Attachment 4

MEMORANDUM

To: Members of the Investment Committee
California Public Employees' Retirement System

Date: May 16, 2011

From: Pension Consulting Alliance, Inc. (PCA)

RE: Delegation of Authority – Real Estate

As the Real Estate Consultant to the Board, PCA has reviewed the proposed modifications to the Real Estate Delegation Resolution. The changes are precipitated by the approval of the new Strategic Plan for Real Estate and corresponding changes to investment policy for real estate.

The proposed changes to the Resolution significantly increase Staff's discretion to make new investment decisions without the approval of the Investment Committee or review and comment by the Board Consultant. It is important to note that the current delegation resolution, which was modified in June 2009, significantly reduced Staff's delegated authority.

The proposed increased delegated authority will aid the Staff in its efforts to implement the new strategic plan by allowing staff to enter new relationships for the new components of the real estate program. Importantly, after discussion with PCA, "hard cap" dollar limits have been added to complement the "dynamic" percentage limits for the individual transaction and annual limit portions of the delegated authority. PCA believes an annual hard cap limit is a sound risk mitigation procedure insofar as protecting the System from overinvesting in a cyclical asset class such as real estate at certain points in time, and will tend to mitigate the risk of vintage year and/or individual manager concentrations.

PCA also notes that Staff will be working with colleagues across the Investment Office to harmonize the delegated authority across all private asset classes, including AIM. There are certain items that PCA wishes to highlight to the Investment Committee as discussion points in this subsequent process. These include:

- Moving the relationship exposure limits out of the Delegation Resolution and into policy. PCA believes that it is appropriate to have manager diversification as part of the risk management and mitigation components in the investment policy similar to other exposure limits such as property-type;

- Eliminating debt financings as part of the calculation of amounts and limits pursuant to delegated authority. PCA believes that this factor complicates the delegation resolution

and is already dealt with in the real estate policy limits of Loan-To-Value, Debt Service Coverage Ratio and limits on use of Recourse Debt; and

- Eliminating the “Existing Investments” section of the delegated authority and folding it into the New Investments as “Legacy”.

These components are initial suggestions that will require more study and analysis, not just within real estate, but across the other private asset classes. As such, PCA supports further discussion of these and potentially other items with Staff and Consultants over the coming months in order to streamline the Real Estate Delegation Resolution at the same time as harmonizing it with the other private asset classes.

PCA supports the proposed changes to the Real Estate Delegation Resolution at this point in time in order for the Real Estate Staff to move forward in its implementation of the new Strategic Plan and looks forward to working with Staff to further improve it later this year.

Respectfully,

Paul Mouchakkaa

Managing Director