



Date: January 19, 2016

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

From: Pension Consulting Alliance, Inc. (PCA)

RE: Proposed Revision of the Real Assets Policy – Attachment D (Second Reading)

The revised Attachment D was created as part of the Investment Policy Revisions Project, which was a key initiative identified in the Investment Office Roadmap for reducing compliance and operational risk levels. The purpose of Attachment D is to capture the limits and constraints portion of the Real Assets Delegation Resolution in the Real Assets Policy, and in so doing, facilitate the broader changes to delegated authority and make the Real Assets Policy consistent with those of other asset classes.

While the efforts to reduce complexity and standardize investment policies are important and should be pursued in Real Assets as with the other asset classes, the proposed Attachment D is problematic for Real Assets. There are 14 pages of limits and constraints in the Delegation Resolution that govern Real Assets. Attachment D attempts to distill into a single table the very complex set of limits and constraints that guide CalPERS' real estate investment program. As a result, there exists the risk that the limits and constraints as presented in Attachment D could be interpreted and applied in a manner different from the manner in which they have historically been interpreted and applied using the extensive language in the existing Delegation Resolution.

This risk will persist for the period between adoption of Attachment D and the more comprehensive revision of the Real Assets Policy that will follow later this year. This risk is likely manageable over this short time period and is offset over the longer term by continued progress toward simplified and better aligned delegated authority and policy documents that will be produced for Real Assets following the Real Assets Strategic Plan update.

PCA will continue to work with Staff on the 2016 Real Assets Strategic Plan and ensuing Real Assets Policy revision.



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