

Investment Office Special Review Implementation Plan August 13, 2012

Recommendation	Summary	Proposed Next Steps			Status
		Program	Policy/ Regulation	Legislation	
1. Placement Agent Resolution Program	<ul style="list-style-type: none"> Implement placement agent resolution program for investment fund managers. 	<ul style="list-style-type: none"> CalPERS Investment Office (INVO) and Legal Office will evaluate certain investment managers who used placement agents and determine whether these firms have any fitness or fiduciary issues. 			<ul style="list-style-type: none"> INVO has created a Master List of all external managers that have indicated they have used a placement agent. For those managers, when there is an amendment to a contract or additional commitment, an additional assessment review, above INVO's ongoing review of its managers, will be conducted (<i>See attached chart</i>).
2. Fees and Carry	<ul style="list-style-type: none"> Implement program to reduce management fees and reduce or eliminate other fees. 	<ul style="list-style-type: none"> In the medium term, CalPERS will continue working with the Institutional Limited Partners Association (ILPA) and the general partners to address issues on an industry-wide basis. In the short term, all new "special account" investments made by CalPERS will be in funds whose managers are committed to this principle. INVO to provide quarterly status reports to the Investment Committee. 			<ul style="list-style-type: none"> CalPERS continues to support ILPA in its efforts to encourage adoption of the ILPA principles. The Real Estate unit has adopted its Alignment of Interest Policy and all agreements are being negotiated based on these principles (<i>See attached chart</i>.) PRIVATE EQUITY staff is working to reduce management fees; met with several account managers to discuss next steps (<i>See attached chart</i>).
3. Modification of Investment Office Function	<ul style="list-style-type: none"> Separate functions of negotiations and monitoring within the Investment Office; preclude investment consultants from performing money management and consulting roles; preclude consultants from providing both transactions and monitoring advice. 	<ul style="list-style-type: none"> INVO to perform an evaluation of existing protocols and resources and report to the Investment Committee proposed new policies or processes that address the issues. 			<ul style="list-style-type: none"> Reorganizations to separate functional units complete. The negotiation and monitoring roles have been completed by Real Estate. Organization models to separate these roles have been developed for Private Equity and Global Equity and are pending position recruitment. The Role of the Private Asset Class Board Investment Consultant Policy was revised to prohibit Board consultants from advising on transactions or managing money.

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4. Advisory Board/Annual Meeting Expenses	<ul style="list-style-type: none"> Encourage investment partners to conduct meetings at the offices of the general partner or CalPERS; preclude staff from attending meetings at other locations; require general partners to bear the costs of these meetings. 	<ul style="list-style-type: none"> Obtain greater transparency and accountability from the partnerships in the expenditure of partnership assets, including advisory board and annual meeting expenses. Over the medium term, negotiate to eliminate the expenditure of partnership or fund assets for these types of expenses. Over the medium term, CalPERS to work with the ILPA and the general partners to address issues on an industry-wide basis. <hr/> <ul style="list-style-type: none"> Exercise judgment in selecting appropriate accommodations for events. <hr/> <ul style="list-style-type: none"> For solely managed accounts, require meetings to be conducted at general partner offices or the offices of CalPERS. Updates to be provided to the Investment Committee on a quarterly basis. 			<ul style="list-style-type: none"> INVO will be advocating greater transparency from the partnerships regarding all expenses charged to the fund. As of March 1, 2012, all Private Equity general partners and fund-of-fund managers are required to use an adapted version of the ILPA standardized capital call and distribution template. <hr/> <ul style="list-style-type: none"> Developed a policy and clear guidelines for staff travel to partnership and advisory board meetings. Staff are prohibited from attending any entertainment at advisory board and annual meetings. Established an INVO compliance function and implemented a pre-clearance process for staff travel. <hr/> <ul style="list-style-type: none"> Process completed for Private Equity and Real Estate (except when a property tour is required) <i>See attached chart</i>

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Quarterly Report Period (April 1, 2012 – June 30, 2012)

Recommendation	# of assessment meetings held	Major contract revisions affecting Fees/Carry	% of GP who are ILPA signers	% of meetings of solely managed accounts held at GP offices or CalPERS	New Contracts which contain major deviations from ILPA or Real Estate Alignment Principals
1. Placement Agent Resolution Program	Private Equity: Assessment completed on 3 new commitments. Real Estate: Assessment completed on 6 new commitments.		Private Equity: 26 of 126 active general partners (~21%) represent 63% of active commitments.		
2. Fees and Carry		Private Equity: \$963 million in new commitments; below market fee on \$513 million. Real Estate: 6 new commitments.			Private Equity: none RE: Reported in quarterly strategic plan implementation report to IC.
3. Modification of Investment Office Functions	Reorganization to separate functional units complete.				
4. Advisory Board/Annual Meeting				Private Equity: No meetings held. Real Estate: 100% of meetings held at GP. or CalPERS.	