



# Investment Committee

## Agenda Item 7c

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**February 19, 2019**

**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 (PE) 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**

As covered during the December 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). In addition, the item allows the Chief Investment Officer the opportunity to comment on the proposed evolution of the PE business model.

## **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 model alternatives. 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 overall Fund strategic goals and is in alignment with CalPERS Investment Beliefs.

## **Attachments**

Attachment 1 – Summary of Private Equity Business Models

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John Cole  
Investment Director

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Ben Meng  
Chief Investment Officer