



M E K E T A I N V E S T M E N T G R O U P

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May 2, 2018

Mr. Henry Jones
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

RE: REVISION OF THE TOTAL FUND INVESTMENT POLICY - FIRST READING

Dear Mr. Jones:

Meketa Investment Group ("Meketa") has been asked in its capacity as Board Consultant for the Private Equity Program and the Infrastructure Program (collectively, the "Programs") to opine on the revisions of the CalPERS' Total Fund Investment Policy (the "Policy") submitted to the Investment Committee for a first reading on May 14, 2018. The revisions to the Policy are described in Item 6a. The proposed revisions are to reflect the changes related to the 2018 Governance & Sustainability Principles Review as well as to reflect organization changes, and provide clarity and consistency within the Policy.

Given our role with CalPERS as Private Equity and Infrastructure Board Consultants, we focused our review and comments on the provisions related to the Private Asset Classes. In Appendix 2, Investment Responsibilities, we note two changes to the Private Asset Class Board Investment Consultant responsibilities:

Direct Investment has been added as a Transaction Type. Previously, the responsibilities for Direct Investment were categorized within the Customized Investment Account. By adding Direct Investment as a transaction type, it is more visible and clear. The proposed Policy still requires a Prudent Person Opinion for Direct Investments, and we note it is in-line with requirements in the Real Assets Program.

Replacement of "Customized Investment Account" with "Separate Account". The CalPERS Glossary defines a Customized Investment Account as "an investment structure ... with a firm that has distinct investment expertise ... and has demonstrated the ability to provide top-quartile returns." Separate Account is a more generalized term and can mean any segregated investment vehicle with a manager regardless of expertise or historical performance. Additionally, the Separate Account may or may not invest alongside other similarly structured funds.

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By replacing "Customized Investment Account" with "Separate Account" (a generic term), Staff has additional flexibility in making a commitment to a preferred vehicle structure.

- The Board may wish to consider requiring a Prudent Person opinion for a Separate Account, particularly larger ones. This would be in-line with requirements for larger Real Assets investments.

The proposed Policy includes a number of revisions that generally clarify roles and responsibilities and align the Policy with Board directives. Meketa believes the proposed revisions are in line with CalPERS' Investment Beliefs, in particular Investment Beliefs 1, 2, 5, 6, 7, and 10.

Please do not hesitate to contact us if you have questions.

Sincerely,



Stephen McCourt
Managing Principal



Steven Hartt
Principal

SPM/SKH/mps