



Investment Committee

Agenda Item 6a

December 17, 2018

Item Name: Revision of Real Assets Program Policy (Infrastructure)

Program: Real Assets

Item Type: Action

Recommendation

Adopt the revised Real Assets Program Policy as provided in Attachment 1.

Executive Summary

This item proposes a change to the Real Assets Program Policy (Policy) specific to the Infrastructure portfolio:

- Page 6 of 7, Geographic limits – Revision of the regional ranges for the Infrastructure portfolio to increase the permitted exposure to International Developed Markets by 10%, for a new maximum of 60%, and a corresponding reduction to the permitted exposure to the U.S. for a new minimum of 40%.

Copies of the Policy in both “clean” (all proposed changes accepted) and mark-up (proposed revisions shown in blackline) are provided as Attachments 1 and 2. An opinion letter from Meketa Investment Group, the Board’s Infrastructure Investment Consultant, is provided as Attachment 3.

Strategic Plan

This item supports CalPERS 2017-22 Strategic Plan goal of strengthening the sustainability of the pension fund. The proposed revisions will assist CalPERS’ Real Assets portfolio managers in seeking and accessing infrastructure investment opportunities in alignment with CalPERS’ Real Assets Strategic Plan.

Investment Beliefs

This item supports CalPERS Investment Belief 10, particularly sub-belief C, which states, “CalPERS will be best positioned for success if it 1) has strong governance, [and] 2) operates with effective, clear processes....” Maintaining current investment policy documentation is integral to articulating our investment goals and mitigating operational risk.

Background

The Real Assets Program is guided by a five-year Strategic Plan, approved by the Investment Committee (Committee) on April 18, 2016. The Real Assets Program (Program) focuses on investing in high quality core assets primarily in the U.S. and international developed markets through separate accounts. As of June 30, 2018, the Infrastructure portfolio within Real Assets had a NAV of \$4.3 billion with 55% in the U.S. and 45% in international markets. The current opportunity pipeline for Infrastructure is primarily located in Western Europe, Australia, and Canada. These markets have long track records of privately owned infrastructure, offering a mature investment environment and a transparent institutional framework that is well-suited for CalPERS strategy and the role of the Real Assets Program. Proposed changes to policy geography ranges for Infrastructure allows for more diversification and ability to deploy more capital in International Developed Markets.

Analysis

The recommend change to the Policy is to shift the geographic ranges for the Infrastructure portfolio, as follows:

- From 50-100% U.S. and 0-50% International Developed Markets
- To 40-100% U.S. and 0-60% International Developed Markets.

The Real Assets team is proposing the change because it:

- Allows CalPERS to continue to grow the Infrastructure portfolio - the opportunity in the U.S. is limited and focused on power primarily.
- Does not materially increase investment risk - The team's strategy will focus on developed markets.
- Will not impact the overall Real Assets geographic ranges, which will remain 75-100% U.S. and 0-25% International.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Staff does not anticipate any risks associated with the proposed policy revisions. Revising the Infrastructure portfolio's geographic exposure limits will provide CalPERS' portfolio managers with the flexibility to continue growing the program without compromising price discipline or the diversification of the portfolio.

Attachments

Attachment 1 – Real Assets Program Policy (clean view)

Attachment 2 – Real Assets Program Policy (mark-up)

Attachment 3 – Board Infrastructure Investment Consultant Opinion Letter – Meketa Investment Group

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