

MEMORANDUM

To: Investment Committee
California Public Employees' Retirement System ("CalPERS")

Date: October 15, 2012

From: Pension Consulting Alliance, Inc. ("PCA") *mjs*

RE: Revision of the Role of Private Asset Class Board Investment Consultants Policy

The issue of diminishing numbers of financially and professionally qualified consultants to render prudent person opinions ("PPOs") on proposed Private Equity ("PE") commitments has been escalating for some time. It has risen to the point where Staff, with PCA's concurrence, is recommending a policy revision to facilitate the PE program's continued execution of its commitment plans.

In developing a workable solution, at PCA's suggestion, the risk/reward analysis was expanded to encompass an evaluation of Staff's underwriting capabilities and a cost/benefit analysis of continuing the existing Investment Policy requirement that each commitment be the subject of a PPO and a Staff recommendation. As a result of PCA's positive assessment of Staff's capabilities and the minimal, if any, incremental assurance received from a PPO, PCA concluded that continuing the existing Policy was not optimal for the PE program.

Based upon the resources and talent available at the time the existing Policy was adopted, it was determined that the opining consultant accept fiduciary responsibility for its PPO. Legal Office believes the continuation of this requirement is necessary when a PPO is rendered. It also believes that limiting the PPO requirement to commitments lacking either (i) independent market validation (e.g., Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds in the same investments) or (ii) a history of robust Staff experience (e.g., Direct Investments) is a reasoned approach toward significantly but incrementally limiting the need for a PPO. PCA agrees with this analysis and conclusion.

The removal or modification of PPO requirements for Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds in the same investments and Direct Investments will be the subject of further study and future recommendations to the Investment Committee.