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June 6, 2018

Mr. Henry Jones
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

RE: REVISION OF THE TOTAL FUND INVESTMENT POLICY – SECOND READING

Dear Mr. Jones:

Meketa Investment Group (“Meketa”) has been asked in its capacity as Board Consultant for the Private Equity Program and the Infrastructure Program (collectively, the “Programs”) to opine on the revisions of the CalPERS’ Total Fund Investment Policy (the “Policy”) submitted to the Investment Committee for a Second Reading on June 18, 2018. The revisions to the Policy are described in Item 7a. The proposed revisions are to reflect the changes related to the 2018 Governance & Sustainability Principles Review, the outcomes of the Committee’s 2017-2018 Asset Liability Management process, as well as to reflect organizational changes and to provide clarity and consistency within the Policy.

Given our role with CalPERS as Private Equity and Infrastructure Board Consultants, we focused our review and comments on the provisions related to the Private Asset Classes. In Appendix 2, Investment Responsibilities, we note several changes to the Private Asset Class Board Investment Consultants (or “PACBIC”) responsibilities for both Private Equity and Real Assets (including Infrastructure) Programs, as addressed below.

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Private Equity

Direct Investment has been eliminated as a Transaction Type. Currently, the description of Direct Investments are included within the Customized Investment Account definition. The First Reading Policy had established Direct Investment as a transaction type. Direct Investments are those where CalPERS would invest without the participation of a general partner. Historically, Direct Investments have included CalPERS investments in private asset managers such as Apollo Group.

- We understand that authority for Direct Investments will be considered at a later date.

Threshold for PPO. The Proposed Policy includes PPO requirement for all transaction types except Fund Investments, where only those investments in managers considered third or fourth quartile will require a PPO. Independent Due Diligence (“IDD”) reports are at the MID’s discretion for all transaction types, and PACBIC Opinions to the Board are not required for any type.

- We believe it is a best practice for public plans to have an outside third party review staff work on all private equity investments of material size, in the form of a PPO or other similar review.
- Co-investments, Direct Investments, Secondary Investments and Customized Investment Accounts can involve significant undiversified risk and third party PPOs can represent additional checks and balances in the investment process.
- For CalPERS Fund Investments, we believe that the proposed requirement for PPOs for managers considered to be third and fourth quartile to be appropriate.
- We note that Secondary Investments have not historically been included in the list of Transaction Types and therefore are not included in the PPO or other third party review requirements. The Board may wish to direct staff to explore the possibility of amending the contracts with existing Private Equity service providers to include secondary investment PPOs or otherwise include secondary investment PPO service in the next RFP for Private Equity Program service providers.
- Finally, our review and recommendations included in this letter do not address or contemplate any arrangement that CalPERS may develop with a Strategic Partner with respect to fund and co-investment activities.

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Real Assets

Clarified the independent report requirements. The current policy establishes PPO requirements at three transaction levels for all Real Assets, including Infrastructure, with no distinctions by asset class: \leq \$50 million; $>$ \$50 million; and $>$ Staff Delegated Authority. The Policy maintains the requirement for a PPO for any transaction greater than \$50 million. The proposed revision establishes that IDD's are "Not required" for any level, and that a PACBIC Opinion to the Board is "Not required" for levels other than those exceeding Staff Delegated Authority, rather than characterizing these options as "N/A."

Summary Opinion

We have noted certain differences between the Private Equity and Real Assets programs within the Total Fund Policy, in particular in the use of third party resources to review investments. In the future, the Board may wish to consider a more comprehensive review across all asset classes of CalPERS' use of PPOs (and other third-party investment reviews) to ensure that Staff is using industry best practices in this area.

The proposed Policy includes a number of revisions that generally clarify roles and responsibilities and align the Policy with Board directives. We believe it would be a best practice to include third party reviews, such as PPOs, of secondary investments. Otherwise, Meketa supports these revisions and believes they are in line with CalPERS' Investment Beliefs, in particular Investment Beliefs 1, 2, 5, 6, 7, and 10.

Please do not hesitate to contact us if you have questions.

Sincerely,



Stephen McCourt
Managing Principal



Steven Hartt
Principal



Lisa Bacon
Senior Vice President



Hannah Schriener
Vice President

SPM/SKH/EFB/HS/nca