



# Investment Committee

## Agenda Item 7a

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**August 13, 2018**

**Item Name:** Board Investment Consultant Request for Proposal – Public and Private

**Program:** Investment Office

**Item Type:** Action

**Recommendation**

Authorize staff to (i) process one year extensions for the two Board Investment Consultant contracts and the related Infrastructure Letter of Engagement currently scheduled to expire June 30, 2020; **and** (ii) amend the third contract term date to align all Board Investment Consultant contracts to expire June 30, 2021.

Contract No.	Consultant	Consulting Role	Expiration	Proposed Expiration
2015-7585	Wilshire Associates, Inc.	General Pension <sup>i</sup>	June 30, 2020	June 30, 2021
2015-7616	Meketa Investment Group, Inc.	Private Equity	June 30, 2020	June 30, 2021
(LOE 3)	Meketa Investment Group, Inc.	Infrastructure	June 30, 2020	June 30, 2021
2016-8262	Pension Consulting Alliance, LLC	Real Estate	March 31, 2022	June 30, 2021

**Executive Summary**

CalPERS Board investment consultant contracts are refreshed on a five-year cycle, through Requests for Proposals (RFP). Two of the existing three contracts are scheduled to expire June 30, 2020. Under Board Resolution 92-04B-4, contracts for goods and/or services may be extended for more than five years, if the Board determines that a longer 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; and with consideration that the impact of a longer term upon the System’s interest in obtaining quality services at a reasonable cost.

Each of the current consultants, through multiple RFPs, have provided investment consulting services to CalPERS Board for a decade, or more, under the same role structure with three to four separate consultants. Merging multiple solicitations into one or two, reduces complexity and cost. Board Investment Consultant contract expenses are funded through the Investment Office budget and account for greater than 40 percent of the total fiscal year investment consultant expenditures.

Extending and aligning the Board Investment Consultant contracts provides the Board with the opportunity to analyze the existing investment consultant structure, and how it interfaces with CalPERS investment approach. Additional time provides the opportunity to evaluate the complexities and costs associated with multiple consultants and multiple RFPs.

Potential RFP timelines are determined by the number of RFPs; one Board Investment Consultant RFP is estimated to require 12 months; two separate RFPs is estimated to require 14 months with adequate resources available to process in tandem; three separate RFPs is estimated to require 20 months; and, four separate RFPs is estimated to require 26 months.

Should the Board prefer to stay with the status quo, we will request Board approval to initiate four separate Board Investment Consultant RFPs at the November Investment Committee meeting.

### **Strategic Plan 2017-2022**

This agenda item supports Strategic Plan goals to reduce complexity across the Enterprise and gain operational efficiencies, improve productivity, and reduce costs.

### **Investment Beliefs**

This agenda item supports CalPERS' Investment Belief 8 that costs matter and need to be effectively managed; and Belief 10, that strong processes, teamwork and deep resources are needed to achieve CalPERS goals and objectives, including strong governance.

### **Background**

In September 2013, the CalPERS Board of Administration adopted a set of ten Investment Beliefs to provide a basis for strategic management of the investment portfolio, and to inform organizational priorities. The Investment Beliefs are a guide for making decisions that often require balancing multiple, inter-related decision factors and provide context for CalPERS actions taken to sustain its ability to pay benefits for generations.

Over time the investment operational structure has moved towards a total fund approach, with the Board adopting a Total Fund Investment Policy in June 2018 to provide a framework for the management of CalPERS assets. The current investment consultants and role structures have existed for more than a decade.

### **Analysis**

- Time is required to evaluate the investment consultant role structure as it relates to the current framework for the management of CalPERS assets as set forth in the Total Fund Investment Policy.
- Evaluation of costs associated with multiple investment consultants is supported by CalPERS fiduciary responsibility to its members.
- Time is required to evaluate Board investment consultant fiduciary and governance responsibilities as they relate to the Total Fund Investment Policy approved in June 2018.

- RFPs are complex and require a significant expenditure of resources and time for the Committee, the Committee members chosen to participate in the process and INVO and OSSD staff to develop, administer, and manage.

### **Budget and Fiscal Impacts**

Currently, there are three Investment Consultants providing services to the Board. Board Investment Consultant contract expenses are funded through the Investment Office budget and account for greater than 40 percent of the total fiscal year investment consultant expenditures. RFPs are complex and require a significant expenditure of resources and time for the Committee, the Committee members chosen to participate in the process and INVO and OSSD staff to develop, administer, and manage. These conditions offer the opportunity to evaluate consultant role(s) towards developing alignment, with the opportunity to reduce operating and consultant expenses.

### **Benefits and Risks**

- The benefits of extending and aligning the contracts are increased efficiencies, investment consultant role restructuring that increases information flow between the Board, Consultants and the investment team, and reduced consultant expenses.
- The risks of a status quo approach are:
  - a. Siloed consultant roles
  - b. Contract and procedural complexities
  - c. Increased costs associated with multiple consultants and RFPs
- The benefits of the status quo approach are:
  - a. Multiple perspectives of different third-party organizations
  - b. Individual asset class expertise

### **Attachments**

Attachment 1 – CalPERS Board of Administration Resolution No. 92-04B-4

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Elisabeth Bourqui  
Chief Operating Investment Officer

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Ted Eliopoulos  
Chief Investment Officer

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<sup>i</sup> Includes Forestland investment consulting services

STATE OF CALIFORNIA  
BOARD OF ADMINISTRATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

Subject: Contracts & Procurement of  
Goods and Services - Contract Duration No. 92-04B-4

WHEREAS, On [DATE OF ADOPTION], the Board of Administration of the California Public Employees' Retirement System passed Resolution No. 92-04B-1, describing PERS' policies regarding contracts for goods and services;

WHEREAS, Resolution No. 92-04B-1 requires that PERS' contracts for goods and/or services be no more than five years, except when the Board has made an affirmative decision that a longer 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;

WHEREAS, The Public Contract Code ("PCC") grants to the Department of General Services ("DGS") the authority to restrict the duration of contracts awarded by State agencies; this DGS-imposed limitation is generally three years, with five years approved on an exceptional basis;

WHEREAS, PERS' existing Contract Management Procedures governing contracts for goods and/or services are consistent with the above-described DGS limitation; and

WHEREAS, The Board has determined that, in some circumstances, such a five year duration limitation may run counter to the best interests of System members and beneficiaries (including the interest to defray reasonable administrative expenses).

RESOLVED, that, pursuant to the foregoing, the Board's Policy Statement, Operational Guidelines and Contract Management Procedures concerning PERS' contracts for goods and services shall be revised to permit the award of a contract for more than a five year term, under the following circumstances:

Resolution No. 92-048-4

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- A. The Board affirmatively determines that such a longer 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;
- B. Such a determination shall only be made after considering the following factors (among any others that the Board may deem prudent under the particular circumstances):
1. The impact of a longer term upon the System's interests in obtaining quality services at a reasonable cost; and
  2. 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.

RESOLVED, that the Board hereby delegates to its Chief Executive Officer the authority and responsibility to implement the revisions and activities described above, provided such actions are regularly reported to the Board.

RESOLVED, that this Resolution shall be effective immediately upon adoption, and is cumulative to all other delegations to the Chief Executive Officer.

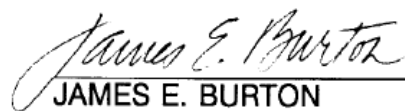
\* \* \* \* \*

I hereby certify that on the 19th day of April, 1995, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

  
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WILLIAM DALE CRIST  
President, Board of Administration  
Public Employees' Retirement System

I understand and accept this delegation.

Dated: 4/19/95

  
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JAMES E. BURTON  
Chief Executive Officer  
Public Employees' Retirement System