



Agenda Item 10a

December 14, 2015

ITEM NAME: Proposed Revision to the Real Assets Policy – First Reading

PROGRAM: Real Assets

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

The Real Assets Policy (Policy) is scheduled for thorough review and revision in conjunction with the development of the 2016 Real Assets Strategic Plan. Pending completion of that revision project, staff proposes to add the included Attachment D (Attachment 1) to the Policy in order to incorporate all of the limits and constraints presently included in the Real Assets Delegation Resolution (Delegation). This will align the Policy with the other investment policies, where limits and constraints included in delegated authority have now been incorporated. Importantly, no changes to authorities or limits have been proposed as an element of this proposed Policy.

The current Policy is included as Attachment 2. Board Consultant Opinion Letters are provided as Attachments 3, 4, and 5. Staff will continue with a thorough review of the Policy in conjunction with the 2016 Real Assets Strategic Plan. Upon completion of the strategic planning effort, it is anticipated that staff will bring the Policy back to the Committee for further revisions, including the formatting and other changes related to the Investment Office's strategic policy revisions initiative.

STRATEGIC PLAN

This item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The revised Policy will aid in ensuring that CalPERS is able to effectively achieve the System's investment objectives through clear and concise investment policy documentation.

BACKGROUND

Investment Policy Development was identified as posing a medium compliance and operational risk during Fiscal Year 2013-2014, and as such became a key initiative of both the 2014-16 Investment Office Roadmap and Target Operating Model (TOM). As part of that initiative, in March 2015, the Committee approved the adoption of the Total Fund Investment Policy while repealing 14 legacy investment policies. The adoption of the new Total Fund Investment Policy allowed for minimizing complexity, improving transparency, and strengthening processes, systems, governance, and controls. The next phase of the Project includes making revisions to the asset class policies to align with the Total Fund Investment Policy to achieve the Project objectives of consolidation, clarity, and standardization.

ANALYSIS

Unlike the Global Equity, Global Fixed Income, and Private Equity policy agenda items presented to the Committee in prior meetings, the Real Assets Policy requires an intermediate step to allow for completion of the 2016 Real Assets strategic planning effort presently underway.

Incorporating intermediate revisions will continue the policy simplification process and align the Policy with the Total Fund Investment Policy by consolidating limits and constraints presently included in the Delegation within the Policy in the form of a new Attachment D. The attachment is drafted in a format that is consistent with the Private Equity limits and constraints tables presented to the Committee in November. This will promote clarity and aid in reducing operational risks by clearly defining the Committee's desires and intentions with respect to staff's role in implementing the Policy. No changes to investment authorities or limits were proposed as an element of this proposed Policy.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance clarity and transparency by consolidating within Attachment D of the Policy the investment limits and constraints currently contained in the Delegation. Approving the requested policy changes will also serve as an effective intermediate step in allowing the overall policy project to continue toward completion while providing a solid foundation for a more thorough policy examination by program staff during the 2016 Real Assets strategic planning process.

Attachments

- Attachment 1 – Proposed Real Assets Policy Attachment D
- Attachment 2 – Current Statement of Investment Policy for Real Assets
- Attachment 3 – Pension Consulting Alliance Opinion Letter – Real Estate
- Attachment 4 – StepStone Group Opinion Letter – Infrastructure
- Attachment 5 – Wilshire Associates Opinion Letter – Forestland

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