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**February 12, 2018**

**Item Name:** Revision of the Real Assets Program Policy – First Reading

**Program:** Real Assets

**Item Type:** Information

**Executive Summary**

Staff seeks feedback from the Investment Committee on proposed changes to the Real Assets Program Policy (Policy).

Attachments 1 and 2 provide “clean” and “mark-up” versions of the proposed Policy with staff’s recommended changes. Opinion letters from the Board Investment Consultants associated with the Real Assets Program are provided as Attachments 3 through 5.

**Strategic Plan**

This item does not directly support the CalPERS 2017-22 Strategic Plan. The proposed revisions, as part of a clear and actionable policy framework, will contribute to the effective management and oversight of investment activities.

**Investment Beliefs**

This agenda item supports CalPERS Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

**Background**

*2014 Investment Policy Revision Project*

The 2014 Investment Policy Revision Project (Project) was a multi-year effort to review CalPERS’ statements of investment policy and implement changes to:

- Increase consistency and reduce complexity
- Improve transparency
- Strengthen governance and controls

In the course of the Project a new policy template was adopted, and a new level of Investment Office governance documentation was developed, the Investment-Policy Procedures and Guidelines (IPPGs). The IPPGs were established to capture procedural-type content that had previously been included in investment policies.

### *2016 Adoption of Real Assets Strategic Plan and Revised Policy*

In April 2016 the Investment Committee approved a new strategic plan for the Real Assets Program. Following adoption of the new plan, staff returned to the Investment Committee with a series of agenda items with proposals to align the policy language with the new strategic plan.

In August of 2016 the Investment Committee conditionally approved a revised Policy, pending staff's finalization of the Real Assets IPPGs through a collaborative process with the Board's Investment Consultants. The Real Assets IPPGs were finalized in December 2016, and the new Policy was effective January 1, 2017.

### **Analysis**

The revised Policy has been in effect for approximately one year. Since implementation relatively few items have been identified for potential revision. Staff's proposed changes are primarily "clean-up" in nature. The most notable proposals are to add language:

1. Establishing a minimum net-asset-value (NAV) threshold at which the sector and geographical concentration limits apply for the Forestland portfolio, similar to what was already established for the Infrastructure portfolio, and
2. Clarifying that fiscal-year commitment limits apply to commitments undertaken within the Real Assets Managing Investment Director's delegated authority.

### **Budget and Fiscal Impacts**

Not Applicable.

### **Benefits and Risks**

#### *Benefits*

The proposed changes are anticipated to add clarity, and appropriately acknowledge the sizing and concentration limit issues associated with the Forestland portfolio. The proposal is similar to how those same considerations were addressed for the Infrastructure portfolio when the revised policy was affirmed in 2016.

#### *Risks*

No risks have been identified for the proposed changes.

### **Attachments**

Attachment 1 – Revised Real Assets Program Policy – Clean Version

Attachment 2 – Revised Real Assets Program Policy – Mark-up Version

Attachment 3 – Board Investment Consultant Opinion Letter – Pension Consulting Alliance

Attachment 4 – Board Investment Consultant Opinion Letter – Meketa Investment Group

Attachment 5 – Board Investment Consultant Opinion Letter – Wilshire Associates

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