



Investment Committee

Agenda Item 8d

December 17, 2018

Item Name: Summary of Private Equity Business Models

Program: Total Fund

Item Type: Information

Executive Summary

This item summarizes the key objectives and activities related to the private equity strategic business model (the “four pillars”).

Strategic Plan

This item supports California Public Employees’ Retirement System (CalPERS) Strategic Plan goal of improving long-term pension and health benefit sustainability. The strategic business model for private equity includes two new investment vehicles (pillars 3 and 4), that would operate alongside the existing private equity structure, with the objective of achieving scale, improving transparency, control, and focus, while decreasing costs and friction, over time.

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

This item will cover the next steps for the four pillars with special attention to Pillars 3 and 4. As covered during the November 2018 Board Investment Committee presentation, CalPERS would invest in two separate vehicles to make private equity investments in two separate strategies with CalPERS as a sole member in a Limited Liability Company (LLC).

After planning and discussion, the Investment staff is preparing, if approved, to move into the next phase of execution. Staff expects to be ready for consideration from the Investment Committee early 2019.

Analysis

In order to leverage the strength of our portfolio and increase scalability and long-term sustainability, the proposed plan involves the investment in two separate vehicles. One would be focused on late-stage investment in technology, life sciences and healthcare (Pillar 3), and the other on long-term investments in established companies (Pillar 4).

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 a number of due diligence trips to meet with executives, experts and participants.

Benefits and Risks

By conducting this strategic review, both staff and the Board will ensure that the plan stays true to the strategic goals and is in alignment with CalPERS Investment Beliefs.

Attachments

Attachment 1 – Private Equity Business Model Presentation

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