



Agenda Item 7a

February 18, 2014

ITEM NAME: Revision of the Real Assets Delegation Resolution for Professional Staff

PROGRAM: Real Assets

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Delegation Resolution (Resolution) for the Real Assets Program, Delegation No: 11-01-INV (Attachment 1). The consultant opinion letter from Pension Consulting Alliance Inc. (PCA) is provided as Attachment 2.

EXECUTIVE SUMMARY

Staff recommends increasing the hard dollar caps for new investments in the Annual Delegation Limit for the Real Estate Base Core portfolio from a \$6 billion cap to a \$7 billion cap and the Total Real Estate portfolio from a \$7 billion cap to an \$8 billion cap. The percentage of total program limits for new investments in the Real Estate Base Core and Total Real Estate portfolio would remain in place. The material changes to the Resolution, Attachment 1, can be found on page 18 of 21.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high performing, risk intelligent and innovative organization. The Resolution provides the Senior Investment Officer (SIO) the ability to make innovative investment decisions within a defined risk framework.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 2: A long time investment horizon is a responsibility and an advantage. The long time horizon enables CalPERS to invest in illiquid assets, such as Real Assets.

BACKGROUND

The Resolution was originally effective July 1, 2011 with limits on the Real Assets Program and its components based on a percentage of the Policy Target Amounts, as defined in the Resolution, as well as “not to exceed” hard dollar limits. The value of the Total Fund has grown significantly since 2011 and has resulted in the formula based limits being surpassed by the hard dollar limits. For example, the Total Real Estate Program has a new investment hard dollar cap of \$7 billion or 30% of the Real Estate Program Policy Target. At this time 30% of the Real Estate Program Policy

Target would be about \$8.45 billion. The \$8 billion cap will remain to mitigate potential vintage year exposure.

ANALYSIS

The current dollar cap for new investments for the Real Estate Program could impede staff's ability to act on new investment opportunities and thus restrict the growth of the asset class. Staff requests to increase the Total Real Estate and Base portfolio cap amounts, to allow the Real Assets SIO and the Chief Investment Officer the delegated authority to act on investment opportunities and grow the asset class to its target allocation.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Adopting the proposed changes will align the Resolution with current fund values and CalPERS Statement of Investment Policy for Asset Allocation. These changes will also remove limits that could impede staff's ability to act on investment opportunities and thus restrict the growth of the asset class. There could be increased vintage year exposure in any given year; however, this risk is mitigated by the 30% limit.

ATTACHMENTS

Attachment 1 – Revised Real Assets Delegation Resolution for Professional Staff
Attachment 2 – PCA Opinion Letter

THEODORE ELIOPOULOS
Acting Chief Investment Officer