



Consent

Agenda Item 3c

December 15, 2014

ITEM NAME: Real Estate Board Investment Consultant – Special Project Request

PROGRAM: Targeted Investment Programs

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) and labor issues, including the review and analysis of the RCP and Neutrality Trial RCP policies, by creating a new Letter of Engagement (LOE) through June 30, 2015, for approximately \$150,000.

EXECUTIVE SUMMARY

In November 2013, the Investment Committee approved a \$133,000 LOE for PCA to perform special project work on the RCP Policies. To date, PCA has been performing work and advising staff on the following:

- Reviewed recommendations on the RCP Policy, including steps to be taken at the expiration of the Neutrality Trial RCP Policy, which included a peer survey of RCP practices of our public pension peers that was not included in the original LOE budget.
- Provided guidance on responses to formal written complaints under the RCP and Neutrality Trial RCP policies;
- Provided guidance on an increased number informal and formal labor issues on an ad hoc basis; and
- Reviewed RCP and labor related agenda items and correspondence.

Staff requests the approval of a new \$150,000 LOE through June 30, 2015 for PCA to continue its services to advise and guide CalPERS on RCP Policy and labor issues with the option to extend the LOE term as the parent contract allows. This new LOE is required for the following services:

- RCP and Neutrality Trial RCP Review and Analysis
 - As we approach the expiration of the Neutrality Trial RCP, PCA will assist in the review and development of the recommendations to the Investment Committee on policy amendments.
 - PCA will assist the staff in engaging and working with investment managers, labor stakeholders and staff, in meetings and other means of communication, to evaluate and analyze the effect of the proposed amendments.

- Ongoing RCP Policy Support
 - The number of labor issues under the RCP and Neutrality Trial RCP has increased in the last year. PCA will continue to assist and advise staff on these issues.
 - PCA meets and confers with investment managers, labor representatives, CalPERS' Legal Office and Investment Office staff on labor issues as requested.
 - PCA advises staff on responses to formal written complaints under the RCP and Neutrality Trial RCP policies.
 - PCA guides staff on informal and formal labor issues as needed.
 - PCA reviews RCP and labor related agenda items and correspondence as needed.

STRATEGIC PLAN

The RCP proposal supports the CalPERS Strategic Plan 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 agenda item supports CalPERS' Investment Belief 4 to create long-term value through effective management of financial, physical, and human capital. Effective management of human capital increases the likelihood that companies will perform over the long-term and manage risk effectively. This agenda item also supports Investment Belief 3 in which CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

BACKGROUND

In August 2011, the Investment Committee approved a new policy regarding the role of private asset class Board Consultants that prohibited such consultants from performing special project work for staff without the prior approval of the Investment Committee.

PCA has been serving as the Real Estate Board Investment Consultant since January 2009, and was recently selected by the Investment Committee to continue acting in this role through March 2017.

PCA's guidance on labor relations has been critical to build good communication with interested stakeholders, to implement RCP Policy revisions and to 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. Engaging PCA to perform services for staff is allowable under the Board Consultant Policy with Investment Committee approval.

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 Investment Committee prior to engagement.*

In addition to the regular advice and counsel on RCP issues, in December 2014, staff will be informing the Investment Committee that after nearly five years of study and analysis of the RCP and the Neutrality Trial RCP, staff will be bringing proposed amendments to the Policies in March and June 2015. There will be significant work and engagements with investment managers, labor stakeholders, CalPERS' Legal Office and Investment Office staff as the amendments are vetted and considered. PCA will have a significant advisory and facilitation role as staff work through the process.

In accordance with Board policy, staff requests approval for a new LOE for approximately \$150,000 for special project work due to PCA's unique knowledge and expertise in engagement with labor stakeholders.

ANALYSIS

An alternative option would be to bid the work to another consultant not currently acting as a Board 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 Responsible Contractor Program. This item has been previously accounted for when forecasting budgeted programs. The proposed LOE will extend the length of the contract and will account for increased engagements on labor related issues.

BENEFITS/RISKS

Approval for PCA to perform special project consultant work will provide uninterrupted support to the Board and staff. Staff has not identified risk associated with the request to approve the PCA consultant contract.

ATTACHMENTS

Attachment 1 – Pension Consulting Alliance Letter of Engagement for Responsible Contractor Policy

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