



Investment Committee

Agenda Item 10a

November 18, 2019

Item Name: Private Asset Class Program Policy Revisions – First Reading

Programs: Private Equity and Real Assets

Item Type: Information

Executive Summary

This item seeks the Investment Committee’s review and direction regarding the proposed updates and revisions resulting from this year’s annual review of the CalPERS Investment Policy for Private Equity Program (PE Program Policy) and the CalPERS Investment Policy for Real Assets Program (RA Program Policy) (collectively, Program Policies). Following feedback from the Investment Committee (Committee), staff will return for a second reading.

Strategic Plan

Supports the Fund Sustainability element of the CalPERS 2017-22 Strategic Plan by contributing to the effective management and oversight of investment activities.

Investment Beliefs

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

Background

Staff conducts a review of CalPERS’ statements of investment policy on an annual basis for any indicated updates or changes.

Analysis

Staff is seeking the Committee’s approval of this year’s proposed updates and clean-up changes to the Program Policies, together with certain ministerial updates required to migrate the Program Policies onto CalPERS’ new policy template as required by the new accessibility rules. The more substantive changes are summarized below.

PE Program Policy

1. Staff proposes to amend the definition of “Customized Investment Account” (CIA) in the CalPERS Specific Glossary of Terms to provide staff with more flexibility in selecting a partner for these specialized accounts. The current constraints – that the partner have distinct expertise in an industry, geographic region, or investment style, along with demonstrated ability to provide top-quartile returns – are unnecessarily restrictive while adding little value given that PPOs (independent fiduciary opinions) are required for all new CIA investments.

RA Program Policy

1. Revision of staff authority limits: Going forward, staff proposes to express staff's authority limits at the program level (*i.e.*, for all of Real Assets) rather than at the portfolio level. While there is no change proposed to the per-transaction limits, the new cumulative fiscal-year limit for the RA Program, as proposed, is \$15 billion as compared with \$16 billion, which is the combined total currently for all three portfolios (real estate, infrastructure, and forestland).

While these changes, as proposed, do not affect staff's authority in terms of the size of any one deal, by applying the cumulative fiscal-year limit in the aggregate across all three portfolios, RA program staff will have increased flexibility in terms of the allocation of funds across the three portfolios, subject to an overall program cap.

2. Relocation of Leverage Limits to PRP: The second substantive change is the proposed deletion of leverage limits from the RA Program Policy, which were previously relocated to a newly created Leverage Policy-Related Procedures (PRP) to align with recently approved changes centralizing leverage management for the public asset classes at the Total Fund level and relocating program-specific constraints to PRP.

Administrative Changes

In addition, staff proposes ministerial updates to migrate the Program Policies onto CalPERS' new policy template as required by the new accessibility rules.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

The changes support appropriate maintenance of the Program Policies. There are no anticipated risks.

Attachments

- Attachment 1 – Proposed Private Equity Policy (clean view)
- Attachment 2 – Proposed Private Equity Policy (mark-up view)
- Attachment 3 – Proposed Real Assets Policy (clean view)
- Attachment 4 – Proposed Real Assets Policy (mark-up view)
- Attachment 5 – Proposed CalPERS Specific Glossary of Terms (clean view)
- Attachment 6 – Proposed CalPERS Specific Glossary of Terms (mark-up view)
- Attachment 7 – Consultant Opinion Letter – Meketa Investment Group (Private Equity)
- Attachment 8 – Consultant Opinion Letter – Wilshire Associates (Real Assets)
- Attachment 9 – Consultant Opinion Letter – Meketa Investment Group (Real Assets)

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