
August 15, 2016**Item Name:** Revision of Real Assets Policies – Second Reading**Program:** Real Assets**Item Type:** Action**Recommendation**

Approve the revised Real Assets Program Investment Policy.

Executive Summary

The Real Assets Program Investment Policy (Policy) was presented to the Investment Committee (Committee) for a first reading on June 13, 2016. The revised Policy includes the following changes since the first reading to promote greater clarity:

- Non-substantive, clarifying edits were made to the Staff Authority Limits table in Appendix 3, Investment Constraints/Limitations.
- Also in Appendix 3, more specificity was added to the section on Partner Relationship Exposure limits as applied to investments with no external manager.

The above changes are denoted by track changes within Attachment 1. Staff seeks approval of the Policy to align it with the Total Fund Investment Policy (Total Fund Policy) and to simplify the Policy through the removal of procedures.

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.

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 2013-14, 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.

Following the Committee's approval of the 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

As noted above, approving the requested policy changes will minimize complexity, enhance the transparency of investment processes and strategy, and strengthen processes, systems, governance, and controls. Staff does not perceive any risks posed by the adoption of the revised Policy. 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

Paul Mouchakkaa
Managing Investment Director

Wylie Tollette
Chief Operating Investment Officer

Katherine H. Crocker
Investment Director