



Agenda Item 7a

December 14, 2015

ITEM NAME: Revision of Private Equity Program Policy – Second Reading

PROGRAM: Private Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Private Equity Program Policy.

EXECUTIVE SUMMARY

The Private Equity Program Policy was presented to the Investment Committee (Committee) for a first reading on November 16, 2015. The revised policy includes the following changes based on feedback from the Committee and/or to promote greater clarity:

- Aspirational language was removed from the Strategic Objective section.
- Procedural language was removed from the Investment Approaches & Parameters Section B.4.
- Clarification of required Committee approval of net committed capital exceeding 10% of the program's total net committed capital for any general partner was included in Appendix 3, Investment Constraints/Limitations, Section B.2.
- In Appendix 3, more specificity was added to the sections on fund and co-investment and direct investment parameters, including the further conditions applicable to co-investments.

The above changes are denoted by track changes within Attachment 1. Staff seeks approval of the policy to align with the Total Fund Investment Policy and to simplify the policy through the removal of procedures.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policy will ensure that CalPERS is able to effectively achieve the System's investment objectives through clear and current investment policy documentation.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 9, Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error, and Belief 10, Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

BACKGROUND

Investment Policy Development was identified as posing a medium compliance and operational risk during Fiscal Year 2013-2014 and, as such, became a key initiative of both the 2014-16 Investment Office Roadmap and Target Operating Model (TOM). As part of that initiative, in March 2015, the Committee approved the adoption of the Total Fund Investment Policy while repealing 14 legacy investment policies. The adoption of the new Total Fund Investment Policy allowed for minimizing complexity, improving transparency, and strengthening processes, systems, governance, and controls. The next phase of the Project is to incorporate revisions to the asset class policies aligning Private Equity with the Project's objective of consolidation, clarity, and standardization.

ANALYSIS

Incorporating these revisions will continue the policy simplification process while aligning the Private Equity Program Policy with the Total Fund Investment Policy, eliminating procedural or duplicative language and reducing operational risks by more clearly defining the Committee's desires and intentions with respect to staff's role in implementing the policy.

At the initial presentation of this item to the Committee in November, staff received comments from the Committee about including new policy elements related to defined benefit pension plans and fee disclosure. Staff will be prepared to discuss these at the December second reading.

Although staff is not requesting any modifications to the investment authorities, limitations or constraints as an element of the proposed policy, staff will likely come back to the Committee at a later date to request changes to align the delegations between Real Assets and Private Equity.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance transparency into investment processes and strategy. The risks of not approving this policy include lack of clarity and direction to staff as they invest the Private Equity portfolio, thereby increasing the risks of missed opportunities and ambiguous implementation.

ATTACHMENTS

Attachment 1 – Revised Private Equity Program Policy

Attachment 2 – Current Private Equity Program Policy

Attachment 3 – Revised CalPERS Specific Glossary of Terms

Attachment 4 – PCA Opinion Letter – Revision of Private Equity Program Policy

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