
June 18, 2018**Item Name:** Update Private Equity Business Model Alternatives**Program:** Total Fund**Item Type:** Information**Executive Summary**

This item provides an overview of the current work around the private equity alternative business model review including key objectives and strategic recommendations moving forward.

Strategic Plan

This item supports California Public Employees' Retirement System (CalPERS) Strategic Plan goal of improving long-term pension and health benefit sustainability. The recent announcement of CalPERS' new strategy for private equity includes two new business models that would operate alongside of the existing private equity structure with a focus on long-term sustainability and risk-adjusted returns.

Investment Beliefs

This item supports the following CalPERS' Investment Beliefs:

- Investment Belief 1: Liabilities must influence asset structure
- Investment Belief 2: A long time investment horizon is a responsibility and an advantage
- Investment Belief 4: Long-term value creation requires effective management of the three forms of capital: financial, physical and human
- Investment Belief 6: Strategic asset allocation is the dominant determinant of portfolio risk and return

Background

In relation to the announcement of CalPERS Direct, the new strategic model for private equity, this item focuses on the next steps regarding the implementation of this direct investment vehicle with independent board governance. After more than a year of planning and discussion, the Investment Office is ready to move into the next phase of development. CalPERS' Investment Office staff will now begin its research into industry best practices regarding the makeup of both the independent advisory boards and the management teams.

Analysis

In order to leverage the strength of our portfolio and increase scalability and long-term sustainability, the proposed plan for CalPERS Direct involves the creation of two separate funds. The first would be focused on late-stage investment in technology, life sciences and healthcare, and the second on long-term investments in established companies. CalPERS Direct would be governed by a separate independent Board made up of members from subsidiary Boards and

other independent Board members, to advise on allocation. The proposed timeline calls for CalPERS Direct to launch in the first half of 2019, following final approval by the Board.

Budget and Fiscal Impacts

Staff has been conducting a strategic review of private equity business models currently being used by industry leaders. To effectively conduct this review, staff has engaged in several due diligence trips to meet with executives.

Benefits and Risks

As the plan for CalPERS Direct continues to develop, staff will keep the Board apprised of all updates and provide them the opportunity review each step. By conducting this strategic review, both staff and the Board will ensure that the plan stays true to the strategic goals set forth for redevelopment and is in alignment with CalPERS Investment Beliefs.

Attachments

Attachment 1 – Strategic Business Models for Private Equity Review

John Cole

Investment Director

Theodore Eliopoulos

Chief Investment Officer