
April 18, 2016

Item Name: Real Assets Strategic Plan

Program: Real Assets

Item Type: Action

Recommendation

Staff recommends the Investment Committee approve the 2016 Real Assets Strategic Plan (RA Plan).

Executive Summary

As defined by CalPERS Asset Allocation, Real Assets' role within the CalPERS Total Fund portfolio is to provide: 1) stable and predictable cash yield; 2) diversification of equity risk; and 3) inflation protection. The RA Plan seeks to align with CalPERS Vision 2020 and Asset Liability Management. Additionally, the RA Plan harmonizes the Real Estate, Infrastructure, and Forestland programs in one strategy. Specifically, the RA Plan aims to reduce complexity, risk, and costs by improving asset class level parameters and standardizing Real Assets nomenclature. The overall investment strategy remains substantially unchanged and is consistent with the previous strategic plan.

Strategic Plan

The RA Plan supports CalPERS' overall goal of improving long-term pension and health benefit sustainability.

Investment Beliefs

This agenda item supports the following Beliefs:

- Investment Belief 1 – Liabilities must influence the asset structure
- Investment Belief 2 – A long time investment horizon is a responsibility and an advantage
- Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical and human
- Investment Belief 10 – Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Background

As required by the Real Assets Investment Policy, staff shall develop and present to the Investment Committee (IC) a new strategic plan at a minimum of every five years. The IC approved the strategic plans for Real Estate and Infrastructure in 2011.

Staff worked closely with the Board Consultants from each of the three programs, market participants, industry leaders, strategic partners, the Investment Strategy Group (ISG), and other stakeholders over the past several months to complete the proposed RA Plan.

Analysis

As discussed in the 2011 strategic plans, Real Assets will continue to acquire and invest in private equity interests of assets. Key components of the Real Assets strategy include risk level, geographic focus, leverage, and business models. All assets within the Real Assets Portfolio will be classified into three risk categories: core, value-add, or opportunistic. The portfolio will be focused on core, high quality assets (75-90%). Geographically, 70-100% of the Portfolio will be focused in the U.S. and 0-30% focused in international developed and emerging markets. Moderate leverage will be used across the Portfolio. Real Estate will seek to implement a pilot unleveraged mandate which may have debt added and managed internally by staff at the Total Fund or Real Assets Level. Implementation of ESG goals, Emerging Manager and Transitional Manager programs will also continue.

Additions and modifications to the RA Plan are largely portfolio hierarchy updates that will be consistent across the three programs unifying the asset class. Details on the updated hierarchy are within Attachment 1. Ongoing planning within the current fiscal year is required including revisions to Real Assets Policy and Delegated Authority, while implementation is expected in the 2017-18 fiscal year and beyond.

Budget and Fiscal Impacts

At this time there are no anticipated impacts.

Benefits and Risks

The proposed RA Plan aims to benefit the Asset Class and Investment Office by:

- Reducing Complexity
- Reducing Risk
- Reducing Costs
- Increasing Transparency

Attachments

Attachment 1 – Real Assets Strategic Plan

Attachment 2 – Pension Consulting Alliance Opinion Letter – Real Estate

Attachment 3 – StepStone Group Opinion Letter – Infrastructure

Attachment 4 – Wilshire Associates Opinion Letter – Forestland

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