



# Investment Committee Agenda Item 9a

May 16, 2016

**Item Name:** Contracts Administration: Real Estate Board Investment Consultant – Interviews and Intent to Award

**Program:** Investment Office

**Item Type:** Action

### **Recommendation**

That the Investment Committee (Committee) determine whether to award the contract for the Real Estate Board Investment Consultant (Consultant) to one of the two firms (Finalists) scheduled to appear before the Committee on May 16, 2016 for oral interviews, as specified in Request for Proposal (RFP) No. 2015-8014, or to reject all proposals and instead direct staff to reissue a Request for Proposal in order to solicit new bids.

### **Executive Summary**

The purpose of this agenda item is for the Committee to interview the Finalists as specified in the RFP.

### **Strategic Plan**

This agenda item supports Strategic Plan Goal A - Improve long-term pension and health benefit sustainability. The selected firm will provide the Committee with advice and recommendations on the Real Estate investment portfolio, which plays an integral role in the success and sustainability of the Total Fund.

### **Investment Beliefs**

This item supports CalPERS' Investment Belief 4 that long-term value creation requires effective management of three forms of capital: financial, physical, and human.

### **Background**

The role of the Consultant is to act as an independent fiduciary advisor to the Committee and provide opinions on matters relevant to the prudent and optimal management of the Real Estate portfolio. Additionally, the Consultant is to align the execution of contracted services with the CalPERS Investment Beliefs, which (1) are a guide for making decisions, (2) provide context for CalPERS' actions, and (3) reflect CalPERS' values.

The current Real Estate Board Investment Consultant contract with PCA began on April 1, 2012, and terminates on March 31, 2017.

### **Analysis**

On October 8, 2015, CalPERS released RFP No. 2015-8014 to solicit services for the Real Estate Board Investment Consultant. As of the RFP final filing date, December 1, 2015,

CalPERS received six proposals, all of which passed the preliminary Minimum Qualifications review.

As specified in the RFP, the technical proposals of the six firms were scored on a pass or fail basis, based upon responses in the following categories:

- Strategy and Policy Analysis
- Performance Analysis and Monitoring
- Independent Advisor to the Investment Committee
- Investment Transaction Review
- Special Projects

Staff reviewed the six proposals on a pass or fail basis, as specified in the RFP. Of the six proposals reviewed, staff determined only two proposals passed.

In the April 18, 2016 meeting, staff presented the Committee with the two firms and the Committee selected both as Finalists for interview in May. The following chart summarizes the scores and ranking of the Finalists. The interview process provides the Committee an opportunity to consider each Finalist’s proposal, including its organization, staff and firm experience, fees, and any other specific topics necessary to make a decision on the selection of the Consultant.

Current Rank	Proposer	Total Proposed Fees for 5 Years	Fee Proposal Score (out of 300)	DVBE Points <sup>1</sup>	Current Subtotal	Interview Points (700)	Final Score
1	Courtland Partners, Ltd.	\$3,981,850	300	30	<b>330</b>	TBD	<b>TBD</b>
2	Pension Consulting Alliance, LLC	\$6,266,000	191	30	<b>221</b>	TBD	<b>TBD</b>

Each firm selected for an interview will have 30 minutes before the Committee consisting of a 10-minute introductory presentation and a 20-minute question and answer session.

Following each interview the Committee will determine, as a group, each Finalist’s interview score, with a maximum allowable score of 700 points. The interview score for each Finalist will be combined with the Fee Proposal Score and any applicable Preference and/or Incentive Points in order to produce a Total Score. The Finalists will be ranked according to their Total Scores from highest to lowest. The firm receiving the highest total score will be awarded the contract, and staff will issue the notice of intent to award.

<sup>1</sup> Each firm was awarded Incentive points for committing to subcontract 3-3.99% of the contract expenditures to Disabled Veteran Business Enterprises.

The interview phase of the selection process consists of the following timeframes:

- Introduction and brief background: 10 minutes
- Question and Answer: 20 minutes

Upon completion of the interview, the Committee will score each Finalist by using the “trimmed average” scoring methodology set forth in the RFP. The final interview score of each Finalist will be combined with the Finalist’s Fee Proposal and Incentive Point scores, and the Finalists will then be ranked from highest to lowest. The distribution of maximum possible points is as follows:

- Technical Proposal: Pass/Fail
- Fee Proposal: 300 points maximum
- Board Interview: 700
- Total Combined Score: 1000 points maximum<sup>2</sup>

### **Budget and Fiscal Impacts**

The anticipated term of the contract to be awarded pursuant to this RFP is five years. Each firm’s proposed costs for the services are detailed in the table above. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in December 2014.

### **Benefits and Risks**

The selection of the Real Estate Board Investment Consultant supports the Committee in meeting its objectives to prudently manage the System and provide members and beneficiaries with benefits, as required by law.

In order to ensure continuity of services upon expiration of the current consultant’s contract on March 31, 2017, staff recommends that the Committee award the contract to the firm the Committee determines is the most capable of providing the services prescribed in the RFP. Should the Committee determine neither firm is capable of performing the services prescribed in the RFP the Committee should reject the proposals of the two Finalists and instruct staff to develop and release a new Request for Proposal; however, rejecting all proposals may jeopardize continuity of critical consultant services to support the Committee in fulfilling its fiduciary duties to the beneficiaries.

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<sup>2</sup> Firms may receive incentive points for committing to subcontracting with Disabled Veteran Business Enterprises creating the potential for a score greater than 1000 points.

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