



Investment Committee

Agenda Item 7a

March 14, 2022

Item Name: Selection of Private Debt Board Consultant

Program: Investment Office

Item Type: Action

Recommendation

Approve Wilshire Advisors LLC “Wilshire” or Meketa Investment Group, Inc. “Meketa” as the Board of Administration’s Private Debt Board Consultant.

Executive Summary

As a result of the Board approved Strategic Asset Allocation, and the resulting addition of the Private Debt Asset Class, the Board’s current practice is to have independent investment consulting services for each private asset class. The Private Debt Board Consultant will assume duties in alignment with the other Private Asset Class Consulting services (Private Equity, Real Assets and Infrastructure) which include, but are not limited to, attending all Board of Administration Investment Committee meetings, preparing comprehensive investment analysis and providing asset class specific advice to the Board of Administration. With the Board’s concurrence, the Private Debt Board Consultant should be in place by July 1, 2022. As the Private Debt consulting services are aligned with work already being performed by both Wilshire and Meketa, the most efficient option is to award this new work to one of your existing vendors.

Strategic Plan

The addition of a Private Debt Board Consultant supports the CalPERS Strategic Plan goals of “Risk Management” and “Fund Sustainability.” A Private Debt Board Consultant will assist the Board of Administration in identifying and managing the risks of the Private Debt Asset Class while also identifying the strengths and benefits of investing in Private Debt to support fund sustainability.

Investment Beliefs

The Private Debt Asset Class reinforces the CalPERS Investment Beliefs Number 6: Strategic asset allocation is the dominant determinant of portfolio risk and return and Number 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it. The addition of the

Private Debt Asset Class strengthens the strategic asset allocation of the CalPERS portfolio. A Private Debt Board Consultant will provide guidance and recommendations to the Board regarding the risk and return of the asset class as it relates to the overall CalPERS portfolio.

Background

Wilshire and Meketa are both capable firms and should be considered for the Private Debt Board Consultant role. Both have experienced teams with backgrounds in performing private debt consulting work. Due to current time constraints, other procurement methods such as a Request for Proposal are not feasible.

Analysis

Meketa is the current Private Equity, Real Assets, and Infrastructure Board Consultant. Meketa has a Private Credit Team that would be dedicated to the Board, if chosen as the Private Debt Board Consultant. CalPERS would engage with Meketa through a Letter of Engagement via the Investment Office's Spring Fed Pool. Meketa's proposed cost for this work is \$425,000 per year.

Wilshire is the General Pension Board Consult. Wilshire is also performing consulting services for the CalPERS Opportunistic Strategies Group which currently includes Private Debt. Contracting with Wilshire for the Private Debt Board Consultant work would require an amendment to their current 213 contract. Wilshire's proposed cost for this work is \$250,000 per year.

Both Meketa and Wilshire's current contracts were procured through the Board Investment Consultant Request for Proposal (RFP). The RFP had prohibited the General Pension Board Consultant from also performing Private Asset Class work although Private Debt was not originally included in the RFP. If the Board desires, it may make sense under the current circumstances, given the time constraints and for the reasons stated above, to allow Wilshire to be considered as an option for the Private Debt Board Consultant position.

Budget and Fiscal Impacts

The proposed annual costs of implementing a Private Debt Board Consultant are \$250,000 if contracting with Wilshire or \$425,000 if contracting with Meketa. The costs would be absorbed through the Investment Office's current budgetary resources.

Benefits and Risks

Procuring a Private Debt Board Consultant has the following benefits and risks:

- A Private Debt Board Consultant supports the CalPERS Strategic Plan's "Risk Management" and "Fund Sustainability" initiatives.
- It also fosters Investment Beliefs Numbers 6 and 7 as the Private Debt Board Consultant will provide guidance and recommendations regarding the risks and return of the asset class.
- Given the time constraints to procure a consultant by July 1, 2022 both Wilshire and Meketa are viable options as the Board's Private Debt Consultant. Both have experienced teams that would provide dedicated consulting advice to the Board.

Wilshire is currently providing consultative services to the Opportunistic Strategies Group which includes Private Debt.

- Wilshire's proposed annual consulting costs are \$250,000. Meketa's proposed annual costs are \$425,000.
- The risk of not procuring a Private Debt Board Consultant in a timely manner may result in the Board having limited information and analysis around the risk and benefits of the Private Debt Asset Class as it relates to the overall CalPERS portfolio.

Attachments

Attachment 1-Proposed Private Debt Board Consultant Scope of Services

Matt Flynn
Investment Director, Investment Servicing Division

Dan Bienvenue
Interim Chief Investment Officer

Attachment 1-Proposed Private Debt (PD) Board Consultant Scope of Services

1. General Services

a. Common Duties

- (i) Maintain a total fund perspective when performing the services of this contract.
- (ii) Provide input on the PD asset class component of the CalPERS investment portfolio, as requested by the Committee.
- (iii) Attend all CalPERS Board of Administration Investment Committee (IC) meetings.
- (iv) Attend CalPERS Board Committees and other sub-committees, as requested.
- (v) Research and make recommendations for use of potential and innovative investment strategies and securities.

b. Research and Analysis

- (i) Prepare comprehensive analysis and provide advice on specific investment issues as requested by the Committee.
- (ii) Prepare and present analysis on current issues as they may pertain to the CalPERS' investment portfolio.

c. Investment Training

- (i) Provide training to the Committee on investment topics covered under this contract.
- (ii) Conduct workshops on specific issues designated by the Committee.

d. Additional Duties or Activities

- (i) Other duties or activities as may be required consistent with and contemplated by the foregoing.

2. Asset Allocation

a. Participate in the periodic Asset Liability Management (ALM) review by providing the following services:

- (i) Support the General Pension Investment Board Consultant's work to define the market opportunity set and asset classes relevant to CalPERS, provide perspective regarding the benchmark used for PD, and provide

perspective on capital market assumptions used in the ALM modeling process.

3. Risk Management

- a. Review and provide opinions to the Board on the risk characteristics and the risk profile of the PD program, including analysis relative to peers.

4. Performance

- a. Review and provide written opinions of custom PD benchmarks, as requested by the Board.
- b. Report on the investment performance of the PD program and provide an analysis of CalPERS investment performance compared to CalPERS Peer Universe. The analysis should include recommendations and justifications for recommendations on any issues in the analysis that would hinder the Board's ability to meet CalPERS long-term investment objectives.
- c. Analyze for reasonableness the benchmarks, measurements, and appropriateness of all factors within PD program Staff performance plans, compared to industry peers.
- d. Validate year-end, quantitative measurements on PD program Staff performance plans.
- e. Assist the Committee in establishing appropriate performance benchmarks for PD in the context of the total CalPERS fund.
- f. Using the Performance reports produced by the CalPERS Master Custodian, prepare and present a semi-annual evaluation report on the performance of CalPERS' PD program including a comparison with the performance of other peer organizations.
- g. Provide CalPERS with semi-annual performance analysis on how the attribution of the PD program versus the Total Fund.
- h. Provide CalPERS with semi-annual performance reports of theoretical portfolios, i.e., market indices, benchmarks, and composite total fund portfolio.
- i. Present semi-annual performance reports to the Investment Committee of the Board.
- j. Advise the CalPERS Compensation Committee investment incentive measures and objectives for the PD team members.

5. Investment Policy Review

- a. Monitor and review how Staff is adhering to the PD Program Policy.
- b. Review, analyze, and provide an independent recommendation on PD Program Investment Policies, Investment Policy and Procedures Guidelines (IPPG), as proposed by Staff, outside advisors, or specialty consultants. The review and recommendation should ensure that the Policies:
 - (i) Meet industry standards,
 - (ii) Are consistent with other Policies,
 - (iii) Use best practices,
 - (iv) Align with CalPERS Investment Beliefs,
 - (v) Reflect the Board's accepted risk tolerance, and
 - (vi) Assist the Board in meeting the long-term investment objectives of CalPERS.
- c. Provide written recommendations for amendments and/or modifications to any Policy, including IPPGs related to the Policy and provide detailed justification for recommendations.
- d. Prepare and present reports and recommendations for reviewing and updating Policy criteria and objectives which include strategies for private asset classes/programs.
- e. Contractor shall provide a review of the CalPERS PD Investment Policy, portfolio mix/asset allocation, and investment strategy relative to changes in the capital markets.

6. External Manager Review

- a. Review and provide an opinion on the process used to identify and source external managers, as requested by the Board.
- b. Provide advice to the Board on questions or issues that arise in the course of administering the external manager programs on strategic issues related to structure policy, and benchmarks.
- c. Review and opine on investment management fees and related expenses as requested by the Board.

7. Backup to the General Pension Investment Board Consultant Services

If directed by the Board the contractor shall provide consulting services in connection with the General Pension Investment Board Consultant contract and engagement as follows:

- a. Maintain general availability to meet the needs of the CalPERS Board of Administration Investment Committee (Committee) and Staff, including but not limited to, attending regular Committee meetings, and meetings with the Committee chair and/or vice-chair to discuss and prepare for Committee meetings.
- b. Provide written second opinions to those issued by the General Pension Investment Board as requested by the Committee.
- c. Provide independent analyses and recommendations on asset allocation strategies, investment policies, Investment Office programs, industry trends and views, general investment portfolio management, asset and sector performance and attribution assignments, and investment risk assessment, or other analyses, as requested by the Committee.
- d. Provide other consulting services which may include recommendations, opinions and/or advice on an issue relevant to the prudent management of the System, as requested by the Board.
- e. Prepare for, attend, and participate in Committee workshops as requested by the Committee for the Asset Allocation and Liability Workshop, assist in the development of assumptions, review and comment on materials, and participate in all pre-meetings.

8. Special Projects

- a. CalPERS Board may request special projects related to the services listed in this section. CalPERS must approve in writing, in advance, any services performed under the Board Investment Consultant Agreements, as Special Projects. Hourly rates specified in the Special Projects table are inclusive of all travel, travel time, food and all other expenses incurred by Consultant while performing services under the Agreement.