



Finance & Administration Committee

Agenda Item 7d

February 18, 2020

Item Name: Barra, LLC Contract Extension

Program: Investment Risk & Performance

Item Type: Action

Recommendation

Approve the recommendation for a two-year contract extension on the Barra, LLC contract.

Executive Summary

The Barra, LLC contract is for the Investment Office's risk platform. The contract expires in November 2020. Staff requests a two-year extension of the contract to provide an opportunity to determine how the data strategy and multi-asset trading platform initiative will affect and connect to the risk system before a long-term decision on the risk system is made. The estimated cost of the two-year extension is \$5 million.

Strategic Plan

An extension of the Barra, LLC contract supports the Fund Sustainability, Reduce Complexity and Risk Management Strategic Plan goals. Providing staff an opportunity to analyze the two initiatives relative to the Barra platform will allow staff to make an intelligent, well-informed decision as to the future of the Barra platform and Investment Office's risk system.

Investment Beliefs

An extension of the Barra, LLC contract supports Investment Beliefs 6: Strategic asset allocation is the dominant determinant of portfolio risk and return; 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it; and 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility and tracking error.

Background

The Barra, LLC contract and system is critical to identify the risks of CalPERS investment portfolio. Investment Staff must make careful consideration to which risk platform and system is in the best interest of the fund. Providing staff two years to better analyze the system in

accordance with other initiatives will allow staff to determine if the Barra system is the best fit for CalPERS moving forward.

CalPERS has used the Barra, LLC risk platform since 2010 as a result of a Request for Proposal for a Risk Management System. The current five-year contract commenced in November 2015 and expires in November 2020. Staff requires time to determine how new initiatives will affect the system. It will also provide time for staff to perform market research in anticipation of a formal solicitation.

Analysis

Staff has analyzed the request for a two-year extension and has determined that it will:

- Allow time to analyze the effects of the data strategy and multi asset trading platform initiatives;
- Continue to perform market research of other potential risk systems; and
- Could result in cost savings if another risk system is found to be as or more efficient for a reduced price.

Budget and Fiscal Impacts

The two-year extension of the Barra, LLC contract can be absorbed by the Investment Office's current budgetary resources.

Benefits and Risks

The benefits of approving the Barra, LLC contract extension are:

- Allows time to analyze the impact of the new data strategy initiative and new trading strategy on the Barra system before a long-term decision is made;
- Allows staff to perform market research on other potential risk systems.

The risks or cons of not approving the contract extension are:

- The Investment Office will not have a contract for its risk system which will pose a critical risk to the organization;
- The Investment Office may have to enter into another five-year contract and therefore would not research other potential systems which could result in cost savings to the Investment Office.

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