
April 18, 2016

Item Name: Contracts Administration: Real Estate Board Investment Consultant – Selection of Finalists for Interview

Program: Investment Office

Item Type: Action

Recommendation

That the firms that have passed the technical proposal evaluation be invited to appear before the Investment Committee (Committee) for oral interviews as specified in Request for Proposal (RFP) No. 2015-8014. The interviews are scheduled for the May meeting of the Committee.¹

Executive Summary

The purpose of this agenda item is to present to the Committee the firms that have passed the technical proposal evaluation, in order for the Committee to select the firms (Finalists) to continue in the RFP process. The Finalists are scheduled to be interviewed during the May meeting of the Committee. The objective of the interviews is to select the next Real Estate Board Investment Consultant (Consultant).

Strategic Plan

This agenda item supports Strategic Plan Goal A - Improve long-term pension and health benefit sustainability. The selected firm will provide the Committee with advice and recommendations on the Real Estate investment portfolio, which plays an integral role in the success and sustainability of the Total Fund.

Investment Beliefs

This item supports CalPERS' Investment Belief 4 that long-term value creation requires effective management of three forms of capital: financial, physical, and human.

Background

The role of the Consultant is to act as an independent fiduciary advisor to the Committee and provide opinions on matters relevant to the prudent and optimal management of the Real Estate portfolio. Additionally, the Consultant is to align the execution of contracted services with CalPERS' Investment Beliefs, which (1) are a guide for making decisions, (2) provide context for CalPERS' actions, and (3) reflect CalPERS' values.

The current Real Estate Board Investment Consultant contract with PCA began on April 1, 2012, and terminates on March 31, 2017.

¹ Meeting schedule is subject to change.

Analysis

On October 8, 2015, CalPERS released RFP No. 2015-8014 to solicit services for the Real Estate Board Investment Consultant. As of the RFP final filing date, December 1, 2015, CalPERS received six proposals, all of which passed the preliminary Minimum Qualifications review.

As specified in the RFP, the technical proposals of the six firms were scored on a pass or fail basis, based upon responses in the following categories:

- Strategy and Policy Analysis
- Performance Analysis and Monitoring
- Independent Advisor to the Investment Committee
- Investment Transaction Review
- Special Projects

The table below details the current scores for each firm whose Technical Proposal achieved a passing score. Additionally, Staff has prepared a profile (see attachments) of each of the firms listed in the table below.

Current Rank	Proposer	Total Proposed Fees for 5 Years	Fee Proposal Score (out of 300)	DVBE Points ²	Current Subtotal	Interview Points (700)	Final Score
1	Courtland Partners, Ltd.	\$3,981,850	300	30	330	TBD	TBD
2	Pension Consulting Alliance, LLC	\$6,266,000	191	30	221	TBD	TBD

Each firm selected for an interview will have 30 minutes before the Committee, which will consist of a 10-minute presentation and a 20-minute question and answer session.

Following each firm's interview, the Committee will determine, as a group, each Finalist's interview score, with a maximum allowable score of 700 points. The interview score of each Finalist will be combined with the Fee Proposal Score and any applicable Preference and/or Incentive Points in order to produce a Total Score. The Finalists will be ranked according to their Total Scores from highest to lowest. The firm receiving the highest total score will be awarded the contract, and Staff will issue the notice of intent to award.



² Each firm committed to subcontracting 3-3.99% Disabled Veteran Business Enterprises.

Budget and Fiscal Impacts

The anticipated term of the contract to be awarded pursuant to this RFP is five years. Each firm's proposed costs for the services are detailed in the table above. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in December 2014.

Benefits and Risks

The selection of the Real Estate Board Investment Consultant supports the Committee in meeting its objectives to prudently manage the System and provide members and beneficiaries with benefits, as required by law.

In order to ensure continuity of services upon expiration of the current consultant's contract on March 31, 2017, staff recommends that the Committee select the firms that are to continue to the interview phase of the RFP process, and that the interviews be conducted in May in conjunction with the May committee meeting. This timetable will allow the Committee and staff sufficient time to complete this project and minimize any interruptions to the provision of critical consultant services to support the Committee in fulfilling its fiduciary duties to the beneficiaries.

Attachments

Attachment 1 – Summary Profile – Courtland Partners, Ltd.

Attachment 2 – Summary Profile – Pension Consulting Alliance, LLC

Katherine H. Crocker

Investment Director

Wylie Tollette

Chief Operating Investment Officer

Finalist Profile Summary**Courtland Partners, Ltd.****Organization and Structure**

Courtland Partners, Ltd. ("Courtland") is a real estate focused consulting firm founded in 1995. While the firm is owned by just two senior executive staff members, the remaining employees participate in some form of profit-sharing, and the firm is looking to broaden the ownership to include more staff.

Courtland's focus is on real estate consulting; the firm does not engage in general pension consulting and does not offer commingled products as an investment manager. Courtland receives all its revenue from its advisory clients; it does not take revenues from investment managers. The principals of the firm have no plans to be acquired, merge, or otherwise change the independent nature of the firm.

Courtland's main office is located in Cleveland, but it has multiple other U.S. locations including offices in San Francisco and Los Angeles. The firm recently opened up a London office in order to establish a global presence.

Courtland is registered as an Investment Advisor and pension consultant with the SEC and has an estimated 250 million dollars in discretionary regulatory assets under management.

The discretionary assets under management are legacy assets from Courtland's fund of fund offering (the "Funds") in 2006. Courtland was not the fund manager or general partner but was retained as a sub-advisor to the Funds, providing strategy development and manager sourcing diligence and monitoring, for which they were compensated with fees comparable to the fees charged for their consulting services. The general partner of the Funds made a strategic exit, resulting in the firm's downsizing. Courtland took over management of the Funds to oversee their wind down, after the general partner's exit, in part due to the investment in the Funds by a long-standing client of Courtland's.

Lines of Business	2013	2014	2015	2016 est.
General Pension Consulting	0%	0%	0%	0%
Real Estate Pension Consulting	84%	73%	73%	69%
Other Consulting Services ¹	16%	15%	15%	11%
Asset Management	0%	12%	12%	20%
Other (please describe)	0%	0%	0%	0%

Experience and Depth

¹ Other consulting services include revenues from endowments, foundations, and insurance companies, as well as revenues from services as a sub-advisor on the fund of fund platform described herein. Courtland is not and does not intend to offer or establish any future funds. The firm is in the process of winding down the Funds (as defined in the RFP response).

Courtland employs approximately 30 staff members (excluding clerical staff), of which 26 perform in an advisory capacity, with over 90% of the total staff having extensive real estate experience. A total of 6 senior personnel have departed from the firm in the past 5 years, with 5 of the 6 positions having been filled. Courtland, from a resource perspective, is a small but experienced firm that currently has over 40 client mandates, 30 of which are pension plans.

Conflicts and Disclosures

Courtland does not foresee any conflicts of interest at this time. Courtland did not report any disciplinary action on the SEC ADV disclosure included in the RFP response.

Environment, Social and Governance

Courtland is not a signatory to the UNPRI, but is a proponent of responsible contractor policies and the ideas espoused by qualified organized labor unions, and believes that an adequately compensated and trained worker delivers a high quality product and service. Courtland reviews client investments through the performance measurement reporting system on a quarterly basis and identifies potential ESG risks for a portfolio during the performance measurement exercise.

Services

Courtland offers a team of real estate professionals experienced at providing consulting services to pensions. The firm tailors its services to the needs of each consulting client. Additionally, Courtland offers a variety of research and tools including a manager database and other proprietary tools such as the Courtland Partners Index and Performance Measurement System and Investment Offerings Database. The firm also has years of experience in manager review and fee analysis, manager monitoring, and performance analysis. Courtland also has extensive experience providing large institutional investors strategic advice and guidance on real estate policy. Since 2000, Courtland has advised on over \$80 billion in real asset investments, primarily real estate (approximately 48.2 billion in the U.S. and Latin America). Since 2000, Courtland has made recommendations on over \$34 billion global (non-U.S) investments. In addition to maintaining their proprietary manager/product/investment offer databases, Courtland periodically issues white papers discussing topics including current real estate market trends, and monthly flash reports relating to the global economy.

Fees

Flat Fees

A summary of Courtland's fee proposal for the flat fee services is included in the table below.

	Annual Fee
Year 1	\$ 750,000
Year 2	\$ 772,500
Year 3	\$ 795,675
Year 4	\$ 819,545
Year 5	\$ 844,130
Total Fees	\$ 3,981,850
Average Annual Fee	\$ 796,370

Special Project Fees (Hourly Rates)

Courtland's hourly rates for special projects requested by the Board are detailed in the table below.

Position Title	Maximum Hourly Rate
Managing Principal / Managing Director / Director / Senior Consultant	\$ 200
Consultant / Analyst	\$ 140
Analyst (CA Based DVBE)	\$ 250

Finalist Profile Summary**Pension Consulting Alliance, LLC****Organization and Structure**

Pension Consulting Alliance, LLC (PCA) was founded in 1988 and has been providing general and real estate investment consulting services to pensions since the firm's inception. PCA is owned by the PCA board of directors, which includes Allan Emkin, Mike Moy, Christy Fields, Neil Rue, and Judy Chambers.

PCA is registered as a pension consultant with the SEC and is not engaged in any advisory or asset management services. PCA's exclusive focus is on consulting services for pension plans, including general pension consulting, private equity consulting, and real assets consulting. PCA's main office is located in Portland, but it has multiple other U.S. presences, including offices in California.

Lines of Business	2013	2014	2015	2016 est.
General Pension Consulting	62%	59%	57%	60%
Real Estate Pension Consulting	19%	19%	20%	20%
Other Consulting Services ¹	19%	22%	23%	20%
Asset Management	0%	0%	0%	0%
Other (please describe)	0%	0%	0%	0%

Experience and Depth

PCA employs approximately 30 staff members (excluding clerical staff) of which 27 perform in an advisory capacity, with approximately 17% of the total staff having extensive real estate experience. A total of 6 senior personnel have departed from the firm in the past 5 years (3 of whom were on the real estate team), with 4 of the 6 positions having been filled. PCA is proposing a team of 5 real estate professionals for CalPERS. The real estate team currently provides real estate consulting services to 8 clients. PCA currently has a total of 32 clients, 20 of which are public pensions.

Conflicts and Disclosures

PCA did not and does not foresee any conflicts of interest at this time. PCA did not report any disciplinary action on the SEC ADV disclosure included in the RFP response.

Environment, Social and Governance

PCA is a signatory to the UNPRI, as well as a member of the Council of Institutional Investors and the Sustainability Accounting Standards Board. PCA has also made efforts to integrate ESG considerations into their due diligence process.

¹ Private Equity

Services

PCA has been providing pension consulting services since 1988, including general, private equity, and real-estate-specific advisory services. PCA boasts conflict-free advisory services and engages only in non-discretionary client relationships. The firm offers clients customized solutions to fit their clients' needs. The firm has experience in developing and implementing strategic-plan-level and asset-class-level investment policy, and in program review and performance analysis and incentive fee analysis. PCA also has extensive experience in acting as an independent advisor to multiple pension boards, including CalPERS. PCA stays abreast of real estate trends through 3 primary methods: 1) Desk Research (white papers and reports from various investment managers and industry associations), 2) Conferences and Manager Meetings, and 3) PCA's General and Private Equity practices.

Fees

Flat Fees

A summary of PCA's fee proposal for the flat fee services is included in the table below.

	Annual Fee
Year 1	\$ 1,192,000
Year 2	\$ 1,222,000
Year 3	\$ 1,252,000
Year 4	\$ 1,284,000
Year 5	\$ 1,316,000
Total Fees	\$ 6,266,000
Average Annual Fee	\$ 1,253,200

Special Project Fees (Hourly Rates)

PCA's hourly rates for special projects requested by the Board are detailed in the table below.

Position Title	Maximum Hourly Rate
Managing Director	\$ 500
Principal	\$ 450
Senior Vice President	\$ 425
Vice President	\$ 375
Senior Analyst	\$ 350
Analyst	\$ 300