



Investment Committee

Agenda Item 7a

November 18, 2019

Item Name: Board Investment Consultants – Results of Board Investment Consultants Interviews and Intent to Award

Program: Investment Office

Item Type: Action

Recommendation

Approve the Board of Administration Sub-Committee's scoring from the Board Consultant Request for Proposal Interviews and, subject to successful contract negotiations, award contracts in:

- General Pension Consultant: Wilshire Associates, Inc.
- Private Equity Consultant: Meketa Investment Group
- Real Estate Consultant: Meketa Investment Group
- Infrastructure Consultant: Meketa Investment Group

Executive Summary

The appointed Board of Administration Sub-Committee interviewed the finalists of the Board Consultant Request for Proposal in the following categories: General Pension, Private Equity, Real Estate and Infrastructure. The Sub-Committee provided a numerical score for each interviewee based on experience and expertise. Those scores were combined with their fee score to obtain a final score for each vendor. It is the recommendation for the Board of Administration to approve the final scores and contract awards determined by the Sub-Committee.

Strategic Plan

This agenda item supports the Fund Sustainability Strategic Plan Goal – Strengthen the long-term pension and health benefit sustainability. The Consultants will provide the Committee with advice and recommendations on the designated investment portfolio(s), which play an integral role in the success and sustainability of the Total Fund.

Investment Beliefs

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

Background

The role of the Consultants is to act as independent fiduciary advisors to the Committee and provide opinions on matters relevant to the prudent and optimal management of the designated investment portfolio services.

The current General Pension, Private Equity and Infrastructure Board Investment Consultant contracts expire on June 30, 2020. The Real Estate Board Investment Consultant contract expires on March 31, 2022. The Board of Administration approved the realignment of all Board Consultant Services to a July 1, 2020-June 30, 2023 cycle.

CalPERS released a Request for Proposal for Board Consulting Services on March 8, 2019. The Board of Administration approved a Sub-Committee to interview the finalists. The Sub-Committee interviewed the finalists and determined a score for each on October 8, 2019.

Analysis

The following matrix outlines the results of the high scoring vendors interviewed by the Sub-Committee along with the scores they received. The Sub-Committee was able to give each vendor a maximum of 700 points for the interview. The fee score was calculated based on a predetermined formula which gives the lowest fee proposal the maximum amount of points for that section. Subsequent fee proposals receive pro-rated fee scores. The combined total of points possible was 1,000 points. The vendors were also able to receive a maximum of 50 "Incentive Points" for agreeing to commit a portion of their fees to Disabled Veteran Business Enterprises "DVBE."

General Pension Board Investment Consultant				
	Fee Score	Incentive Points	Interview Points	Total Points
Wilshire	300	50	651	1001
Private Equity Board Investment Consultant				
	Fee Score	Incentive Points	Interview Points	Total Points
Meketa	220	50	700	970
Real Estate Board Investment Consultant				
	Fee Score	Incentive Points	Interview Points	Total Points
Meketa	293	50	700	1043
Infrastructure Board Investment Consultant				
	Fee Score	Incentive Points	Interview Points	Total Points
Meketa	300	50	700	1050

Budget and Fiscal Impacts

The anticipated term of the contracts will be three-years with two one-year extension options. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in December 2018. The cost of these contracts will be funded from existing budgeted resources.

Benefits and Risks

The benefits of this process include:

- Satisfying the requirements of the Total Fund Policy; and
- Assists the Board of Administration in its fiduciary duty to its members.

The benefits of approving the recommendation include:

- Continuity of the independent Board Consultant services including oversight of the fund; and
- Providing appropriate time for new contracts to be implemented prior to the current ones expiring on June 30, 2020.

The risks of not approving staff's recommendation include:

- Interruption of critical services provided by external Board Consultants; and
- Potential impact on the ability of the Board and staff to fulfill its fiduciary obligations to CalPERS members and beneficiaries.

Attachments

Attachment 1 – Summary Profile: Wilshire, Associates, Inc.-General Pension Board Consultant

Attachment 2 – Summary Profile: Meketa Investment Group-Private Equity, Real Estate and Infrastructure Board Consultants

Dan Bienvenue

Interim Chief Operating Investment Officer

BOARD INVESTMENT CONSULTANT FINALISTS

PROFILE SUMMARY

Wilshire Associates, Inc. – General Pension Consulting Services

Organization and Structure

Wilshire Associates Inc. (“Wilshire”) is a pension consulting firm founded in 1972, providing pension consulting services to tax exempt organizations since 1981. The firm is a privately held Subchapter S corporation that is 100% owned by key employees with no other outside owners. Wilshire has four separate business units: Wilshire Consulting, Wilshire Analytics, Wilshire Funds Management and Wilshire Private Markets. Wilshire Private Markets Group’s operations in Amsterdam and Hong Kong are conducted through affiliated companies, Wilshire Associates Europe, BV, and Wilshire Hong Kong Limited. Wilshire’s participation as general partner in various limited partnership investment vehicles is conducted through entities controlled by Wilshire’s affiliate, Wilshire Global Advisors Inc. Wilshire has no parent company. The ownership of Wilshire Global Advisors Inc. is identical to that of Wilshire. Wilshire has not experienced any material changes in ownership, personnel reorganization, or new business ventures in the last two years. Mark Brubaker, a member of Wilshire Consulting, departed the firm and his position on the Board of Directors of Wilshire Associates in February 2019. Wilshire is registered as an Investment Advisor with the SEC. Wilshire is an ERISA fiduciary. Wilshire does not have relationships with asset managers. Wilshire receives a portion of its total revenues from the sale of analytics services including business generated from investment management firms. Wilshire Funds Management receives compensation from investment managers or institutions for discretionary and nondiscretionary “manger-of-managers” services, as well as outsourcing solutions to financial institutions, commingled funds and mutual fund complexes. The total firm revenues received from the sale of analytics services to asset managers is 8%. Wilshire’s line of business and contribution to their organization’s total revenue for the past three years is as follows:

Lines of Business	2016	2017	2018	2019 est.
General Pension Consulting	32%	31%	31%	30%
Other Consulting Services	45%	49%	54%	55%
Other (Wilshire Analytics)	23%	20%	15%	15%

Experience and Depth

Wilshire’s lead consultants have over 16 years of experience at Wilshire and 25+ years of industry experience. Wilshire has provided strategic advice to the Board and Staff of CalPERS for 30 years. For the past 40+ years, Wilshire has made major contributions in defining “best practices” in the investment consulting field. Today, Wilshire provides discretionary and non-discretionary investment advisory services with assets under advisement of approximately \$1.1 trillion as of December 31, 2018. On average, the tenure of Wilshire Consulting clients is twelve (12) years. Currently, Wilshire provides investment advisory and management services to more than 40,000 defined contribution

plans representing over \$116 billion in assets. Traditional consulting and OCIO clients include public, corporate, healthcare and foundation 401(k), 401(a), 403(b), and 457(b) plans, with individual plan assets ranging from under \$100 million to over \$10 billion. Wilshire's ERISA services are utilized by a wide range of plan sponsor types and sizes, from startup plans with minimal assets to mature plans with over \$1 billion.

Conflicts and Disclosures

Wilshire does not foresee any conflicts of interest. Wilshire did not report any disciplinary action on the SEC ADV disclosure, which was included in the RFP response.

Environment, Social and Governance

Wilshire has dedicated in-house ESG resources to provide regular insights into ESG considerations and risks.

Services

Wilshire offers a team of expert professionals committed to empowering clients to achieve the financial strength necessary to fuel secure retirements and advance unique objectives by leveraging their global footprint, culture of risk management, and four decades of experience. Wilshire's research platform includes dedicated teams focused on investment/capital markets, asset allocation, alternatives, ESG/responsible investing and manager research. Wilshire's Trust Universe Comparison Service® (TUCS®) is widely considered the definitive benchmark for U.S. institutional plan assets performance and allocation. Wilshire TUCS contains over 2,000 plans from the largest custodian banks. For CalPERS, Wilshire uses a custom universe for public pension funds with assets greater than \$10 billion.

BOARD INVESTMENT CONSULTANT FINALISTS

PROFILE SUMMARY

Meketa Investment Group – Private Equity, Real Estate, and Infrastructure Consulting Services

Organization and Structure

Meketa Investment Group (“Meketa”) is a pension consulting firm founded in 1978, providing pension consulting services to tax exempt organizations for more than 40 years. The firm is a corporation privately owned by senior professionals who are all active in the firm.

Meketa has two subsidiaries: Meketa Investments London Ltd., which provides research support services to Meketa Investment Group’s business, and Meketa Fiduciary Management, LLC, an entity through which our firm provides additional discretionary investment advisory services. On March 15, 2019, Meketa announced the completion of the merger of Meketa Investment Group and Pension consulting Alliance (PCA).

Currently, Meketa does not have any planned changes to their organization. Meketa has six U.S. offices and one office located in the United Kingdom. Meketa is comprised of over 180 staff, including consultants, investment analysts, performance analysts, MIS/IT professionals, marketing professionals, corporate, and administrative personnel. The firm maintains a low client-to-consultant ratio with a built-in back-up function for effective and efficient client service.

Meketa has advised clients in private markets since 2000 with client commitments over \$30 billion to various private market funds across the spectrum of asset classes both domestically and internationally, including Private Equity, Natural Resources, Private Debt, Infrastructure, and Real Estate. Meketa has dedicated private market teams to analyze and consult on individual strategies including Private Equity, Infrastructure, Private Debt, Natural Resources, and Real Estate, employing professionals with industry-specific and direct investment experience.

Meketa is registered as an Investment Advisor with the SEC. Meketa is an ERISA fiduciary. Meketa does not have relationships with asset managers, affiliations with brokerage firms, or broker-dealer relationships.

Meketa’s line of business and contribution to their organization’s total revenue for the past three years is as follows:

Lines of Business	2016	2017	2018	2019 est.
General Pension Consulting	98%	98%	98%	98%
Other Consulting Services	2%	2%	2%	2%
Other	0%	0%	0%	0%

Experience and Depth

Meketa has served as a provider of custom solutions and unique ideas to clients since the inception of the firm over 40 years ago and has operated as an independent fiduciary throughout the firm’s history. Meketa has advised clients in private markets since 2000 with client commitments greater than \$30 billion. Meketa has a strong commitment to original research and development and utilizes dedicated private market teams to analyze and consult on individual strategies. Meketa currently creates over 200 custom indices for clients, and track over 600 indices. Meketa has provided Private Market consulting to CalPERS’ Board for over 10 years. Meketa maintains a low client to consultant ration (5 to 1). The Managing Principals average 20 years at the firm; Principals average 13 years at the firm; and Consultants average 10 years at the firm.

Meketa’s annual client retention rate has been 98% over the last 10 years. Meketa currently consults on \$1 trillion for 75 public fund clients.

Meketa has been providing Defined Contribution services since 1990 and currently advises on more than \$45 billion in assets for 60 Defined Contribution retirement plans ranging in size from less than \$1 million to \$28 billion. Additionally, Meketa advise on approximately \$70 billion in assets for 9 Defined Contribution 529 and ABLE plans. Meketa performs plan investment selection and monitoring, and make recommendations as to retention and, if necessary, replacement of investment managers and service providers for defined contribution clients, including both 401(k), 403(b), and 457 plans.

Conflicts and Disclosures

Meketa does not foresee any conflicts of interest. Meketa did not report any disciplinary action on the SEC ADV disclosure, which was included in the RFP response.

Environment, Social and Governance

Meketa has a dedicated ESG Committee.

Services

Meketa maintains a specialized Private Markets team that includes dedicated investment due diligence professionals, along with operational, legal, and administrative support. While originating with Private Equity, Meketa Investment Group today has separate teams for Private Debt, Infrastructure, Natural Resources/Timber, and Real Estate with each team comprised of full-time investment analysts and members of their Private Markets Investment Committee. These teams seek out and evaluate the highest quality managers in their sector. The teams are cross-fertilized to ensure consistency and adherence to best practices.