



Investment Committee Agenda Item 7a

March 13, 2017

Item Name: Contract Administration: Change to Private Equity Board Consulting Contract

Program: Investment Office

Item Type: Action

Recommendation

- 1) Accept the resignation of Pension Consulting Alliance, LLC (PCA) as the Private Equity Board Investment Consultant (the "PE Consultant") effective March 16, 2017.
- 2) Authorize staff to contract with Meketa Investment Group, Inc. (Meketa) to assume the responsibilities of the PE Consultant effective March 16, 2017, for the remainder of the existing contract term.
- 3) Authorize staff to continue utilizing Meketa to complete existing work currently in progress for the Real Assets team, anticipated to be complete on or before June 30, 2017.

Executive Summary

The purpose of this agenda item is to accomplish the resignation of PCA as the PE Consultant to the Investment Committee (the "Committee"), and the simultaneous engagement of Meketa as the new PE Consultant.

Strategic Plan

This agenda item supports Strategic Plan Goal A - Improve long-term pension and health benefit sustainability. The firm acting as the PE Consultant will provide the Committee with advice and recommendations on the Private Equity Program, which plays an integral role in the success and sustainability of the Total Fund.

Investment Beliefs

This item supports CalPERS' Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

Background

The role of the PE 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 Private Equity Program. Additionally, the PE Consultant is to align the execution of contracted services with CalPERS' Investment Beliefs, which (1) are a guide for making decisions, (2) provide context for CalPERS' actions, and (3) reflect CalPERS' values.

CalPERS and PCA are parties to a certain Agreement dated July 1, 2015 for the provision of private equity consulting services to the Committee (the "Current PE Consulting Contract") for a term commencing on July 1, 2015 and, absent earlier termination, expiring on June 30th, 2020. PCA has tendered its resignation as PE Consultant effective March 16, 2017. The current PE Consulting Contract was awarded to PCA at the conclusion of the Private Equity Investment

Board Consultant RFP No. 2013-7039 released on April 30, 2014. Meketa responded to and was included as a Finalist during the RFP and was interviewed by the Committee on October 14, 2014. PCA will continue to act as the Real Estate Board Investment Consultant, the secondary general pension consultant, and the primary adviser for matters relating to the Responsible Contractor Policy.

Analysis

The resignation of PCA as the PE Consultant will, upon acceptance by the Committee, create the immediate need for the Committee to select and engage a qualified firm to assume the duties of the PE Consultant. Private Equity Program procedures require a Private Asset Class Board Investment Consultant to, among other things, provide an opinion on each private equity investment transaction before the transaction may be closed. As a result, if the role of the PE Consultant were to remain vacant for any period of time, the investment process could be significantly and negatively impacted.

Staff recommends that the Committee accept PCA's resignation and immediately authorize Staff to use the exemption to the competitive bid process to engage Meketa, as the new PE Consultant, through a Letter of Engagement using the existing contract with Meketa in the General Investment Consulting Services Spring Fed Pool. Upon approval of the agenda item, the engagement shall be effective March 16, 2017 and terminate on June 30, 2020, unless the Committee directs otherwise. Prior to this termination date, CalPERS expects to prepare a request for proposals to select a PE Consultant for the subsequent five-year period.

Meketa is an established firm with the experienced staff and resources to effectively assume the role of PE Consultant. Meketa previously served the Committee as the Infrastructure Board Investment Consultant from January 2011 through February 28, 2015. Using the existing Spring-Fed Pool contract with CalPERS would allow staff to expeditiously engage Meketa and avoid a lapse in services to the Committee.

Meketa is currently performing work for the CalPERS Real Assets team under a letter of engagement anticipated to be completed by June 30, 2017. Per Policy, the PE Consultant may not perform work for staff without the authorization of the Committee. Staff recommends the Committee authorize Meketa to complete these services in progress for Real Assets staff to maintain business continuity. Meketa, subject to the Policy, shall not perform any additional work for staff.

Budget and Fiscal Impacts

The anticipated term of the proposed Meketa engagement is approximately two and a half years. Meketa's proposed fees for the term are approximately \$1,900,000, representing an increase of approximately \$200,000 over PCA's current fees. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this engagement will be reported to the Finance and Administration Committee in April 2017. Upon approval of the agenda item, the Committee is authorizing staff to procure these services.

Benefits and Risks

The PE Consultant supports the Committee in meeting its obligations to manage the System prudently and provide members and beneficiaries with benefits, as required by law. It is imperative to have a firm in place acting as the PE Consultant, to ensure continuity in the management of the Private Equity Program and minimize any interruptions in the provision of critical services to support the Committee and staff in fulfilling their fiduciary duties. A vacancy in the role of the PE Consultant may cause significant delays in the consummation and execution of investment transactions currently underway, which may hinder staff's ability to meet the return objectives of the portfolio.

Attachments

Attachment 1 – Pension Consulting Alliance, LLC – Letter of Resignation

Attachment 2 – Summary Profile - Meketa Key Persons and Fee Schedule

Attachment 3 – Total Fund Investment Policy – Private Asset Board Investment Consultant

Wylie Tollette

Chief Operating Investment Officer