



Agenda Item 7a

February 16, 2016

ITEM NAME: Revision of Investment Policy for Real Assets
Second Reading

PROGRAM: Real Assets

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the inclusion of Attachment D within the Investment Policy for Real Assets.

EXECUTIVE SUMMARY

The proposal to include Attachment D as a new component of the Investment Policy for Real Assets (RA Policy) was presented to the Committee as a first reading agenda item in December 2015. The Investment Committee had no comments to proposed Attachment D at that time.

Staff seeks approval to add Attachment D to the RA Policy, in order to consolidate within the Policy the investment limits and constraints that currently appear in the Real Assets Investment Delegation Resolution (Delegation), and set the stage for the eventual realignment of the Investment Office's delegated authorities. Attachment D's sole purpose is to accomplish such consolidation; it does not make any substantive changes to authorities or limits.

Proposed Attachment D is included as Attachment 1. The current RA Policy is included as Attachment 2. Consultant Opinion Letters for Real Estate, Infrastructure, and Forestland are included as Attachments 4-6 respectively.

STRATEGIC PLAN

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

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 9, Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error, and Belief 10, Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

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 the Committee approved the adoption of the Total Fund Investment Policy (Total Fund Policy) while repealing 14 legacy investment policies in March 2015. The adoption of the new Total Fund Policy allowed for minimizing complexity, improving transparency, and strengthening processes, systems, governance, and controls. The subsequent phase of the resulting Investment Policy Revision Project (Project) included making revisions to the asset class policies to align them with the Total Fund Policy to achieve the Project objectives of consolidation, clarity, and standardization.

ANALYSIS

Real Assets staff will perform a comprehensive review of the Policy during the 2016 Real Assets strategic planning effort and present additional recommendations to the Committee upon concluding that work. The proposed addition of Attachment D to the RA Policy is an intermediate step that will create alignment with the Total Fund Policy by consolidating limits and constraints presently included in the Delegation within the RA Policy.

This RA Policy revision, Committee review and approval of the Total Fund Policy revisions (Agenda Item 9a), and Committee review and approval of the Affiliate Fund Investment Policy revisions (Agenda Item 9b), are the final outstanding items required to complete this phase of the Project.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance clarity and transparency by consolidating investment limits and constraints currently contained in the Delegation within Attachment D of the RA Policy. Approving the requested policy changes will also serve as an effective intermediate step in allowing the overall policy project to continue to the next phase while providing a solid foundation for a more thorough examination of the RA Policy 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

PAUL MOUCHAKKAA
Managing Investment Director
Real Assets Unit

WYLIE TOLLETTE
Chief Operating Investment Officer

THEODORE ELIOPOULOS
Chief Investment Officer