



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

BOSTON MA
CHICAGO IL
MIAMI FL
PORTLAND OR
SAN DIEGO CA
LONDON UK

September 24, 2018

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

**RE: REVISION OF THE INVESTMENT POLICY FOR REAL ASSETS PROGRAM –
FIRST READING**

Dear Mr. Jones:

Meketa Investment Group (“Meketa”) has been asked in its capacity as Board Infrastructure Investment Consultant to opine on proposed revisions to the CalPERS’ Investment Policy for Real Assets Program (the “RA Policy”), submitted to the Investment Committee for a first reading on September 24, 2018. The revisions to the Policy are described in Item 8a.

Staff characterizes the proposed changes as ongoing content refinement (clarification, removal of redundant information, etc.) and revision of legacy content to be consistent with recent business process updates and refinements.

- Meketa agrees the proposed changes enhance clarity and consistency.

Below we highlight and comment on the three proposed changes that are substantive in our view.

Investment Approaches & Parameters, Infrastructure and Forestland (page 2): The proposed revision adds that “leverage” is one of the Key Policy Parameters, along with existing references to risk classification and geographic region, that will apply to these two portfolios only when they exceed their specified NAV thresholds (\$5 billion and \$3 billion, respectively).

- This change is consistent with the previously existing thresholds, and compliance with leverage parameters will still be measured at the Real Assets Program level, inclusive of the infrastructure and forestland NAVs.

Investment Responsibilities, Investment Office Staff (page 4): The proposed revision adds that the Program’s “Strategic Plan,” along with existing references to applicable investment policies and procedures, are the bases against which investment proposals are screened and evaluated for consistency. References to the Program’s “constraints and limitations” are deleted.

- The addition properly references the Strategic Plan; the deleted language is unnecessary, as policies and procedures include any constraints and limitations.

September 24, 2018

Page 2 of 2

Staff Authority Limits (page 5): The proposed change adds that the Staff Authority Limits include “new commitments,” along with additional commitments to existing assets.

- The inclusion of new commitments under the limits was implicit without this change, but this revision serves the avoidance of doubt.

We comment on three other minor, but noteworthy, changes below

Introduction, Program and Portfolios (page 1): The proposed revision explicitly states the Real Assets Program (Program) is comprised of three “portfolios”: Real Estate, Infrastructure, and Forestland.

- This change clarifies the hierarchy of the Real Assets “Program” and its component “portfolios,” replacing the term “sub-programs.” The portfolio term is added in a few other places, consistent with this change.

Key Policy Parameters, Geography (page 6): The proposed change removes reference to staff and consultants monitoring geographic concentrations.

- This is consistent with the absence of this reference for other policy parameters, and the monitoring responsibilities are included elsewhere.

Key Policy Parameters, Leverage (page 7): The proposed change adds that the loan-to-value (LTV) ratio is a “maximum” limit.

- This is consistent with specifying the debt service coverage ratio (DSCR) as a minimum.

Meketa believes the proposed changes enhance and clarify the RA Policy, as detailed above, and support CalPERS Investment Belief 10 (strong governance, effective processes). Please do not hesitate to contact us if you have questions.

Sincerely,



Stephen McCourt, CFA
Managing Principal



Lisa Bacon, CAIA
Senior Vice President

SPM/EFB/nca