has been in the financial services industry for 24 years.
- He is Chair of the firm's Private Markets Investment Committee, which oversees all research and services on infrastructure and other private market strategies.
- Responsibilities include sourcing opportunities, performing due diligence, monitoring, and reporting.

Todd Silverman, CFA, CAIA – Principal, Head of Private Debt Research

- Joined Meketa Investment Group in 2008 and has been in the financial services industry for 15 years.
- A Principal of the firm, Mr. Silverman is a member of the firm's Private Equity, Private Debt, and Real Estate Investment Teams.
- Mr. Silverman leads the Private Equity and Private Debt teams, with responsibility for managing fund sourcing and relationships, research, fund deal flow, and due diligence.
- Responsibilities include performing due diligence on private markets funds, maintaining and establishing new relationships with private markets firms, as well as client service and research.

Jess W. Downer, CFA– Principal

- Joined Meketa Investment Group in 2008 and has been in the financial services industry for 14 years.
- A Principal of the firm, Mr. Downer is a member of the firm's Private Equity and Real Estate Investment Teams. He is also a member of the private markets operations team and is responsible for various operations projects.
- Responsibilities include client service, performing due diligence on private market funds, maintaining and establishing new relationships with private markets firms, and reporting on private market funds.
- Prior to joining the firm, Mr. Downer was a Senior Associate at Pacific Corporate Group, now TorreyCove Capital Partners, where he focused on sourcing, due diligence, and analysis of alternative investments.

Fees

Fees for Private Equity Board Investment Consulting services are listed in the table below.

Meketa Investment Group Fee Proposal RFP 2013-7039		
Year 1	(07/01/2015- 06/30/2016)	\$545,000
Year 2	(07/01/2016- 06/30/2017)	\$545,000
Year 3	(07/01/2017- 06/30/2018)	\$545,000
Year 3	(07/01/2018- 06/30/2019)	\$572,500
Year 5	(07/01/2019- 06/30/2020)	\$600,000
Total Approximate Fees for Years 2-5, with Year 2 being pro-rated		\$1,900,000

Attachment 3

Total Fund Investment Policy Private Asset Board Investment Consultant

California Public Employees' Retirement System Total Fund Investment Policy

XIII. Role of Private Asset Class Board Investment Consultants

Appendix 1 Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee by:

- Private Asset Class Board Investment Consultants

Private Asset Class Board Investment Consultants		
Program	Report Content	Frequency
Private Asset Classes	1. Review and provide an opinion letter to the Committee on investment policies and delegations of authority.	As needed
	2. Review and provide an opinion letter to the Committee on strategic and annual plans.	As needed
	3. Provide a report to the Committee on forecasts of asset class returns for total fund asset allocation purposes.	No less than annually
	4. Provide a report to the Committee that includes an analysis of market developments, market conditions, and macro-level view of market opportunities.	No less than annually
	5. Provide a report to the Committee regarding investment performance and portfolio risk and attribution analysis; monitor and report on deviations from policy benchmark performance and long-term expected performance.	No less than annually
	6. Review and provide an opinion letter to the Committee on appropriateness of asset class benchmarks	No less than annually
	7. Provide an opinion letter to the Committee on investments above staff's delegation of authority.	As needed
	8. Perform annual review of major asset class sub-component programs and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually
	9. Perform annual review of the program and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually

Appendix 2 Investment Responsibilities

The following tables provide details regarding investment related responsibilities for the:

- Private Asset Class Board Investment Consultants

Private Asset Class Board Investment Consultants (PACBIC)					
Program	Transaction Type/Size	Independent Due Diligence Report (not PACBIC)	Prudent Person Opinion (not PACBIC)	PACBIC Transaction Role	Opinion to the Board
Private Equity	1. Fund Investments	MID discretion	N/A	MID discretion	N/A
	2. Co-Investment	MID discretion	N/A	MID discretion	N/A
	3. Customized Investment Accounts that invest alongside other similarly structured funds in the same investments	MID discretion	N/A	MID discretion	N/A
	4. Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds in the same investments or a Direct Investment	N/A	Required	MID discretion	N/A
	5. >Staff Delegated Authority	N/A	Required	Required	Required
Real Assets	6. ≤ \$50 million	N/A	MID discretion	MID discretion	N/A
	7. >\$50 Million	N/A	Required	MID discretion	N/A
	8. >Staff Delegated Authority	N/A	Required	Required	Required

- Except as noted below, the PACBIC shall not:
 - Manage assets for CalPERS
 - Perform work for staff on special projects
 - Provide opinions to staff regarding specific investment transactions
- In limited circumstances, the PACBIC may be engaged for roles enumerated above if the PACBIC 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.