



Consent

Agenda Item 3d

May 14, 2012

ITEM NAME: Revision of Alternative Investment Management (AIM)
Delegation Resolution for Professional Staff

PROGRAM: Alternative Investment Management (AIM)

ITEM TYPE: Policy & Delegation – Consent Action

RECOMMENDATION

Approve the AIM Delegation Resolution as amended to add the concept of a "Customized Investment Account", to reinstate defined terms, and to change the Program name from AIM to Private Equity (PE).

EXECUTIVE SUMMARY

As discussed at the February 2012 Investment Committee meeting, PE staff is pursuing investment opportunities in Customized Investment Accounts, referred to as managed accounts. The existing PE Delegation Resolution provides the Chief Investment Officer and the Senior Investment Officer over PE with the delegation to make commitments to New Vehicles, which are structurally similar to Customized Investment Accounts. However, PE staff believes it would be prudent to have an explicit delegation for Customized Investment Accounts.

The original PE Delegation Resolution had defined terms attached. At some point the defined terms were no longer attached to the document. The defined terms are being reattached with slight modifications to some of the original definitions and the addition of two new terms.

The change of the Program name from AIM to PE is intended to more clearly reflect the construction and implementation of the Program. Staff will work with the Office of Public Affairs to ensure all of the references to AIM are changed to PE in a systematic way.

The Program name and the Investment Policy definitions will be changed to be consistent with the recommended delegation as an administrative change.

BACKGROUND

The New Vehicle delegation was introduced in 2001 and allowed for commitments to investments in private equity partnerships where CalPERS was the sole Limited Partner. However, the New Vehicle definition did not explicitly cover investments

where CalPERS was the sole Limited Partner in a vehicle that was investing alongside a co-mingled fund with different economics than the co-mingled fund. Staff recommends replacing the New Vehicle definition with the Customized Investment Account definition that more clearly outlines staff's ability to commit to investments when CalPERS is the sole Limited Partner investing alongside a comingled fund. This would explicitly allow staff to invest in a structure with preferred economics. A Customized Investment Account is defined in the delegation as:

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 in the same investments with different terms and could be either a fund or a fund of funds.

The proposed replacement of the existing New Vehicle definition with the new Customized Investment Accounts definition does not change the limits of the delegation. As of April 20, 2012 this delegation would have allowed the CIO and SIO PE to make commitments of \$1,479 and \$985 million respectively to a Customized Investment Account.

In addition to replacing New Vehicle with Customized Investment Account, some other definitions are being slightly revised for clarity. The notable changes impact the definition of Emerging Management Team and are addressed below:

- Emerging Management Team – This term was originally defined as a first of second time institutional fund. However institutional fund was not defined.
- Institutional Fund – This is a new term and is defined as “A fund which is being raised by a proven team with a demonstrable track record and to which at least three institutional investors have made a commitment”.

These definitional changes are consistent with CalPERS practice for commitments to Emerging Managers. Any potential investment that did not meet the Institutional Fund definition would require Investment Committee approval.

BENEFITS/RISKS

Approving the recommended changes would clearly provide the ability to make commitments that are structured such that CalPERS is the sole LP, potentially with improved economics compared to co-mingled funds. Adding definitions clarifies some of the terms within the Delegation. The revised delegation clarifies the ability of the CIO and the SIO PE to commit CalPERS to new investments.

ATTACHMENTS

- Attachment 1 – Delegation Resolution
- Attachment 2 – Delegation Matrix
- Attachment 3 – Opinion Memo PCA
- Attachment 4 – Opinion Memo Wilshire

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