



## Investment Committee

# Agenda Item 8a

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**August 19, 2019**

**Item Name:** Board Investment Consultants – Selection of Finalists to Interview, and Interview and Selection Process

**Program:** Investment Office

**Item Type:** Action

### **Recommendation**

Approve the suggested interview process for selecting the Board Investment Consultants and determine the finalist firms to be interviewed by the subcommittee. The following firms are eligible to appear for oral interviews. In alphabetical order:

- General Pension Consultant – Meketa Investment Group and Wilshire Associates, Inc.
- Private Equity Consultant – Meketa Investment Group and Verus Advisory, Inc.
- Real Estate Consultant - Meketa Investment Group and RCLCO Fund Advisors, LLC
- Infrastructure Consultant - Meketa Investment Group

### **Executive Summary**

The purpose of this agenda item is to present the firms which have passed the technical proposal evaluation and for the Committee to select the finalist firms that will continue forward to the interview process. In addition, the Committee Chair is seeking approval to form a subcommittee to interview the finalist firms. The subcommittee will recommend to the full Committee/Board its proposed selection for contract awards at the earliest subsequent open session meeting.

### **Strategic Plan**

This agenda item supports the Fund Sustainability Strategic Plan Goal – Strengthen the long-term pension and health benefit sustainability. The Consultants will provide the Committee with advice and recommendations on the designated investment portfolio(s), which play an integral role in the success and sustainability of the Total Fund.

## **Investment Beliefs**

This item supports CalPERS' Investment Belief 4 that long-term value creation requires strong governance and effective management of three forms of capital: financial, physical and human.

## **Background**

The role of the Consultants is to act as independent fiduciary advisors to the Committee and provide opinions on matters relevant to the prudent and optimal management of the designated investment portfolio services. Additionally, the Consultant(s) must align their services with CalPERS' Investment Beliefs, which are a guide for making decisions, and provide context for CalPERS' actions, reflect CalPERS' values, and acknowledge CalPERS' responsibility to sustain its ability to pay benefits for generations.

The current General Pension Board Investment Consultant contract with Wilshire Associates, Inc. began on July 1, 2015, and terminates on June 30, 2020. The current Private Equity Board Investment Consultant contract with Meketa began on July 1, 2015 and terminates on June 30, 2020, along with the Letter of Engagement for Infrastructure Board Investment Consulting services. The current Real Estate Board Investment Consultant contract with Meketa (formerly Pension Consulting Alliance, Inc.) began April 1, 2017 and terminates on March 31, 2022 (early termination will occur based on the outcome of RFP 2018-8566).

## **Analysis**

On March 8, 2019, CalPERS released RFP No. 2018-8566 to solicit up to four (4) Board Investment Consultants (General Pension, Private Equity, Real Estate and Infrastructure). A single firm may be awarded up to three (3) Private Asset Class Consultant services. The firm awarded the General Pension Board Consultant contract is prohibited from providing services in combination with Private Asset Consultant services. As of the RFP final filing date, May 22, 2019, CalPERS received eight proposals, all of which passed the preliminary Minimum Qualifications review.

The Committee Chair proposes to create a four-member subcommittee of Committee members to interview the finalist firms for each investment consultant category and make contract award recommendations to the full Committee. The interviews will be conducted in a noticed open session meeting that will be scheduled as soon as possible to accommodate subcommittee members availability. The subcommittee would then make its recommendation to the full Committee in open session at the earliest subsequent regularly scheduled Committee meeting.

As specified in the RFP, the technical proposals of the four firms across the four service categories were scored on a pass or fail basis, based upon responses to the following categories: Organization and Structure, Conflicts and Disclosures, and Experience and Depth.

The table below details the current scores for the firms whose Technical Proposal was determined to have passed. Additionally, Staff has prepared a profile (see attachments) of each of the firms listed in the tables below.

General Pension Board Investment Consultant						
Proposer	Total Proposed Fees for 3 Years	Fee Proposal Score (out of 300)	DVBE Points <sup>1</sup>	Current Subtotal	Interview Points (700)	Final Score
Meketa Investment Group <sup>1</sup>	\$11,700,000	242	50	<b>292</b>	TBD	<b>TBD</b>
Wilshire Associates Inc. <sup>1</sup>	\$9,450,000	300	50	<b>350</b>	TBD	<b>TBD</b>

Private Equity Board Investment Consultant						
Proposer	Total Proposed Fees for 3 Years	Fee Proposal Score (out of 300)	DVBE Points <sup>1</sup>	Current Subtotal	Interview Points (700)	Final Score
Meketa Investment Group <sup>1</sup>	\$2,085,000	220	50	<b>270</b>	TBD	<b>TBD</b>
Verus Advisory, Inc.	\$1,530,200	300	0	<b>300</b>	TBD	<b>TBD</b>

Real Estate Board Investment Consultant						
Proposer	Total Proposed Fees for 3 Years	Fee Proposal Score (out of 300)	DVBE Points <sup>1</sup>	Current Subtotal	Interview Points (700)	Final Score
Meketa Investment Group <sup>1</sup>	\$3,600,000	293	50	<b>343</b>	TBD	<b>TBD</b>
RCLCO Fund Advisors, LLC	\$3,510,000	300	0	<b>300</b>	TBD	<b>TBD</b>

Infrastructure Board Investment Consultant						
Proposer	Total Proposed Fees for 3 Years	Fee Proposal Score (out of 300)	DVBE Points <sup>1</sup>	Current Subtotal	Interview Points (700)	Final Score
Meketa Investment Group <sup>1</sup>	\$ 525,000	300	50	<b>350</b>	TBD	<b>TBD</b>

<sup>1</sup> Firm committed to subcontracting > 5.0% Disabled Veteran Business Enterprises.

## **Budget and Fiscal Impacts**

The anticipated term of the contracts will be three-years. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in December 2018. The cost of these contracts will be funded from existing budgeted resources.

## **Benefits and Risks**

The selection of the Board Investment Consultants supports the Committee in meeting its objectives to prudently manage the System and provide members and beneficiaries with benefits, as required by law.

The current Consultant contracts are scheduled to expire June 31, 2020 and March 31, 2022. To ensure continuity of services and optimize coordination of services, the Committee will need to select the Finalists for interviews and approve the formation of the interview subcommittee. The selection of the Finalists for the subcommittee interview phase will allow the Committee and staff sufficient time to complete this project and minimize any interruptions to the provision of critical investment consultant services.

## **Attachments**

Attachment 1 – Summary Profile: Meketa Investment Group – General Pension Board Consulting

Attachment 2 – Summary Profile: Wilshire Associates, Inc. – General Pension Board Consulting

Attachment 3 – Summary Profile: Meketa Investment Group – Private Equity Board Consulting, Real Estate Board Consulting, Infrastructure Board Consulting

Attachment 4 – Summary Profile: Verus Advisory, Inc. – Private Equity Board Consulting

Attachment 5 – Summary Profile: RCLCO Fund Advisors, LLC – Real Estate Board Consulting

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