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December 16, 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 – SECOND READING

Dear Mr. Feckner:

In November, Meketa Investment Group (“Meketa”) had 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. For the December meeting, Meketa has been asked to provide an opinion on the second reading of the revisions to the Policy, which are described in Item 7a. While this second reading does not include any additional changes to the Policy since the first reading, Staff has clarified the definition of “Customized Investment Account” as per the Board’s request.

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

As we outlined in our letter for the first reading, 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 commingled fund alternative. The CIA may invest alongside a commingled 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”). For the second reading, Staff has clarified that the manager of the CIA must have the appropriate investment expertise for the proposed strategy. This clarification would be combined with the change in the first reading which eliminated the existing requirement that the investment firm sponsoring the CIA have “demonstrated the ability to provide

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top quartile returns.” As we stated in our prior letter, the “top quartile” requirement is backward looking and does not capture all the elements that Staff would consider when selecting a manager for a CIA. We believe these collective changes to the CIA definition will allow Staff 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, 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, appropriately experienced 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/jls