



Investment Committee

Agenda Item 9a

November 16, 2020

Item Name: Wilshire Ownership Transition

Program: Investment Office

Item Type: Action

Executive Summary

The Board's primary general pension investment consultant, Wilshire Associates, Inc. (Wilshire), has agreed to be purchased by two private equity firms, Motive Partners (Motive) and CC Capital. Ares Management Corporation (Ares) will act as a lender in the transaction. As part of the transaction, Wilshire has asked CalPERS to consent to the transfer of its consulting agreement with Wilshire to the new entity. This agenda item enables the Committee to consider and act on Wilshire's request.

Strategic Plan

This agenda item supports the Strategic Plan goal of strengthening the long-term sustainability of the pension fund.

Investment Beliefs

This agenda item supports CalPERS' Investment Belief 10: "Strong processes, teamwork and deep resources are needed to achieve CalPERS' goals and objectives."

Background

Wilshire is the Board's primary general pension investment consultant and is under contract to provide these services through June 2023.

On October 1, 2020, Wilshire advised Board President Jones that it was "entering into a strategic partnership with CC Capital and Motive Partners whereby the two firms ... acquired a controlling interest in Wilshire." (Attachment 1). Because this transaction could raise potential conflict of interest issues, Mr. Jones consulted with the CalPERS Legal Office and thereafter asked Wilshire to provide additional information regarding the transaction, potential and actual conflicts of interest, and whether Wilshire's advice on private equity matters could financially impact Wilshire, CC Capital and Motive (Attachment 2). On October 14, 2020, Wilshire provided responses to this request indicating, among other things, that Ares would be a lender in the transaction, that Wilshire would not evaluate, recommend, or invest in any of CC Partners' or Motive's funds or investment opportunities, and that it would retain a third-party compliance

consultant to provide further guidance and independent oversight of the execution of its conflicts of interest policy (Attachment 3).

In an October 22, 2020 meeting, CalPERS requested additional information regarding the specifics of the pending transaction, other entities owned by or affiliated with the two purchasing firms, the mechanisms to be employed to prevent Wilshire from having any conflicts, and the timeline for engaging the third-party compliance consultant referenced in Wilshire's October 14, 2020 correspondence.

On October 27, 2020, Wilshire transmitted its request that CalPERS execute a written consent to the transfer of its contract with CalPERS to its new ownership (Attachment 4).

On October 30, 2020, Wilshire provided additional materials in response to questions around governance and conflict management (Attachments 5 and 6).

Analysis

The proposed ownership change raises potential conflict of interest issues. Wilshire needs to provide the Board with its best independent investment advice, completely free of any outside influence. Management is awaiting Wilshire's further submission of information to help it evaluate these issues and will update this agenda item as that information becomes available.

Wilshire representatives will also be present at the November meeting to address the Board's questions.

Budget and Fiscal Impacts

No significant impacts.

Benefits and Risks

Wilshire supports the Board in meeting its obligations to manage the System as a fiduciary and provide members and beneficiaries with benefits as required by law. Wilshire must provide these services independently and free of all outside influence. If the Board determines that the proposed transaction undermines Wilshire's ability to do so, it should not consent to the assignment of its contract to the new ownership.

If the Board does not consent to this requested assignment, the Board could terminate its agreement with Wilshire and use its current private asset class consultant, Meketa Investment Group (Meketa), as its primary general pension investment consultant until it can issue an RFP and select a new consultant. Meketa's existing contract allows for this scenario. However, the Board has previously precluded its primary general pension investment consultant from also serving as its investment consultant for any of the private asset classes, so if the Board wishes to continue that policy, it would need a new private asset class consultant or consultants.

Attachments

Attachment 1 – Wilshire 10/1/2020 email to Henry Jones regarding change of ownership

Attachment 2 – Henry Jones 10/2/2020 letter to Wilshire

Attachment 3 – Wilshire 10/13/2020 and 10/14/2020 correspondence to Henry Jones

Attachment 4 – Wilshire 10/27/2020 request for CalPERS' written consent

Attachment 5 – Wilshire 10/30/2020 letter to Henry Jones

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