

PENSION CONSULTING ALLIANCE RCP PEER SURVEY REPORT

CalPERS

December 2014



Agenda Items

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Introduction

Introduction

- On behalf of CalPERS, PCA conducted a survey on the Responsible Contractor Policies (“RCP”) of 11 CalPERS peers (defined as the 11 largest U.S. public defined benefit pension plans after CalPERS, based on Total Assets Under Management (“AUM”), ranging from \$77 billion to \$181 billion AUM)
- The purpose of the survey was to compare CalPERS RCP to peer policies and analyze key similarities and differences
- RCP is still far from mainstream, having been adopted by only a few plans. The survey found only four CalPERS peers have an RCP Policy. Seven peers have no RCP Policy
- All analyses and comparisons in this report are based on these four pension systems
- PCA conducted a similar survey at CalPERS request in 2011, finding other plan’s RCP generally consistent with CalPERS; and CalPERS RCP more rigorous in some areas

Introduction: U.S. Public Pension Plans Surveyed

Name of Pension Plan	Plan Acronym	AUM (\$billions) 12.31.2013
CalPERS Peers – Largest U.S. Public Pension Plans		
California State Teachers' Retirement System	CalSTRS	\$181
New York State Common Retirement Fund	NYCRF	173
Florida State Board of Administration	SBAFLA	143
New York City Employees' Retirement System	NYCERS	138
Teachers' Retirement System of Texas	TRS	120
New York State Teachers' Retirement System	NYSTRS	103
Wisconsin Retirement System	WRS	101
Washington State Investment Board	WSIB	98
Ohio Public Employees' Retirement System	OPERS	89
North Carolina Retirement Systems	NCRS	83
New Jersey Public Employees' Retirement System	NJPERS	77

This report preserves the anonymity of individual plan responses

Executive Summary

Executive Summary

- CalPERS RCP was the first peer to launch an RCP, in 1994
- The RCP policies of a number of plans are based on CalPERS
- The survey found that CalPERS continues to be in the forefront of RCP evolution among peers

Executive Summary

- Peer RCPs share many similarities with CalPERS
 - Similar Duty of Loyalty, Prudence and Competitive Returns
 - Cover real estate contractors and subcontractors in services and construction
 - Mandates cover direct investments only (no commingled funds)
 - “Fair wages, benefits & training” based on current local markets
 - Managers, contractors, & subcontractors self-certify RCP compliance, typically on an annual basis
 - Investigations are based on complaints

Executive Summary

- CalPERS RCP is more comprehensive than peers in some areas
 - Covers both real estate and infrastructure, along with one peer
 - Covers 59% of its real estate portfolio (\$13 billion), a larger percent and total dollar amount than peers; spirit language applies to remaining real estate and infrastructure assets
 - Requires competitive bidding for project contracts, along with two peers
 - Requires notification of projects to Responsible Contractors prior to bid due dates along with only one peer

Executive Summary

- CalPERS RCP generally requires more stringent and specific responsibilities, and engages more regularly on RCP than peers:
 - Requires that managers and contractors generally have more stringent and specific responsibilities than peers
 - Provides stronger RCP enforcement processes than most peers
 - Engages managers and labor on RCP more regularly than peers
 - Devotes more resources (staff time, budget) to RCP than peers

Executive Summary

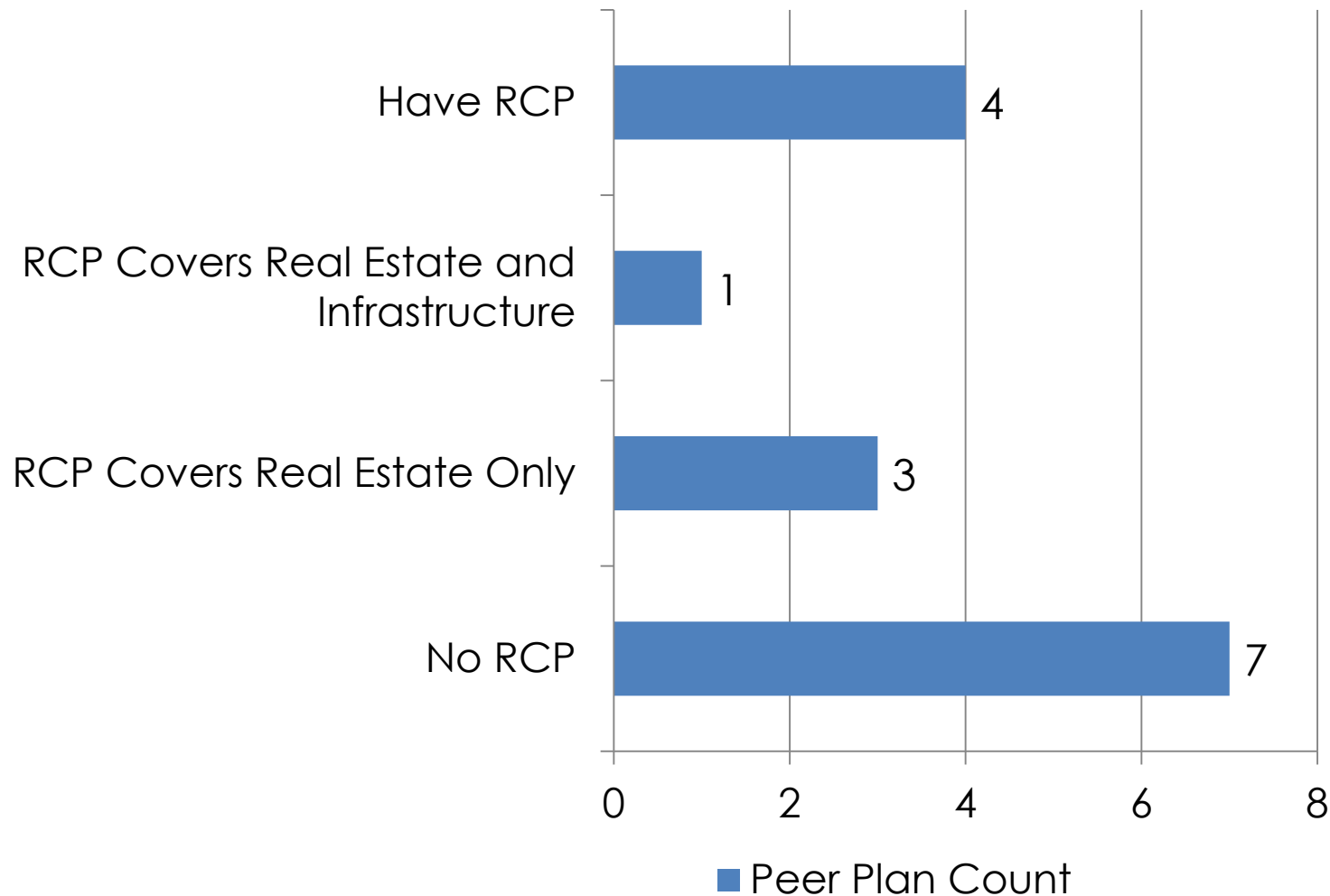
- CalPERS neutrality language is stronger than peers:
 - CalPERS explicitly states that plan will remain neutral, unlike peers
 - CalPERS and three peers strongly encourage neutrality for all real estate managers
 - CalPERS' Neutrality Trial Program RCP ("NTRCP") mandates neutrality for core managers, contractors and subcontractors on services contracts
 - Only CalPERS requires neutrality for any of its managers

Survey Results

Survey Results: Peer Plans with RCP

Eleven Peer Plans Surveyed

CalPERS

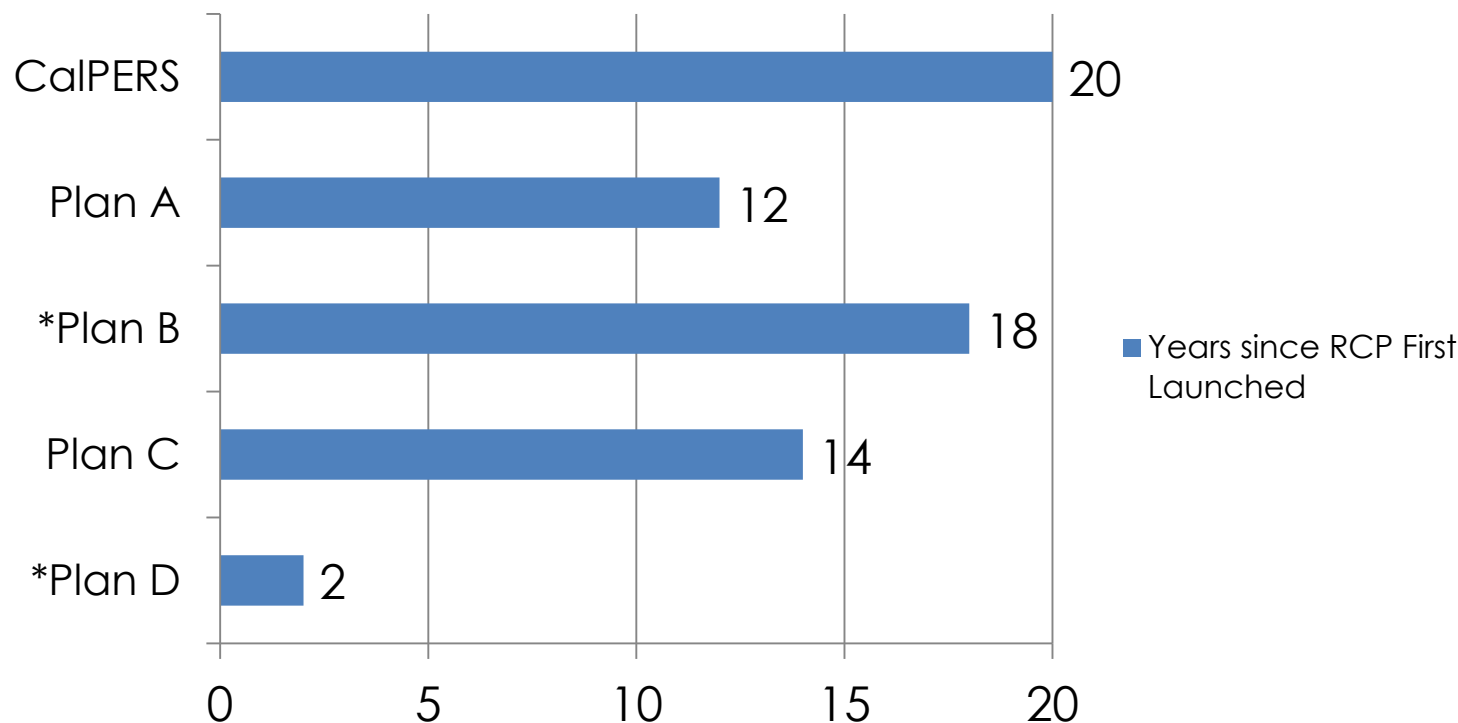


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Survey Results: RCP Policy Development Timelines

Years Since RCP First Launched



*Plan B and D indicate earliest known policy

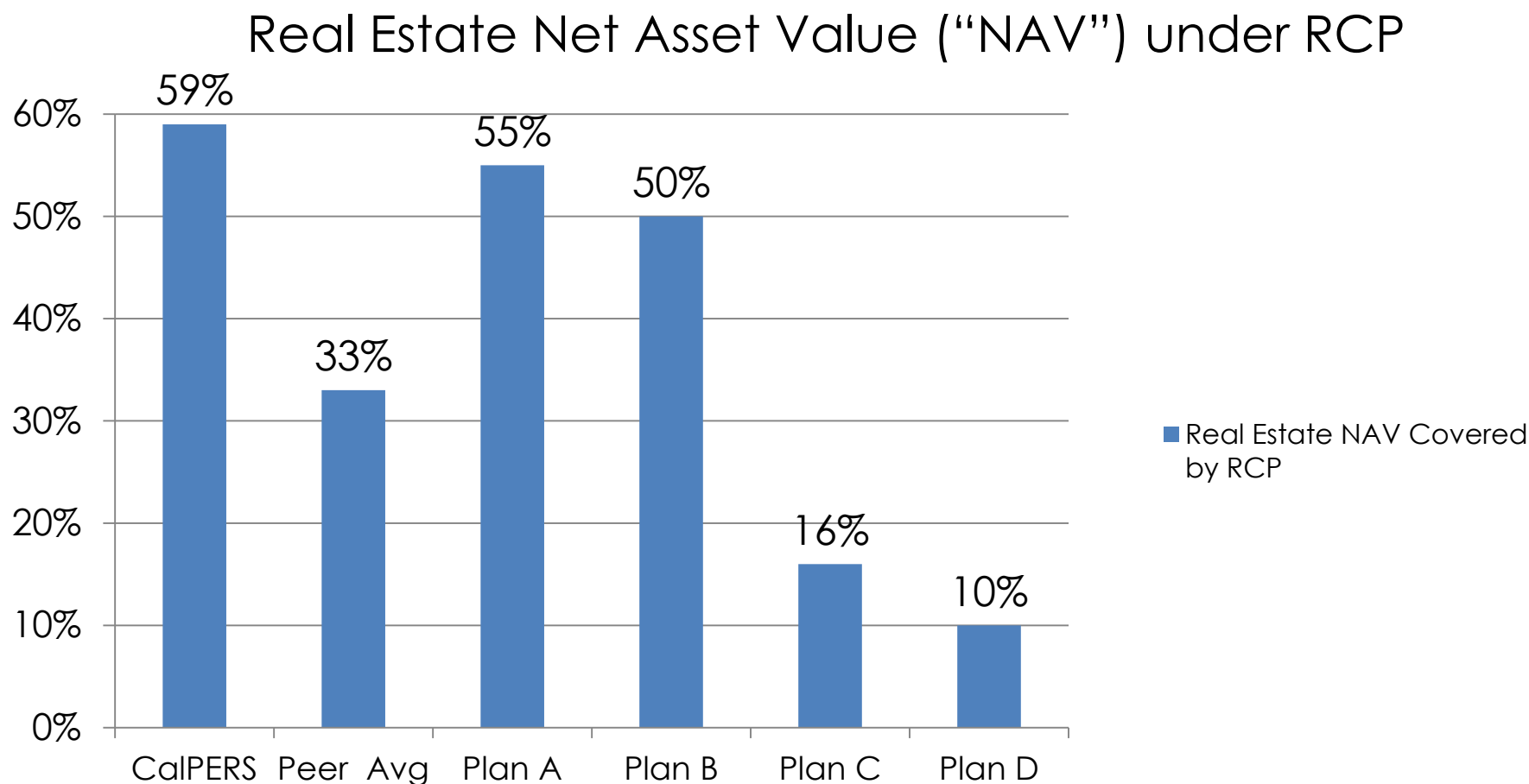
- CalPERS first launched RCP in 1994, two years prior to earliest peer

Survey Results: RCP Policy Revisions

Plan Name	First Known RCP Policy	Last RCP Revision	Number of Revisions
CalPERS	1994	2012	6
Plan A	2002	2014	6
Plan B	1996	1996	0
Plan C	2000	2000	Currently under revision
Plan D	2012	2012	0

- CalPERS and one peer have regularly revisited their RCP Policy

Survey Results: RCP Encouraged: Breadth of Coverage

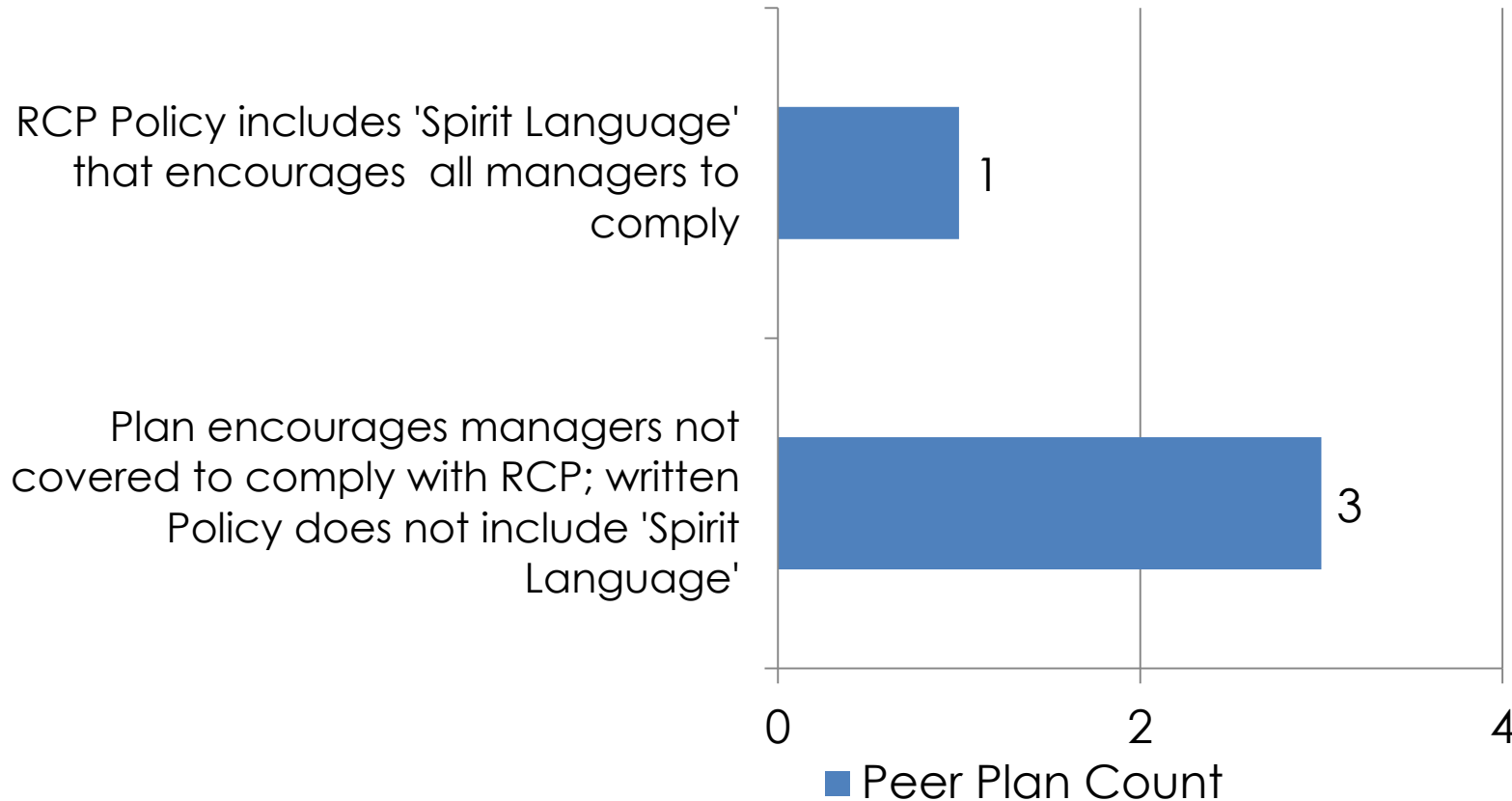


- CalPERS mandates RCP for 59% of its Real Estate portfolio, (\$13 billion), a larger percent and dollar amount than any peer
- CalPERS 'spirit language' encourages RCP among all Real Estate and Infrastructure, similar to one peer; other peers encourage RCP but is not written in Policy

Survey Results: RCP Covered by 'Spirit Language'

Investment Vehicles Covered

CalPERS



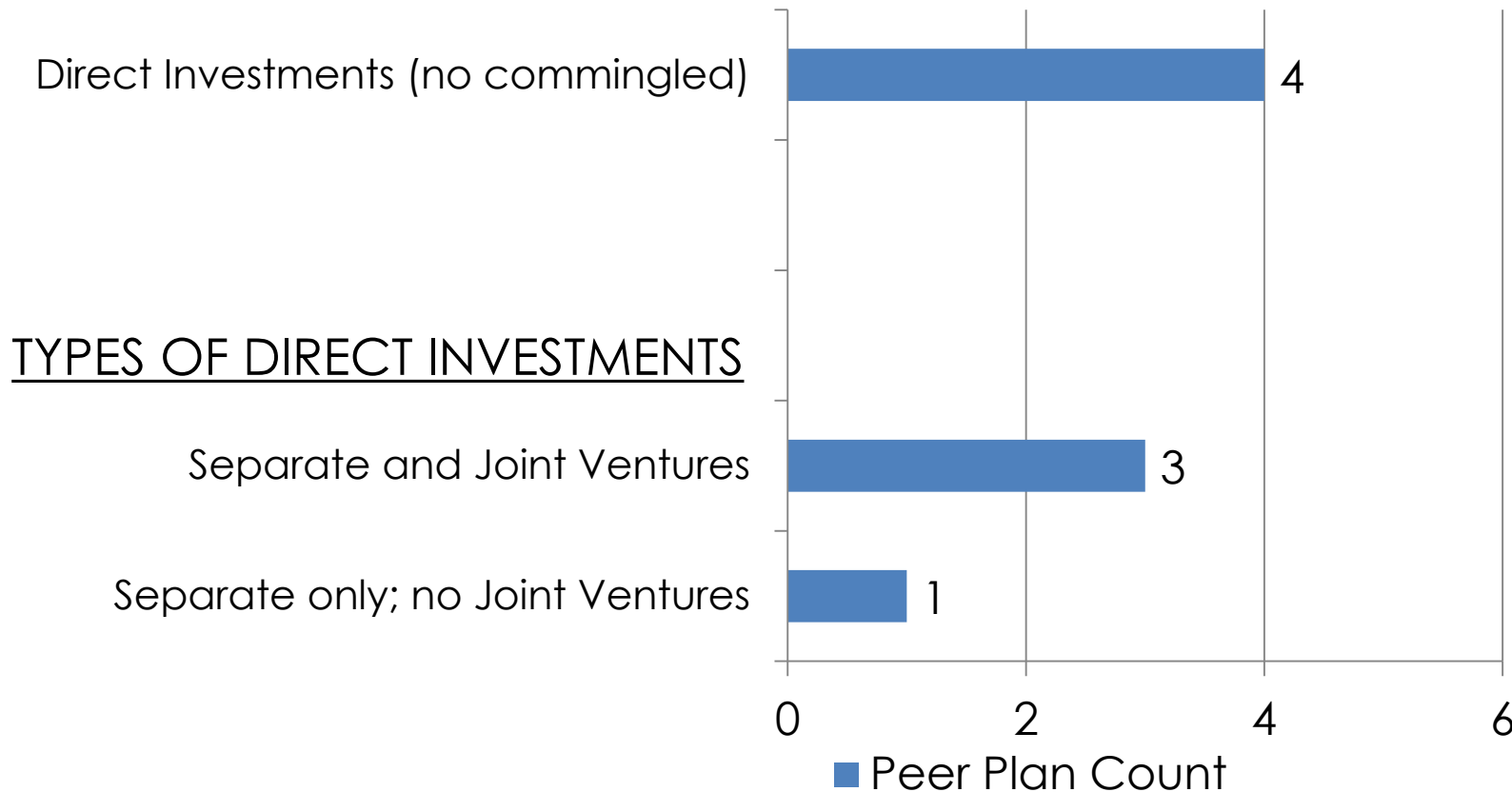
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- CalPERS and one peer include explicit RCP Spirit Language that encourages all managers to comply

Survey Results: RCP Required: Breadth of Coverage

Investment Vehicles Covered

CalPERS



✓

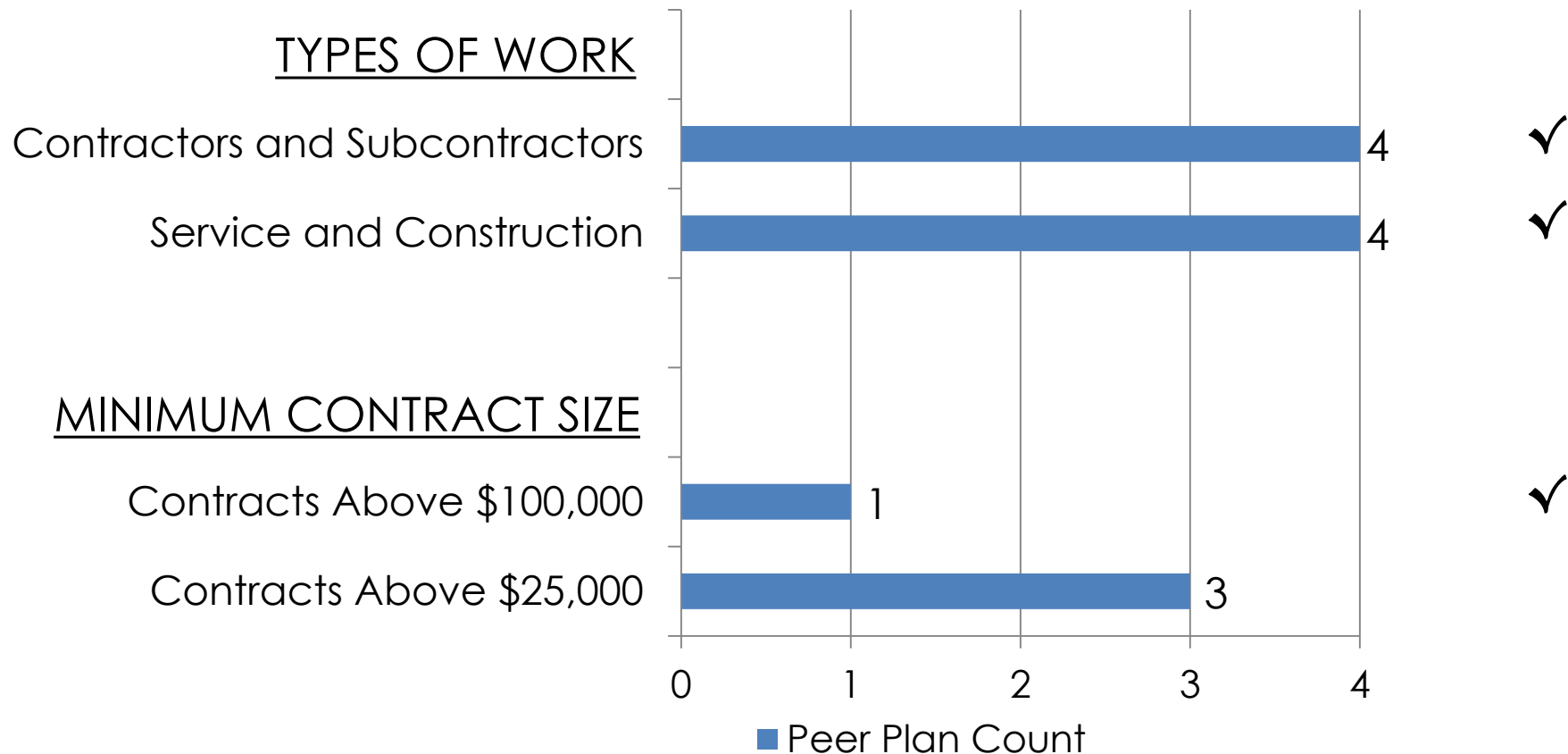
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- Peers generally cover similar types of investments as CalPERS

Survey Results: RCP Breadth of Coverage

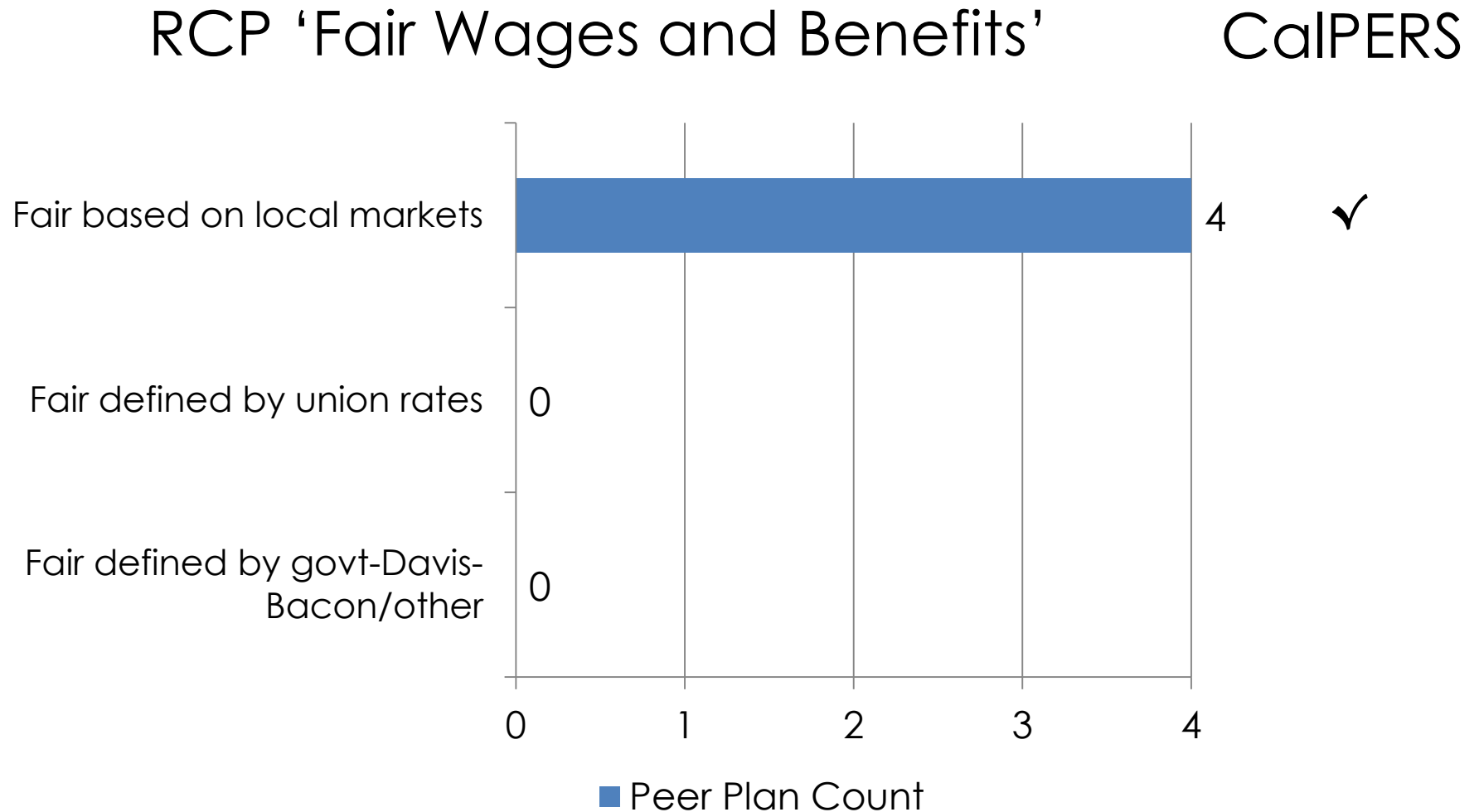
Types of Project Work Covered

CalPERS



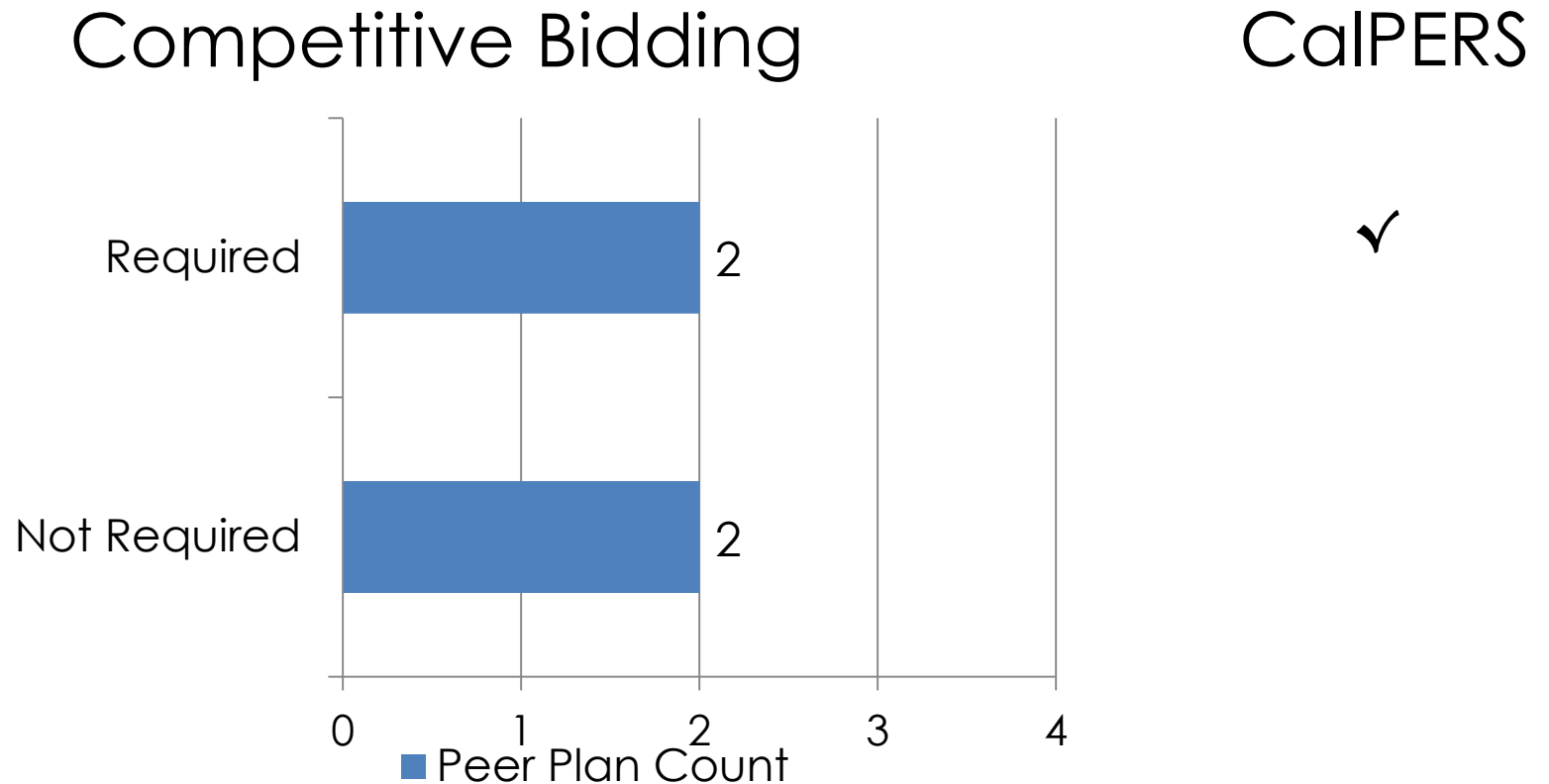
- Peers cover the same types of project work as CalPERS
- CalPERS minimum contract size is higher than most peers

Survey Results: 'Fair Wages and Benefits'



- CalPERS and all peers define “fair wages, benefits, & training” based on current local markets

Survey Results: Competitive Bidding Required



- CalPERS competitive bidding requirements exceed most peer specifics

Survey Results: Bidding Notification

Bid Notification

CalPERS

BID NOTIFICATION REQUIRED

To Responsible Contractors

3

✓

PRE-BID NOTIFICATION*

Required and Timing specified**

1

✓

0

1

2

3

4

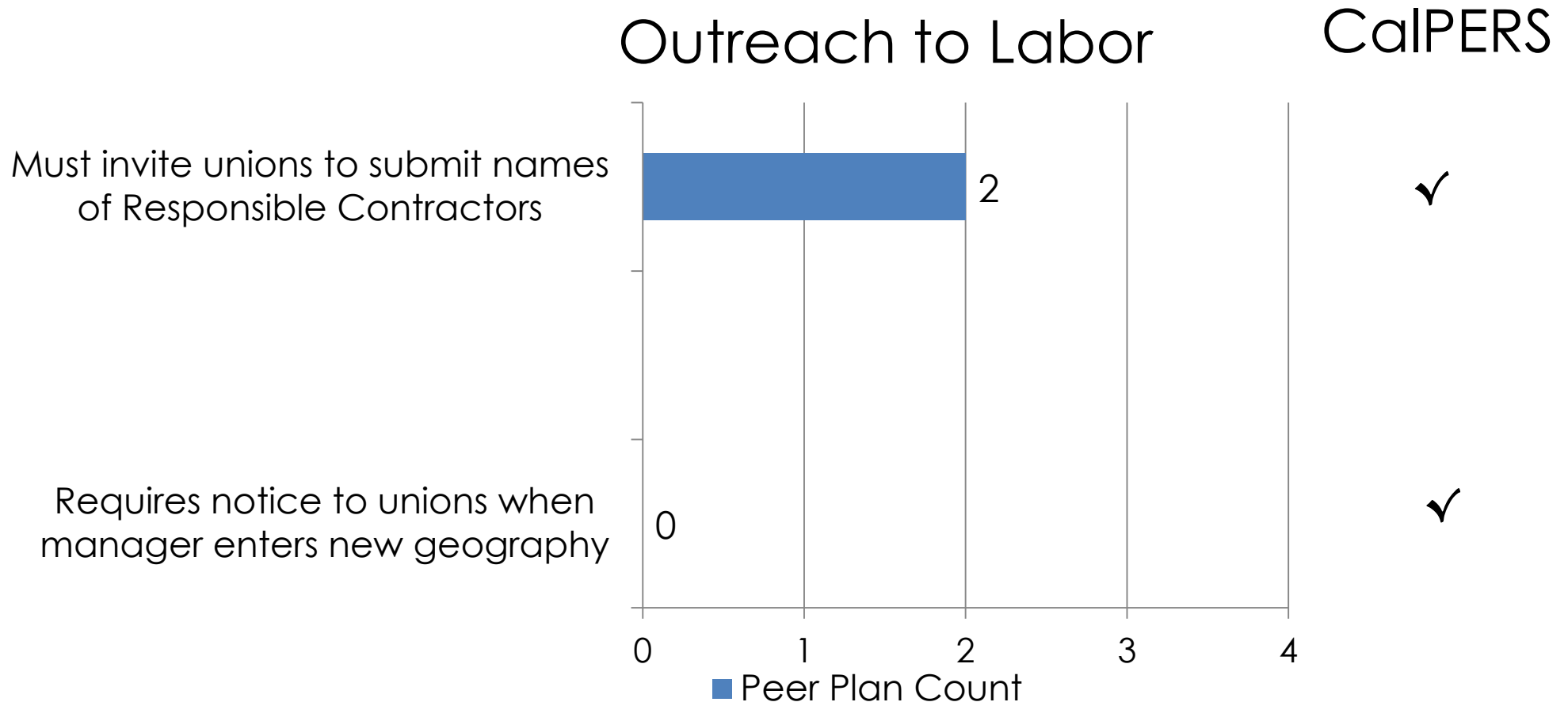
■ Peer Plan Count

- CalPERS bid and pre-bid notice requirements exceed most peer specifics

*One peer also negotiates with labor prior to embarking on major development projects, but not required

**CalPERS pre-bid notification is 30-days, if appropriate; peer stipulates that notice shall be sent as soon as practical prior to the bid due date

Survey Results: Outreach to Labor

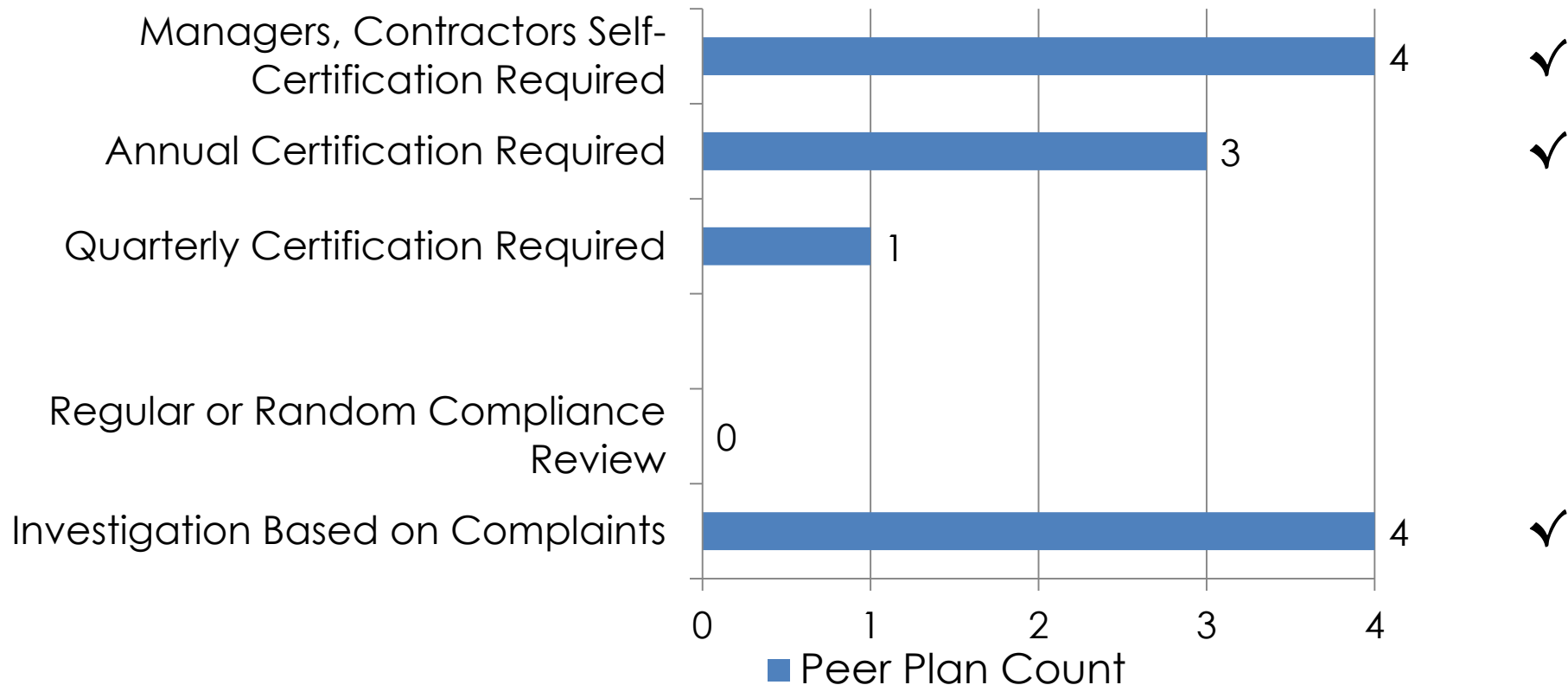


- CalPERS requirements for RCP outreach to labor exceed most peers

Survey Results: Manager Certification and Monitoring

Certification and Monitoring

CalPERS

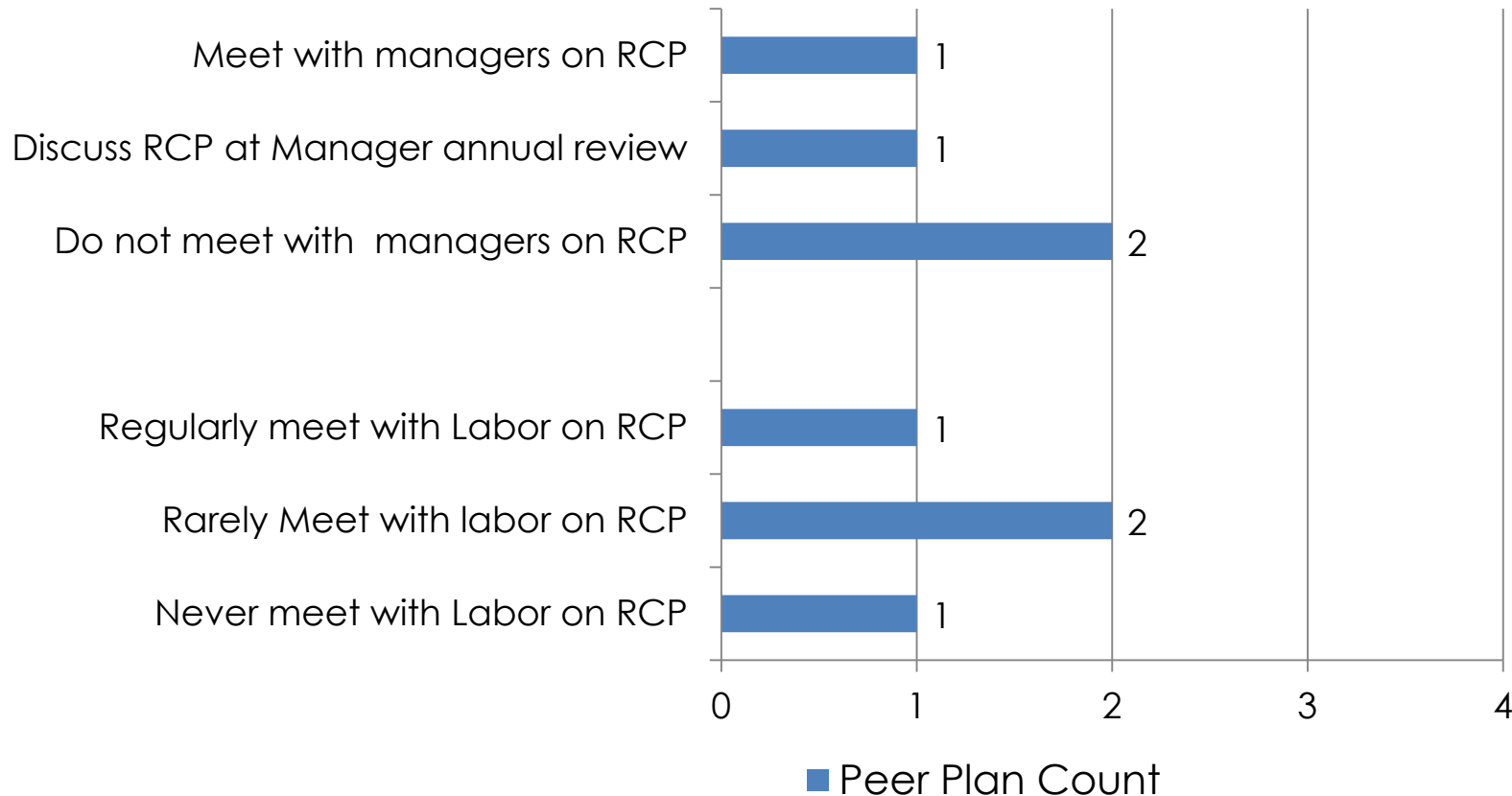


- CalPERS and peers employ similar approaches to certification and monitoring

Survey Results: RCP Implementation - Outreach to Stakeholders

Communication with Stakeholders

CalPERS

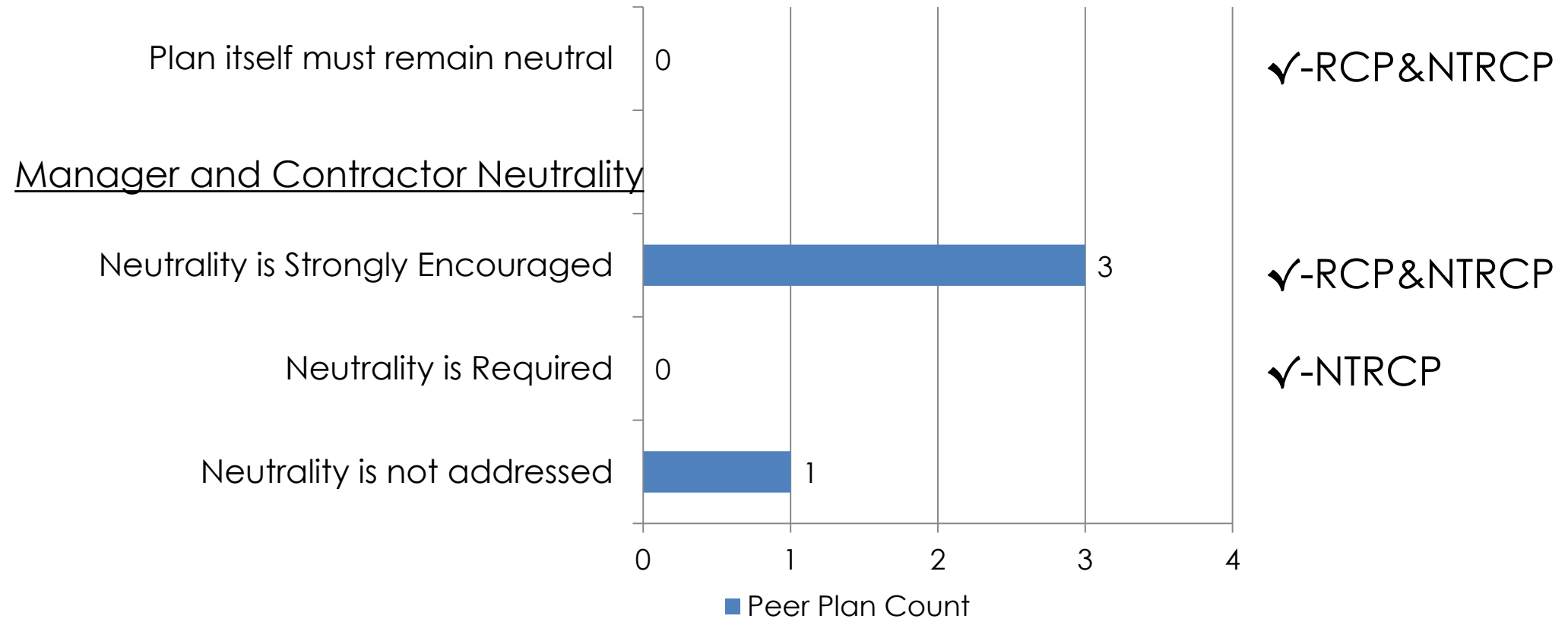


- CalPERS meets more regularly with stakeholders and devotes more resources to RCP than peers

Survey Results: RCP Neutrality in Labor Organizing

Peer Neutrality Clause

CalPERS



✓-RCP&NTRCP

✓-RCP&NTRCP

✓-NTRCP

- RCP and NTRCP state that Plan itself must remain neutral
- CalPERS RCP strongly encourages neutrality for all, similar to most peers
- CalPERS NTRCP mandates neutrality in Core Real Estate, services contracts

Survey Results: Peer RCP General Comments

Peer RCP General Comments

- Minimal impact on returns as currently written
- Generally well-received by managers and labor
- Provides foundation for addressing concerns by labor
- Need adequately trained and knowledgeable staff to implement correctly
- Policy reviews address issues that may arise

Appendix

Appendix: Methodology for Survey

The methodology for this survey was as follows:

- Identified eleven largest pension funds. They ranged from \$77 billion to \$171 billion in AUM as of December 31, 2013
- Designed survey to gather additional information useful to questions under discussion on CalPERS RCP
- Sent survey to all eleven plans
- Followed up with each plan for clarification and additional details
- Analyzed and summarized results, and prepared presentation