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August 19, 2019

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

**RE: REVISION OF THE TOTAL FUND INVESTMENT POLICY (REAL ASSETS) -
FIRST READING**

Dear Mr. Feckner:

Meketa Investment Group ("Meketa") has been asked in its capacity as Board Consultant for the Real Estate and Infrastructure Programs (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 August 19, 2019. The revisions to the Policy are described in Item 8c. As described more fully below, we support Staff's revisions to the Policy.

The proposed revisions reflect a number of items, including: implementation of Strategic Asset Allocation objectives, transition to a Fund-level leverage approach, certain changes to the Sustainable Investment Program, as well as organizational changes. In our role as the Board's Real Estate and Infrastructure Consultant, we focused our review and comments on the provisions relating to those two asset classes.

PRUDENT PERSON OPINION REQUIREMENT THRESHOLD

Real Assets has operated with a prudent person opinion ("PPO") process for nearly ten years. To date, all investments exceeding \$50 million require a third party prudent person opinion. Investments of less than \$50 million can be pursued at the discretion of the Managing Investment Director, Paul Mouchakkaa. The process, inclusive of the \$50 million limit, has allowed Staff to pursue attractive risk-adjusted investments that align the Real Assets strategic plan with appropriate third-party input and oversight. The relatively low PPO dollar threshold has not posed a significant constraint for the Real Assets program, given its lower risk core investment strategy and its business model which relies in large part on separate accounts governed by an Annual Investment Plan ("AIP") process.

That said, the dollar value of the program and its underlying investments have grown considerably. Indeed, a review of the past year's new investments by the Real Assets team showed that the vast majority of investments requiring a PPO well exceeded the \$50 million threshold.

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Recognizing the larger deal size commonly pursued by the Real Assets team today, the team's breadth and depth of investment skill, and the efforts to harmonize, where appropriate, investment processes across asset classes within CalPERS, Meketa believes that the proposed change to the real assets PPO threshold (to \$100 million) represents a reasonable adaptation to a well-established process.

Further, we note that as Real Estate and Infrastructure Board Consultant, Meketa Investment Group will participate, via the Real Assets Investment Committee, in the review of investments with our focus being on process and Policy compliance.

OTHER COMMENTS

The following bullet points highlight other observations around the proposed changes to the Total Fund Policy and the new Leverage Investment Policy Guideline ("IPG").

- In Section VI of the Total Fund Policy, Investment Leverage, subsection 5, Meketa would suggest that, in addition to the evaluation and development of a plan by Staff, a breach in the aggregate level of leverage for the System require a notification to the Board's Investment Committee.
- In the new leverage IPG, Forestland is represented twice, and with different leverage limits, an artifact easily remedied by removing the first instance of Forestland's leverage limit in the table.

SUMMARY OPINION

The proposed Policy includes a number of revisions that generally clarify roles and responsibilities and align the Policy with Board directives. Meketa supports these revisions and believes they 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,



Christy Fields
Managing Principal



Lisa Bacon, CAIA
Principal

CF/EFB/nca