



Agenda Item 6a

June 16, 2014

ITEM NAME: Proposed Revision of the Private Equity Delegation for Professional Staff – Initial Review

PROGRAM: Private Equity

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

The Private Equity Program is seeking to make three changes to the Delegation Resolution. The recommended changes would 1) increase the maximum exposure a General Partner to 15%, 2) increase the maximum amount that can be committed to a Second Quartile fund to 2% of the Policy Target for Private Equity and 3) clarify that secondary purchases are not subject to a concentration limit.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high performing, risk intelligent and innovative organization. The Private Equity Delegation Resolution provides the Interim Chief Investment Officer (CIO) and the Private Equity Senior Investment Officer (SIO) the authority to make innovative investment decisions within a risk framework.

INVESTMENT BELIEFS

This agenda item supports the Investment Belief that a long time investment horizon is a responsibility and an advantage. The long time horizon enables CalPERS to invest in illiquid assets, such as private equity.

BACKGROUND

Part of the Private Equity Program Strategic Plan is to restructure and rebalance the portfolio. This includes moving the portfolio from an overly diversified portfolio to a portfolio with larger commitments to fewer General Partners. In order to accomplish this goal, staff believes it is prudent to make two changes to the Delegation Resolution. The first change would increase the maximum exposure to a General Partner from 10% to 15%. The second change would increase the maximum amount that can be committed to a Second Quartile fund from 0.75% to 2.0% of the Private Equity Policy Target. Both of these changes are consistent with CalPERS cost

effectiveness strategy of consolidating the Private Equity portfolio across fewer relationships to gain pricing leverage.

Finally, staff is proposing to add clarifying language to the purchase of fund investments in the secondary market. The Delegation Resolution does not limit the percent of a fund that CalPERS can own after making a secondary purchase. Recognizing that most secondary purchases involve mature funds that are no longer considered “blind pools,” and through discussions with the CalPERS Legal Office and the Board Consultant, Pension Consulting Alliance (PCA), it was concluded that a concentration limit was unnecessary and that clarifying language should be added to the delegation.

ANALYSIS

The suggested changes provide the flexibility to allow CalPERS to have a limited number of larger relationships. The risk of a concentrated exposure to a General Partner would be mitigated by the diversified exposure to multiple funds and strategies managed by the General Partner.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Adopting the proposed changes will expand the ability of the CIO and the Private Equity SIO to reduce the number of managers in the portfolio, thereby reducing its complexity. Failure to adopt the proposed changes could prolong the existence of an overly diversified Private Equity portfolio which would decrease the ability of the Private Equity Program to achieve an above-market return.

ATTACHMENTS

Attachment 1 – Delegation Resolution
Attachment 2 – PCA Opinion Letter

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