

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
REAL ESTATE – ACCOUNTING**

**July 22, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Real Estate – Accounting policies.*

**I. PURPOSE**

The California Public Employees' Retirement System ("CalPERS") Investment Beliefs Policy and Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for Real Estate Accounting. The design of this Policy ensures that investors, managers, consultants, and other participants, collectively referred to as "Stakeholders", selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of the Policy assures sufficient flexibility in managing investment risks and returns.

**II. STRATEGIC OBJECTIVE**

The Policy shall be managed to accomplish the following:

- A. Accurately calculate and report fair market values of CalPERS owned assets and ownership interests within all Real Estate classifications and types.
- B. Accurately calculate and report time-weighted returns for the CalPERS Real Estate Portfolio at the portfolio, sector and individual partnership level.
- C. Maintain independence and objectivity in the presentation and reporting of financial information. Report and calculate return, net asset value and other pertinent financial information in a transparent fashion such that risks and liabilities are adequately disclosed to investors, the CalPERS Board and other stakeholders.

- D. ~~Maintain accounting and reporting procedures uniformly for all Real Estate assets, based on the standards adopted by the National Council of Real Estate Investment Fiduciaries (“NCREIF”) which include Generally Accepted Accounting Principles (“GAAP”) as promulgated in the United States by the Financial Accounting Standards Board (“FASB”), and Real Estate Investment Standards (“REIS”) when appropriate.~~
- E. ~~Recognize and incorporate any relevant standards that affect the reporting of Real Estate Assets and related liabilities promulgated by FASB including, but not limited to, FAS 141R, 144, 157 and 159.~~
- F. ~~Incorporate additional accounting and reporting guidance provided by, but not limited to, the following organizations and standards:~~
  - 1. ~~International Accounting Standards Board (“IASB”) International Financial Reporting Standards (“IFRS”).~~
  - 2. ~~CFA Institute Global Investment Performance Standards (“GIPS”).~~
- G. ~~Regularly monitor the ongoing convergence of domestic, international and global accounting and reporting guidelines and incorporate the appropriate procedures into the Policy.~~
- H. ~~Report quarterly the Net Assets at Fair Market Value and time weighted returns of CalPERS ownership interests in Real Estate Assets with consistency and transparency to ensure compliance with accounting and reporting regulations, standards and guidelines.~~

### **III. ~~RESPONSIBILITIES~~**

- A. ~~CalPERS Investment Staff (“Staff”) is responsible for the following:~~
  - 1. ~~Review investment partners’ GAAP and/or IFRS prepared financial statements for accuracy.~~
  - 2. ~~Perform all aspects of performance calculation and measurement for the CalPERS Real Estate portfolio. Calculate and report time-weighted returns at the portfolio, sector and individual partnership level.~~
  - 3. ~~Prepare the Quarterly Performance Report (“QPR”). The QPR is a comprehensive report which discloses the Net Assets at Fair Market Value, time-weighted returns, and other performance-related financial information pertaining to CalPERS ownership interests in Real Estate.~~

- ~~4. As required by the Statement of Investment Policy Appraisal of CalPERS Real Estate Interests, Staff contracts with independent real estate appraisal firms to appraise real estate assets annually. Staff verifies that these independently appraised values are reflected in the investment partners' financial statements and in the Net Assets at Fair Market Value stated in the QPR when the statements contain the necessary level of details.~~
  - ~~5. Compare and display performance relative to the appropriate benchmarks established for each asset type.~~
  - ~~6. Monitor the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and the corrective actions taken.~~
- ~~B. The CalPERS Real Estate Consultant ("Real Estate Consultant") is responsible for the following:~~
- ~~1. Review the reconciliation statements to ensure that the financial data has been appropriately entered into the database until such time as the AREIS system obviates the need for this function. Provide oversight to Staff for the performance reporting process.~~
  - ~~2. Review and comment on the QPR in final form.~~
- ~~C. CalPERS Investment Partners are responsible for the following:~~
- ~~1. Prepare and submit GAAP-compliant financial statements in the format required by CalPERS on a quarterly basis.~~
  - ~~2. Prepare and submit audited GAAP financial statements in the format required by CalPERS on an annual basis.~~
  - ~~3. Prepare and submit any other information to CalPERS that is required to ensure the accuracy of the reported financial data.~~

**IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

Financial accounting and reporting for the CalPERS Real Estate portfolio must be completed in compliance with:

- A. GAAP as promulgated in the United States by FASB.
- B. Specific Real Estate Industry standards such as the REIS standards, promulgated by NGREIF.

**V. INVESTMENT APPROACHES AND PARAMETERS**

Specific operational accounting requirements are maintained in Staff's Equity Real Estate Accounting Procedures Manual.

**VI. CALCULATIONS AND COMPUTATIONS**

Not applicable

**VII. GLOSSARY OF CALPERS SPECIFIC TERMS**

*Italicized* terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Terms.

**Equity Real Estate – Accounting**

Approved by the Policy Subcommittee	April 24, 1998
Adopted by the Investment Committee	June 15, 1998

**Name changed to Real Estate – Accounting**

Revised by the Policy Subcommittee	June 15, 2009
Approved by the Investment Committee	August 17, 2009

Administrative changes to update template language and align quarterly performance reports with current CIO reporting format	April 9, 2014
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Administrative changes to reflect the Policy Glossary of Terms Update Project	July 22, 2014
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