

September 18, 2017

Item Name: Changes to Infrastructure Board Investment Consultant**Program:** Investment Office**Item Type:** Action**Executive Summary**

The primary purpose of this agenda item is to address the resignation of StepStone as the Infrastructure Consultant and obtain the approval of the Investment Committee (Committee) to engage another firm to act as Infrastructure Consultant effective October 1, 2017. In addition, staff recommends taking this opportunity to reduce the level of complexity and expense associated with the management of the Board's investment consultants by aligning the contract terms for the Infrastructure Consultant and the Real Estate Consultant. In approving this agenda item, the Committee is authorizing staff to take the steps necessary to expeditiously contract with the firm selected by the Committee and, should the Board so choose, to align the contract terms for the infrastructure and real estate consulting functions.

Recommendation

Staff recommends that the Committee:

- 1) Accept the resignation of StepStone Group LP (StepStone) as the Infrastructure Board Investment Consultant (the "Infrastructure Consultant") effective end of day September 30, 2017, and select **either** suboption (a), (b), or (c) below;
 - (a) Authorize staff to (i) issue a Request for Proposal (an "RFP") to contract with a firm to assume the responsibilities of the Infrastructure Consultant and (ii) engage a Spring-Fed Pool consultant as selected by the Committee to serve as the interim Infrastructure Consultant until such time as the Committee awards a new Infrastructure Consultant contract;
 - (b) Authorize staff to engage and contract with Meketa Investment Group (Meketa), the second highest scorer during the last Infrastructure Board Investment Consultant RFP (No. 2013-7086) to assume the responsibilities of the Infrastructure Consultant effective October 1, 2017; **or**
 - (c) Authorize staff to engage and contract with Pension Consulting Alliance, LLC (PCA), to assume the responsibilities of the Infrastructure Consultant effective October 1, 2017;and,
- 2) Authorize staff, during the contracting process for the Infrastructure Consultant selected by the Committee to extend the term of the current service period for the Infrastructure Consultant (currently expiring February 29, 2020) to align with the expiration of the contract term of the existing Real Estate Board Investment Consultant (the "Real Estate Consultant") Contract (No. 2016-8262), which expires on March 31, 2022.

Of the suboptions identified above, staff recommends, for reasons of continuity and efficiency and to minimize disruption to the investment process for this important asset class, that the Committee avail itself of the applicable exemption from the RFP process and select 1(b) or 1(c), and take this opportunity concurrently to align the contract term of the current Infrastructure Consultant with that of the current Real Estate Consultant.

Strategic Plan

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

Investment Beliefs

This item supports CalPERS' Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

Background

The role of the Infrastructure 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 Infrastructure program. Additionally, the Infrastructure 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.

CalPERS and StepStone are parties to Agreement No. 2014-7393 for the providing of infrastructure consulting services to the Committee (the "Current Infrastructure Consulting Contract") for a term commencing on March 1, 2015 and, absent earlier termination, expiring on February 29, 2020. StepStone has tendered its resignation as Infrastructure Consultant effective September 30, 2017 (*Attachment 1*). The current Infrastructure Consulting Contract was awarded to StepStone at the conclusion of the Infrastructure Investment Board Consultant RFP No. 2013-7086 released on April 25, 2014.

Meketa placed second during the previous Infrastructure RFP to StepStone and previously served the Committee from 2010 to 2014 as the Infrastructure Consultant. Meketa is also serving the Committee as the Private Equity Board Investment Consultant as of March 16th, 2017.

PCA was awarded the Real Estate Consultant contract at the conclusion of RFP No. 2015-8014 released October 8, 2015. PCA will continue to act as the Real Estate Consultant, the secondary general pension consultant, and the primary adviser for matters relating to the Responsible Contractor Policy. PCA's proposed team has experience in both Real Estate and Infrastructure.

Analysis

Staff's recommendation is based primarily on the following:

Recommendation 1(b) or 1(c)

- Board Consultant RFPs require significant expenditure of resources and time for the committee members chosen to participate in the process, committee meeting scheduling, and INVO and OSSD staff to develop, administer, and manage;

- Two firms, Meketa and PCA, are consultants known to the Committee and have the industry and professional experience to fulfill the duties of the Infrastructure Consultant.
- Meketa participated in and ranked second in the last Infrastructure Consultant RFP;
- PCA is the Board's current Real Estate Consultant;
- Many consulting firms with expertise in Infrastructure are also in the asset management business and may be or may become conflicted; and
- The majority of consultants available in the pool do not have infrastructure expertise.

Recommendation 2

- Aligning the contract term of the new Infrastructure Consultant with the existing Real Estate Consultant provides the Committee and staff an opportunity to:
 1. Strategically manage board consultant contracts
 2. Reduce the complexity of the ongoing management of Board consultants
 3. More efficiently manage the board consultant contract process, and reduce the expenditure of resources required to contract with the consultants
- The Committee may want to consider consolidating board consulting work, in alignment with the recent consolidation of the Real Estate and Infrastructure investment teams and policies.

Effect of StepStone Resignation

StepStone's resignation as the Infrastructure Consultant will, upon acceptance by the Committee, create the immediate need for the Committee to select and engage a qualified firm to assume the duties of the Infrastructure Consultant. The program procedures for Real Assets include a requirement for a Private Asset Class Board Investment Consultant to, among other things, provide an opinion on infrastructure investment transactions before the transaction may be closed. As a result, if the role of the Infrastructure Consultant were to remain vacant for any period of time, there could be a significant negative impact on the infrastructure investment process.

Upon approval of the agenda item, StepStone's resignation will be effective end of day September 30, 2017, and the successor firm as selected by the Committee shall assume the duties of the Infrastructure Consultant effective beginning of day October 1, 2017.

Potential Replacements

Both Meketa and PCA are established firms with the experienced staff and resources to effectively assume the role of Infrastructure Consultant. Each firm's proposed key persons for the Infrastructure Consultant are in their respective "Proposed Key Persons" submissions (*Attachments 2 and 3* respectively). Meketa previously served as the Committee's Infrastructure Consultant from 2010 to 2014 and PCA has been serving the Committee as the Real Estate Consultant for approximately seven years. Engaging Meketa or PCA through a new contract and/or letter of engagement or using the existing Real Estate Consultant contract with PCA would allow staff to expeditiously engage either vendor, avoid a lapse in services to the Committee, and provide continuity of services to the Committee from a known contractor.

The Investment Office (INVO) maintains pools of investment consultants, including consultants to act in the capacity of a Board Investment Consultant, should the need for such consultant arise. A list of such consultants is in section I of the Board Investment Consultant Background Information (*Attachment 4*). The pool of consultants is not specific to Infrastructure and of the firms in the current pool, only Meketa and PCA have the resources, experience, and infrastructure expertise to assume the responsibilities without a disruption of services to the Committee.

Alignment of Contract Terms

Staff recommends the Committee also authorize staff to align the Infrastructure Consultant contract term with the expiration of the Real Estate Consultant, which terminates on March 31, 2022. Aligning the terms of the Infrastructure and Real Estate Consultant contracts allows staff and the Committee to more efficiently manage Board Investment Consultant RFPs and potentially issue a consolidated Real Assets RFP in 2022 (covering Real Estate, Infrastructure, and Forestland) allowing the Committee the option of awarding the contract to one, two, or three firms. A consolidated Real Assets RFP would reduce complexity in the management of the Board Consultants and potentially the cost of the services.

Such alignment will result in a reduction of staff and Committee hours dedicated to the RFP, reduce the number of agenda items brought before the Committee relating to these RFPs, and potentially reduce amount of staff time devoted to ongoing contract management surrounding these types of Board Consultants. While reducing the staff resources dedicated to RFPs, the Committee would retain the option of awarding contracts to individual firms for each real asset class, to a single firm for the entire Real Assets program, or a combination thereof. The list of current Board Consultant contracts and background information on the prior Board Consultant RFPs are detailed in *Attachment 4*.

Budget and Fiscal Impacts

Meketa and PCA have proposed fees of \$121,000 per year, equivalent to the annual fees in the current StepStone contract. Should the Committee authorize staff to issue a new RFP, the cost of the Infrastructure Consultant services will likely increase because (1) the current annual rate of \$121,000 is based on a RFP from 2014, and (2) since both Meketa and PCA are currently providing services for the Committee in other capacities, both firms are regularly travelling to CalPERS, whereas a new firm would likely have to incorporate onboarding services and travel expenses into their fees.

Benefits and Risks

The services of the Infrastructure Consultant support the Committee in meeting its obligations to manage the System prudently and provide members and beneficiaries with benefits, as required by law. It is imperative to have a firm in place acting as the Infrastructure Consultant, to ensure continuity in the management of the Real Assets Program and minimize any interruptions in the provision of critical services to support the Committee and staff in fulfilling their fiduciary duties. A vacancy in the role of the Infrastructure Consultant may cause significant delays in the consummation and execution of investment transactions currently underway, which may hinder staff's ability to meet the return objectives of the portfolio.

Attachments

- Attachment 1 – StepStone Group LP – Letter of Resignation
- Attachment 2 – Meketa Proposed Key Persons
- Attachment 3 – PCA Proposed Key Persons
- Attachment 4 – Board Investment Consultant Background Information

Katherine H. Crocker

Investment Director,
Investment Compliance & Operational Risk

Wylie Tollette

Chief Operating Investment Officer



StepStone Group LP
885 Third Avenue, 17th Floor
New York, NY 10022
Phone +1 212.351.6100

August 11, 2017

VIA E-MAIL

California Public Employees' Retirement System
Board of Administration Investment Committee
Attention: Committee Chair, Henry Jones
400 Q Street, LPW, Room 2580
Sacramento, CA 95811
OSSD_ContractsAdmin@calpers.ca.gov

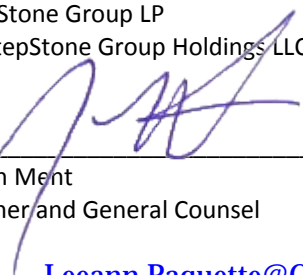
RE: Agreement 2014-7393 (as amended, the "Agreement")

Dear Sir or Madam:

Reference is made to the Agreement. As discussed, this is to confirm Contractor's resignation effective September 30, 2017 under the Agreement. We look forward to continuing to serve CalPERS pursuant to the other agreements that we or our affiliates have in place today or in the future. Please do not hesitate to reach out should you wish to discuss.

Very truly yours,

StepStone Group LP
By StepStone Group Holdings LLC

By: 

Jason Ment
Partner and General Counsel

cc: Leeann.Paquette@CalPERS.ca.gov



Stephen P. McCourt, CFA - Managing Principal / Co-Chief Executive Officer

Mr. McCourt joined Meketa Investment Group in 1994 and has over 20 years of investment experience. Mr. McCourt is a Managing Principal and Co-Chief Executive Officer of the firm. He serves as the lead consultant for several institutional funds, with public, Taft-Hartley, endowment, and non-profit plan sponsors. His consulting work includes investment policy design, strategic and tactical asset allocation modeling, asset liability modeling, investment education, and investment manager analysis. In addition, Mr. McCourt is a member of the firm's Private Markets Investment Committee, Investment Policy Committee, and the Global Macroeconomic/Tactical Asset Allocation Committee.

Mr. McCourt sits on the Steering Committee of the University of California, San Diego (UCSD) Economics Roundtable. He is also a member of the UCSD Economics Leadership Council, which strives to bridge research theory with practical real-world experiences. He speaks at numerous industry events including the Investment Education Symposium, the Corporate Funds Summit, the Endowment and Foundation Forum, the Global Investing Summit, the Private Equity Summit, and the International Foundation of Employee Benefit Plans (IFEFP) Annual Employee Benefits Conference. Mr. McCourt's research papers entitled "Monitoring Investment Managers" and "Pension Fund Investing and the State of American Public Finance" have been published in the IFEFP's Employee Benefit Issues publication.

He received his graduate degree, a Master of Liberal Arts (ALM) in History, from Harvard University, and his undergraduate degree in Economics and Political Science from the University of Vermont. Mr. McCourt received the Chartered Financial Analyst designation from the CFA Institute and is a member of the CFA Society of San Diego. He is also a member of the International Foundation of Employee Benefit Plans.



Steven Hartt, CAIA - Principal

Mr. Hartt joined Meketa Investment Group in 2010 and has been in the financial services industry for 30 years. A Principal of the firm, Mr. Hartt works in the Private Markets Group where he focuses on client service and marketing, as well as performing due diligence on private markets managers. Additionally, Mr. Hartt leads our private equity co-investment and secondary transaction research.

Prior to joining the firm, Mr. Hartt was a Senior Vice President at Amalgamated Bank where he was in charge of alternative investments.

While at Amalgamated Bank, Mr. Hartt managed the discretionary portfolios of private equity, debt, and infrastructure funds, in addition to the development, marketing and management of a private equity fund of funds. Prior to this, he spent eleven years at Citigroup in financial advisory, marketing and investment positions. He was also a senior member of Citigroup Alternative Investments where he was responsible for originating, evaluating, and managing private equity fund and direct investments. Mr. Hartt was also a summer associate at Dean Witter Reynolds and an assistant trader at Morgan Guaranty Bank.

Mr. Hartt received a Masters of Business Administration from Columbia Business School, and a Bachelor of Science degree, cum laude, from the University of Colorado, Boulder. Mr. Hartt holds the Chartered Alternative Investment Analyst (CAIA) designation and is a member of the CAIA Association®.



Amy Hauke - Executive Vice President

Ms. Hauke joined Meketa Investment Group in 2017 with more than 15 years' experience in the financial services industry. An Executive Vice President at the firm, Ms. Hauke works in the Private Markets Group where she focuses on client service and marketing, as well as performing due diligence on private markets managers.

Prior to joining the firm, she worked for 10 years in the Private Equity Group at Aon Hewitt, most recently as a Senior Consultant. Prior to that, she worked in the private equity practices as Collier Capital, Campbell Lutyens & Co., and McKinsey & Company.

Ms. Hauke received an MBA from the University of Chicago Booth School of Business, and a BS from Cornell University.



MEKETA INVESTMENT GROUP
CALIFORNIA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM

INFRASTRUCTURE TEAM



Lisa Bacon, CAIA – Senior Vice President

Ms. Bacon joined Meketa Investment Group in 2014 and has been supporting public and private investments in natural resources and related infrastructure for 28 years. A Senior Vice President of the firm, Ms. Bacon works in the Private Markets Group specializing in real assets. She performs due diligence of private market opportunities, maintains and establishes new relationships with private market firms, reports on private market investments and contributes to the firm's client service efforts.

Prior to joining the firm, for two and a half years Ms. Bacon was a Real Return Investment Analyst for the New Mexico State Investment Council (NMSIC), which manages the State's \$20 billion Land Grant and Severance Tax Permanent Funds. While at NMSIC, Ms. Bacon managed the real asset and real estate portfolios, including: evaluating existing investments and managers; monitoring portfolio performance and compliance; diligencing new managers and strategies, and shepherding new investments through the review, approval, and execution process. For the dozen years before joining NMSIC, Ms. Bacon was a Principal Technologist at CH2M HILL, a global firm providing full service engineering, consulting, design-build, operations, and program management services in the energy, environmental, nuclear, transportation, and water sectors. Ms. Bacon was aligned with the firm's Water Business Group and provided consulting services on projects involving water resources, ecosystem management, water and wastewater infrastructure, and utility management. For a previous firm, Ms. Bacon provided consulting services to federal and state agencies, including U.S. EPA and the U.S. Army Corps of Engineers. She also worked as an analyst for the Maryland General Assembly and the U.S. House of Representatives.

Ms. Bacon received a Master of Science in Finance with honors from Pace University's Lubin School of Business, a Master of Public Policy from the University of California at Berkeley, and a Bachelor of Arts, cum laude, from Duke University. Ms. Bacon holds the Chartered Alternative Investment Analyst (CAIA) designation and is a member of the CAIA Association®.



Danny Chan – Assistant Vice President

Mr. Chan joined Meketa Investment Group in 2012. He received an undergraduate degree from Boston University with concentrations in Economics and International Relations. He works in the Private Markets Group focusing on private equity, private debt, and real assets investments and also spends time performing due diligence on Fund of Funds and Secondary Funds. Prior to joining the firm, he was a fund accountant at Brown Brothers Harriman. Mr. Chan is currently enrolled in the CFA Program as a Level III candidate. He is also conversational in Mandarin and Taishanese Chinese.

Judy Chambers

Experience

2007 – Present Pension Consulting Alliance, LLC New York, NY

Managing Director

- Provide private equity, infrastructure and corporate governance services to public pension plan sponsors including investment policy development and implementation, manager due diligence and selection, strategic planning and reviews, sector research and implementation and manager monitoring; Specialize in developing emerging manager platforms.
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2003 – 2007 Caswell Capital Partners, LLC New York, NY

Principal

- Led and managed the sourcing, evaluation, structuring and execution of all debt transactions in the media and entertainment sectors.
 - Structured and completed over \$250 million of financings for recapitalizations, restructurings and debtor in possession transactions by providing senior, bridge loans, mezzanine debt and equity structures.
 - Oversaw all financial and credit analyses, due diligence and valuation. Assessed capital structures and financial needs to identify middle market debt opportunities.
 - Conducted the negotiation of term sheets, credit agreements and all legal documents.
 - Developed and expanded joint venture relationships with hedge funds, alternative investment and private equity firms.
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1998 – 2003 Lehman Brothers, Inc. New York, NY

Vice President, Global Leveraged Finance

- Structured, negotiated and executed over \$9.5 billion in high yield bond, leveraged loan and bridge financings to support leveraged buyouts, refinancings, recapitalizations, mergers and acquisitions, and debt restructurings in a broad subset of industry sectors.
 - Identified and presented corporate finance and debt market opportunities to institutional clients and financial sponsors for new business generation in the media, natural resources, financial institutions, industrial and gaming sectors.
 - Performed financial modeling, capital structure analysis, due diligence investigations, and credit assessments.
 - Assisted institutional clients in developing and implementing strategic, financial and operating plans to improve their portfolio of assets.
 - Structured complex transactions and formulated pricing and deal strategies by working closely with capital market desks and high yield research to facilitate solid deal execution in the market.
 - Drafted term sheets and offering memoranda and negotiated commitment letters, high yield covenants, credit agreements and other legal documents.
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1992 – 1996 NationsBank, NA Charlotte, NC

Global Finance Group, Assistant Vice President and Senior Project Analyst

- Managed foreign exchange consolidation team which implemented a global trading platform and created foreign exchange and money market netting products that minimized global trade exposure by 35%.
- Liaison between project and trading management and facilitated restructuring effort which streamlined staffing needs and increased bank's market share.
- Implemented risk management systems and financial reporting to assist traders with positions and trading limits.
- Member of change management team which implemented wire transfer systems in conjunction with NationsBank's mergers and acquisitions.

Education

1998 Northwestern University, Kellogg School of Management Evanston, IL

Master of Business Administration, Finance and Accounting

- Citibank Scholar, Dean's List
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1992 Duke University Durham, NC

BA, Public Policy Studies and Spanish

- Dean's List

Board Investment Consultant Background Information

I. INVO Spring-Fed Pool Board Consultants

The below firms are under contract with CalPERS and available for use by the Investment Committee through a letter of engagement, subject to the firm's willingness to agree any terms and conditions, including fees.

Firm Name (listed alphabetically)	Contract No.	Real Assets Board Consulting Experience
Brock Capital Group LLC	2015-7617	Yes, some infrastructure
Callan Associates, Inc.	2015-7615	Yes, some real estate, no infrastructure
Bogdahn Consulting, LLC (formerly Gregory W Group)	2015-7622	Does not serve as a prudent person for any of their clients (based on RFP response)
Hamilton Lane Advisors, LLC	2015-7623	No, private equity focused
Meketa Investment Group, Inc.	2015-7616	Yes, some infrastructure
Mosaic Investment Advisors, Inc.	2015-7614	No
Northfield Information Services, Inc.	2015-7626	No
Pension Consulting Alliance, LLC.	2015-7609	Yes, some infrastructure

II. Board Investment Consultant Background

- Each RFP has 2 Board Members participate to provide guidance and oversight to staff during the evaluation of the technical proposals
- Each RFP for a Board Investment Consultant requires Board Interviews of the finalist firms, multiple Investment Committee agenda items

A. Current Board Investment Consultants

Current Board Consultant Contracts	Current Firm	Term End Date
Infrastructure	StepStone Group LP	02/29/2020
General Pension	Wilshire Associates Inc.	06/30/2020
Private Equity	Meketa Investment Group, Inc.	06/30/2020
Forestland (no explicit RFP for this piece of the portfolio)	Wilshire Associates Inc.	06/30/2020
Pool of Investment Board Consultants	Multiple	06/30/2020
Real Estate	Pension Consulting Alliance, LLC	03/31/2022

B. Firms that responded to one of the last 4 Board Consultant RFPs

- A total of 10 firms submitted responses to the 4 previous Board Consultant RFPs.
- A total of 6 firms were interviewed by the Investment Committee.

1. Courtland Partners, Ltd.
2. StepStone Group LP
3. Callan Associates, Inc.
4. Meketa Investment Group, Inc.
5. Pension Consulting Alliance, LLC
6. RCLCO (Robert Charles Lesser & Co.)
7. RVK, Inc.
8. Townsend Holdings, LLC
9. Albourne America, LLC
10. Wilshire Associates Inc.

III. INVO Board Consultant RFPs (previous 4)

1. Infrastructure Board Investment Consultant RFP No. 2013-7086

Key Dates	
Release Date	04/25/2014
Award Date	09/15/2014
Contract Start Date	03/01/2015
Contract Expiration Date	02/29/2020

Firms	Interviewed	Score/Rank
Courtland Partners, Ltd	Yes	3
StepStone Group LP	Yes	1
Meketa Investment Group, Inc.	Yes	2

2. General Pension Board Investment Consultant RFP No. 2014-7111

Key Dates	
Release Date	07/01/2014
Award Date	12/15/2014
Contract Start Date	07/01/2015
Contract Expiration Date	06/30/2020

Firms	Interviewed	Score
Wilshire Associates Inc.	Yes	1
Meketa Investment Group, Inc.	Yes	2

3. Private Equity Board Investment Consultant RFP No. 2013-7039

Key Dates	
Release Date	04/30/2014
Award Date	10/13/2014
Contract Start Date	07/01/2015
Contract Expiration Date	06/30/2020

Firms	Interviewed	Score/Rank
Albourne America, LLC	Yes	3
Pension¹ Consulting Alliance, Inc.	Yes	1
Meketa Investment Group	Yes	2

4. Real Estate Board Investment Consultant RFP No. 2015-8014

Key Dates	
Release Date	10/08/2015
Award Date	05/16/2016
Contract Start Date	04/01/2017
Contract Expiration Date	03/31/2022

Firms	Interviewed	Score/Rank
Courtland Partners, Ltd.	Yes	2
Pension Consulting Alliance, LLC	Yes	1
Callan Associates, Inc.	No	N/A
RVK, Inc.	No	N/A
RCLCO (Robert Charles Lesser & Co.)	No	N/A
Townsend Holdings, LLC	No	N/A

¹ PCA was awarded the Private Equity Board Consulting contract however, PCA resigned effective 3/15/2017 and Meketa assumed responsibilities effective 03/16/2017.