

MEMORANDUM

Date: June 16, 2014
To: The Investment Committee
California Public Employees' Retirement System ("CalPERS")
From: Pension Consulting Alliance, Inc. ("PCA") *mjh*
RE: Private Equity Delegated Authority

PCA previously assisted CalPERS' Staff in formulating its Delegated Authority for the Private Equity ("PE") asset class set forth in Delegation No. 07-02-INV (the "Delegation"), which recognized market dynamics and gave Staff sufficient authority to be competitive in the existing environment, and has advised regarding subsequent changes to the Delegation in recent years.

Staff has proposed the following revisions to the Delegation:

1. Increasing the maximum exposure of the CalPERS' PE portfolio to a single firm from 10% to 15%;
2. Increasing the maximum commitment amount to a fund managed by a Second Quartile Firm from 0.75% of the Policy Target to 2% of the Policy Target; and
3. Clarifying that purchases made on the secondary market are not subject to the 25% ownership/concentration limits set forth in the Delegation.

The above proposals result from Staff's continuing efforts, which commenced in 2011, to restructure the PE portfolio. In light of the PE program's goal to reduce the number of manager relationships, increasing the portfolio's maximum exposure to a single firm is a reasonable course of action. With respect to the maximum commitment amounts to funds managed by Second Quartile Firms, PCA believes this, too, is consistent with the aforementioned goal, as it allows Staff the ability to make larger commitments to individual firms, as opposed to deploying that capital amongst multiple firms. Finally, PCA believes exempting secondary interests from the 25% ownership/concentration limit for any given fund is a reasonable step because such interests, given their maturity, are typically not considered "blind pools."

As such, PCA believes the aforementioned proposed revisions to be prudent and therefore recommends that the Investment Committee approve the PE Delegation No. 07-02-INV, revised June 16, 2014.