

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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November 18, 2019

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

RE: REVISION OF THE PRIVATE EQUITY INVESTMENT POLICY - FIRST 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' Investment Policy for the Private Equity Program (the "Policy") submitted to the Investment Committee for a first reading on November 18, 2019. The revisions to the Policy are described in Item 10a.

For the Private Equity program, the proposed revisions amend the definition of "Customized Investment Account" as well as make certain ministerial and clean up changes to the Policy. As described below, we support Staff's revisions to the Policy.

CUSTOMIZED INVESTMENT ACCOUNT

A Customized Investment Account ("CIA") is an investment structure where CalPERS is the only investor and as such, would likely have terms that are different from a co-mingled fund alternative. The CIA may invest alongside a co-mingled fund or have an individual mandate. The CIA structure allows Staff to leverage an investment commitment by CalPERS in order to negotiate favorable terms and conditions with the CIA's manager.

The term "Customized Investment Account" is included as a defined term in CalPERS Specific Glossary of Terms ("Glossary"). Staff seeks to amend this definition by eliminating the requirement that the investment firm sponsoring the CIA have "demonstrated the ability to provide top quartile returns." The "top quartile returns" condition is backward looking and does not capture all the elements that should be considered when evaluating the firm that sponsors a CIA. We believe that Staff should be able to look widely for attractive partners for CIAs. We note that Staff must obtain a Prudent Person Opinion ("PPO") for all CIAs. Additionally, Meketa, as CalPERS' Private Equity Board Consultant,

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will participate in the review of all CIAs with our focus being on Policy compliance.

SUMMARY OPINION

If adopted, the proposed changes to the Policy would provide Staff with an expanded set of potential CIA sponsors to choose from and thereby increase Staff's ability to select attractive managers to partner with. As we noted, Staff will continue to need to obtain a PPO for all CIAs, and Meketa will participate in the review from a policy compliance perspective. Meketa supports these revisions and believes they are in line with CalPERS' Investment Beliefs.

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

Sincerely,



Stephen McCourt
Managing Principal



Judy Chambers
Managing Principal



Steven Hartt
Principal

SPM/JC/SKH/nca