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**June 13, 2016****Item Name:** Revision of Real Assets Policies – First Reading**Program:** Real Assets**Item Type:** Information**Executive Summary**

The purpose of this item is to provide the Investment Committee (Committee) the proposed revisions to the Real Assets Program Investment Policy (Policy) for Committee consideration and direction. These revisions represent the final step in aligning the asset class policies with the Total Fund Investment Policy (Total Fund Policy).

Staff is presenting the revised Policy (Attachment 1) together with the current policy (Attachment 2) for comparison purposes. Opinion Letters from each Real Assets board consultant responding to the proposed revisions are provided as Attachments 3-5.

**Strategic Plan**

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policy will ensure that CalPERS is able to effectively achieve its investment objectives through clear and current investment policy documentation.

**Background**

Investment policy development was identified as posing a medium compliance and operational risk during Fiscal Year 2013-14, and as a result, the Investment Policy Revision Project (Project) became a key Investment Office Roadmap Initiative for 2014-16. In March 2015, the Committee approved the adoption of the Total Fund Policy as part of the plan to minimize complexity, improve transparency, and strengthen processes, systems, governance, and controls. The next phase of the Project was to align each individual program investment policy with the new framework of the Total Fund Policy in furtherance of the Project's objective of consolidation, clarity, and standardization. The alignment of the Policy for Real Assets was deferred until the Committee could review and approve the new strategic plan for Real Assets. With the approval of the Real Assets strategic plan this past April, staff is bringing these proposed policy revisions forward.

**Analysis**

Incorporating these revisions will continue the policy simplification process while aligning the Policy with the Total Fund Policy, eliminating procedural or duplicative language, consolidating CalPERS specific terms within the Glossary, and reducing operational risks by more clearly defining the Committee's desires and intentions with respect to staff's role in implementing the Policy.

Specifically, the revised Policy:

- Retained (1) requirements that the Committee conduct, set, approve, or oversee an activity, (2) the testable components of policy (such as investment limits, exposure ranges, and prohibited actions or investments), and (3) periodic reporting to the Committee;
- Incorporated elements of the Real Assets strategic plan approved by the Committee on April 18, 2016;
- Moved to Policy Procedures procedural elements designed to implement the policy objectives, which Policy Procedures are subject to an internal staff governance process overseeing changes, including periodic testing by Investment Compliance and Operational Risk and review by the applicable board investment consultant;
- Utilized the revised Total Fund Policy template format to better organize policy content and centralize testable elements within appendices to clarify responsibilities and reduce the potential for operational risk events;
- Removed from the Policy the language that staff identified as duplicative, aspirational, or editorial in nature; and
- Updated the Introduction section to correspond with changes that were previously incorporated into the Global Equity, Fixed Income, and Private Equity Program Policies resulting from prior direction from the Committee.

Real Assets Staff Authority Limits in Appendix 3 were revised to:

- Incorporate elements of the recently approved Real Assets strategic plan such as the elimination of Real Estate sub portfolios as well as the elimination of Infrastructure specific risk categories;
- Reduce complexity by removing authority to invest in debt, and providing consistency in approach across Real Estate, Infrastructure, and Forestland investments; and
- Increase individual staff authority transaction limits due to stricter constraints placed on key overall policy risk parameters such as risk category, leverage, and geography. Overall, these constraints are intended to create a lower risk portfolio.

Following Committee approval of the Real Assets Policy, Staff will require approximately 6-12 months to update systems and processes in order to implement the new Strategic Plan and Policy changes. Reporting on Policy compliance will be effective post implementation.

### **Budget and Fiscal Impacts**

Not applicable.

**Benefits and Risks**

Approving the requested policy changes will enhance the transparency of investment processes and strategy. The risks of not approving this policy include lack of clarity and direction to staff as they implement the various investment programs, thereby increasing the risks of missed opportunities and failure to comply with the Committee's policy directives.

**Attachments**

Attachment 1 – Proposed Real Assets Program Policy

Attachment 2 – Current Real Assets Program Policy

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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