



Consent

Agenda Item 3b

November 18, 2013

ITEM NAME: Contracts Administration: Board Investment Consultant Special Projects Request

PROGRAM: Targeted Investment Programs – Real Estate

ITEM TYPE: Independent Oversight – Action Consent

RECOMMENDATION

Approve Pension Consulting Alliance, Inc. (PCA) to continue special project work related to the Responsible Contractor Program (RCP) by creating a new Letter of Engagement (LOE) through June 30, 2015, for an engagement not to exceed \$133,000.

EXECUTIVE SUMMARY

In August of 2012, the Investment Committee (IC) approved PCA to perform special project work for the Real Estate Unit including Housing, Urban, and Responsible Contractor Programs.

Staff requests the continued services of PCA to provide advice and direction on the RCP Policy including:

- Review and recommendations on the RCP Policy, including steps to be taken at the expiration of the Neutrality Trial Responsible Contractor Program Policy;
- Guidance on responses to formal written complaints under the RCP and Neutrality Trial RCP policies;
- Guidance on informal and formal labor issues on an as needed basis; and
- Review of RCP and labor related CalPERS Board of Administration and related Committee agenda items and correspondence.

STRATEGIC PLAN

The RCP proposal supports the strategic goal to improve long-term pension and health benefit sustainability. In particular, this initiative is focused on the objective of mitigating risk and delivering target risk-adjusted investment returns.

INVESTMENT BELIEFS

This request directly relates to Investment Belief 3, CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries. In particular, part of PCA's work will be to be

responsive to labor stakeholders who express opinions on the RCP Policy and related investments.

BACKGROUND

In August 2011, the IC approved a new policy, the *Statement of Investment Policy for Role of the Private Asset Class Board Investment Consultants Policy*, that prohibited such consultants from performing special project work for staff without the prior approval of the IC. PCA has been serving as the Real Estate Board Investment Consultant since January 2009.

PCA's guidance on labor relations has been critical to build good communication with interested stakeholders, to implement RCP Policy revisions and identify solutions to labor issues. PCA has unique knowledge and expertise in engagement with labor stakeholders. Staff believes PCA adds significant value to the RCP Policy development and implementation process at a reasonable cost.

Per Section III. B. 5. of the *Statement of Investment Policy for Role of Private Asset Class Board Investment Consultants*:

In limited circumstances, the Private Asset Class Board Investment Consultant may be engaged to perform work for Staff on special projects if the Private Asset Class Board Investment Consultant possesses unique knowledge or expertise that is not available through other providers. Such an arrangement must be approved by the IC prior to engagement.

ANALYSIS

An alternative option would be to bid the work to another consultant not currently acting as a Board Investment Consultant, however, staff does not recommend this option. PCA possesses over 10 years of experience with the RCP Policy, and is uniquely suited to continue supporting the Board and staff in labor related efforts.

BUDGET AND FISCAL IMPACTS

Consultant services are an annual cost of the RCP Program. This item has been previously accounted for when forecasting budgeted programs. The proposed LOE will extend the length of the contract and account for engagements on labor related issues.

BENEFITS/RISKS

Approval for PCA to perform special project consultant work will provide uninterrupted support to the IC and staff. Staff has not identified any risks associated with the request to approve PCA's continued engagement on this special project work in support of the RCP Policy.

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