



Agenda Item 7a

June 15, 2015

ITEM NAME: Request for Approval of Contract for Responsible Contractor Policy Consultant

PROGRAM: Targeted Investment Programs

ITEM TYPE: Independent Oversight – Action

RECOMMENDATION

Approve staff request to engage with Pension Consulting Alliance, Inc. (PCA) for ad hoc and special project work relating to the ongoing services of the Responsible Contractor Program (RCP) and other labor related issues. Staff requests the ability to engage with PCA, on an annual basis over the length of PCA's contract No. 2015-7609, to be effective July 1, 2015 and expiring June 30, 2020.

This request would maintain compliance with the Statement of Investment Policy for Role of Private Asset Class Board Investment Consultants.

EXECUTIVE SUMMARY

In November 2013, the Investment Committee approved staff's request for PCA to perform special project work on RCP policies and labor engagements. 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
- Provided guidance on responses to formal written complaints under the RCP and Neutrality Trial RCP policies;
- Provided guidance on an increased number of formal and informal labor issues on an ad hoc basis; and
- Reviewed RCP and labor related agenda items and correspondence.
- Met and conferred with investment managers, labor representatives, CalPERS' Legal Office and Investment Office staff on labor issues as requested.

Staff requests the approval to engage PCA annually over the next five (5) years, to perform ad hoc and special project work relating to the ongoing services. Staff expects the services actually provided by PCA will be very similar in nature to the services provided in the past.

STRATEGIC PLAN

This agenda item supports the CalPERS strategic goal to improve long-term pension and health benefit sustainability. In particular, the RCP initiative and labor engagements are 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 will continue acting in this role through March 2017. PCA has also been serving as the Private Equity Board Investment Consultant since July 2009 and was recently selected by the Investment Committee to continue acting in this role through June 2020.

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 related work and initiatives, 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 states: *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 accordance with Board policy, staff requests approval to engage with PCA for ad hoc and special project work, due to PCA's unique knowledge and expertise with RCP engagement, labor stakeholders, and other labor related issues.

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 Investment Committee and staff in labor related efforts.

BUDGET AND FISCAL IMPACTS

Consultant services are an annual cost of the RCP. This item has been previously accounted for when forecasting budgeted programs.

PCA will not be guaranteed any money as a result of this request. Total expenditures are anticipated to be less than \$150,000 per year. Actual expenditures will vary based on labor engagement and are anticipated to be significantly less than \$150,000 during most years.

In the interest of transparency, the actual expenditures associated with the requested services will be reported to the Investment Committee during RCP updates.

BENEFITS/RISKS

Approval for PCA to perform consulting services for the RCP and labor engagements will provide uninterrupted and critical support to the Investment Committee and staff. Additionally, approval of the requested engagement(s) allows staff to efficiently execute work for RCP and labor issues while remaining transparent on the associated fees.

LAURIE WEIR
Senior Portfolio Manager
Targeted Investment Programs

THEODORE ELIOPOULOS
Chief Investment Officer