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CalPERS grapples with its inconsistent reputation on private equity

Staff and consultants say the $323bn fund is losing investment opportunities with potential partners who see it as a difficult and unpredictable investor

Dietrich Knauth | 19 Jul 2017

The $323bn California Public Employees' Retirement System (**CalPERS**) is taking a hard look at its reputation in the private equity world, hearing from expert panelists and internal staffers who describe the pension giant as an indecisive and unpredictable partner in private equity investments.

The pension fund is in the midst of a long-term review of its private equity strategy, which offers a chance for the board to "hear the best advice" and "clear our minds," CIO **Ted Eliopoulous** said at the fund's July 17 meeting. CalPERS has the scale and the expertise to be a real leader in private equity, Eliopoulos said, but a major hurdle is getting the board and staff to commit to a clear strategy for the asset class, something that's been hindered by internal disagreements and staff turnover.

"We've wrestled with how to pursue alternative ways to invest in private equity," Eliopoulos said. "We've always come up to the finish line and stopped short of really moving forward in any particular way with any scale

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or force behind it."

Mario Gianni, CEO of **Hamilton Lane**, agreed with that assessment during a panel discussion before the board. Gianni supported CalPERS' efforts to move into more aggressive private equity investments, including co-investments with general partners and direct investing through a potential new CalPERS-owned company, but said that the fund has always been hampered by indecision while other institutional investors move ahead on similar plans.

"When you look at the list of things that CalPERS has done in the past, you've tried everything, you've done everything, you've talked about everything," Gianni said. "And I think one of the problems is, you haven't followed through on anything. You've got to decide what are you willing to follow through on, as a strategic matter."

CalPERS' brand is a mixed blessing in the private equity space, said CalPERS investment director **John Cole**. Its high profile means that CalPERS, which never has to fight for potential partners' attention, has the opportunity to make big investments and be innovative, Cole said. But at the same time, CalPERS faces additional pressure from media headlines and its own reputation as being a wishy-washy partner, he added.

"On the other hand, our brand is a weakness, because we are often judged to be difficult to work with, often unpredictable in our commitments, inconsistent in our messaging to partners, and questioned about our ability to make timely decisions, all of which has contributed to CalPERS being excluded or curtailed from investment opportunities with a number of very successful potential partners," Cole said.

Size similarly works both for and against CalPERS. The fund's spending power opens opportunities that other pension plans don't have, but it often finds itself in a position of weakness because it is pressured to spend lots of money all the time, without as much leverage to negotiate in the current seller's market for private equity expertise, Cole said.

Staff turnover has been a major factor in CalPERS' reputational woes, Gianni said.

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"It's a killer," Gianni said. "It's just a killer, because you lose the continuity around what you've done. The new staff comes in and, its human nature, you throw out the old. …What you see as a common denominator of institutions that do private assets, private equity well, is continuity. Whether it is driven by the board, driven by the staff, that really is one of the key features of a successful program."

The private equity review gives CalPERS an opportunity to improve its brand, to be clearer about its strategy, more timely in its decision making, more focused on long-term outcomes, and better aligned with investment partners' goals, Cole said. The fund could look to leverage strengths related to its long-term outlook, such as by investing in longer-term funds or through direct ownership of large companies, and its position in California, which presents good opportunities for venture capital and infrastructure investments, he added.

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