Finance and Administration Committee

Agenda Item 3d

November 17, 2026

Item Name: Contracts Administration: Affirmation of Investment Contracts Without Defined Duration

Program: Investment Office

Item Type: Action Consent

Recommendation

Approve an additional one-year contract term extension for the investment office contracts without a defined duration listed in Attachment 1, to fulfill the Board of Administration's (Board) duty to serve the interests of system members and beneficiaries.

Executive Summary

To improve operating efficiency and enhance negotiating capabilities, the Investment Office recommends that the Finance and Administration Committee (Committee) approve a one-year extension for the investment office contracts listed in Attachment 1, consistent with procurement policies adopted by the Board in Resolution 92-04B-4.

Consistent with CalPERS policy, contracts for goods and services are limited to a term of five years. The Board, by resolution, has defined circumstances where the duration of a contract may extend beyond this five-year period. CalPERS team requests approval to extend the investment office contracts that exceed the five-year duration, for an additional year.

Strategic Plan

The one-year extension of the investment office contracts supports CalPERS Strategic Plan goal to strengthen the long-term sustainability of the fund. Approval of the extension of the investment office contracts supports CalPERS mitigation of investment and operational risks by ensuring the continuation of services.

Background

CalPERS contracts for goods and services are limited to a duration of five (5) years unless approved by the Board pursuant to Resolution No. 92-04B-4. This Resolution requires, among other things, that the Board affirmatively determines that a longer contract term is necessary to

fulfill the Board's duty to serve the interests of system members and beneficiaries, including the interest in defraying administrative expenses. Such a determination shall only be made after considering the following factors (among any others the Board may deem prudent under the particular circumstances):

- The impact of a longer term upon the system's interests in obtaining quality services at a reasonable cost; and
- The system's ability to monitor the performance of contractors with such lengthy contract terms, and to take corrective action (including expeditious termination of the contract) if necessary to fulfill the Board's fiduciary duties.

Analysis

With the authority to extend the contract duration residing with the Board, the Investment Office requests the Committee to extend these Investment Office contract durations for an additional year. Investment Office team members will continue to be responsible for the selection and continuous monitoring of the external investment managers and advisors. All Investment Office contracts provide team members with the ability to terminate the contracts for any reason within a limited notice period to the contractor. Team members will continue to present Investment Office contracts without a defined duration, to the Committee on an annual basis, at which time, team members will also request the Committee to reaffirm the undefined duration and approve a subsequent one-year extension.

Investment Office team members believe contracting with external investment managers and advisors without a defined duration is in the best interest of the system and satisfies both factors listed in Resolution 92-04B-4 for the following reasons:

- The undefined duration allows CalPERS the ability to better negotiate fees;
- CalPERS' standard contracting terms for external investment managers and advisors allow for termination that is favorable to CalPERS interests;
- The Investment Office's operational systems and teams monitor external investment manager and advisor performance and should the need arise, is able to promptly defund the contractor.

Budget and Fiscal Impacts

The potential budget and fiscal impacts of not approving the duration extension will delay the timely execution of contracts and may nullify existing Investment Office contracts, which could result in increased costs in the procurement and management of new external investment manager and advisor contracts as well as spring fed pool vendors who can be engaged on an as needed basis via letters of engagement.

Benefits and Risks

The benefits of this process include:

- Provides transparency and ensures Board awareness of significant contracts; and
- Informs the Board regarding CalPERS team contract decisions thereby satisfying their monitoring responsibilities

The benefits of approving the recommendation include:

- Reduced costs by eliminating the requirement to enter into new contracts with existing external investment managers and advisors which require lengthy and costly contract negotiations; and
- Reduced risk of re-negotiating fees during periods that may not be advantageous to CalPERS.

The risks of not approving the recommendation include:

- Interruption of critical services provided by external investment managers currently managing CalPERS' assets and investment advisors currently providing models for internal portfolios;
- Interruption of critical services provided by spring fed pool vendors via letters of engagement; and
- Potential impact on the ability of the Board and CalPERS team to fulfill its fiduciary obligations to CalPERS members and beneficiaries.

Attachment 1 – Investment Office Contracts Without Defined Duration Extension List

Attachment 2 – Resolution No. 92-04B-4

Michael Cohen
Chief Operating Investment Officer

Michele L. Nix
Chief Financial Officer