



M E K E T A I N V E S T M E N T G R O U P

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September 16, 2019

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

**RE: REVISION OF THE TOTAL FUND INVESTMENT POLICY (PRIVATE EQUITY) -  
SECOND READING**

Dear Mr. Feckner:

Meketa Investment Group ("Meketa") has been asked in its capacity as Board Consultant for the Private Equity Program (the "Program") to opine on the revisions of the CalPERS' Total Fund Investment Policy (the "Policy") initially submitted to the Investment Committee for a first reading on August 19, 2019, and now, with subsequent revisions, submitted for a second reading on September 16, 2019. The revisions to the Policy are described in Item 7a. As described below, we continue to support Staff's revisions to the Policy.

As we highlighted in our Opinion Letter for the first reading, the proposed revisions reflect a number of items, including: implementation of Strategic Asset Allocation objectives, transition to a Fund-level leverage approach, certain changes to the Sustainable Investment Program, as well as organizational changes and changes to provide clarity and consistency within the Policy. For this second reading, Staff has included an update to the exception reporting requirements as well as clarifying certain reporting responsibilities. Given our role as the Board's Private Equity Consultant, we focused our review and comments on the provisions related to the Private Equity asset class. Specifically, in Appendix 2, Investment Responsibilities, we note certain changes to the Prudent Person Opinion ("PPO") requirements in the Private Asset Class Board Investment Consultants (or "PACBIC") responsibilities for Private Equity.

**PRUDENT PERSON OPINION REQUIREMENT THRESHOLDS**

Staff has proposed a new \$200 million threshold for private equity co-investment PPOs. However, we note that co-investments between \$101 million and \$200 million will require *either* CIO approval *or* a PPO. As a result, co-investments of \$100 million or less may be approved by the Private Equity Managing Investment Director without a PPO. As we have noted in prior opinions on this topic, we believe it is a best practice for public plans to have separate oversight of staff work on all private equity investments. We have

September 16, 2019  
Page 2 of 2

reviewed the investment policies of several of the largest U.S. public pensions and note that investment staff are either required to obtain a third-party opinion or that individual investments are subject to Board approval and/or oversight. Co-investments can involve significant undiversified risk and that separate oversight can provide additional checks and balances in the investment process.

We recognize the transactional realities related to private equity co-investments which typically require very rapid evaluation and execution. The compressed timeframe of these co-investments can provide significant challenges to introducing third parties for purposes of providing a PPO. Further, we recognize that CalPERS has a large and experienced private equity staff to help source, evaluate, and manage co-investments and that Staff will generally have had extensive experience with the GP sponsoring the co-investment, often over multiple funds. As such, we believe the private equity PPO requirements proposed by Staff represent a reasonable position that recognizes the realities of executing private equity co-investments, Staff's size and experience, while providing for third-party reviews focused on the larger co-investment transactions. Further, we note that as Private Equity Board Consultant, Meketa Investment Group will participate in the review of co-investments with our focus being on Policy compliance.

#### SUMMARY OPINION

The proposed Policy includes a number of revisions that generally clarify roles and responsibilities and align the Policy with Board directives. Additionally, the modification to PPO requirements should allow CalPERS the flexibility to execute co-investments while focusing PPOs on the larger transactions. 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.

Additionally, we look forward to working with Staff as they refine on their approach and process for sourcing, evaluating, executing, and monitoring private equity co-investments.

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

Sincerely,



Stephen McCourt  
Managing Principal



Steven Hartt  
Principal

SPM/SKH/jls