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November 18, 2019

Mr. Rob Feckner
 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. Feckner:

Meketa Investment Group (“Meketa”) has been asked in its capacity as Board Consultant for the Real Estate and Infrastructure asset classes to provide an opinion on revisions proposed for the CalPERS Investment Policy for Real Assets Program (the “RA Program Policy”) submitted to the Investment Committee for a first reading on November 18, 2019. The revisions to the RA Program Policy are described in Item 10a.

For the RA Program Policy, one substantive change is proposed, along with two notable ministerial changes, with the balance being administrative in nature as CalPERS continues the process of streamlining and harmonizing policies and other governing documents across the Total Fund. As described below, we support Staff’s proposed revisions to the RA Program Policy.

PROPOSED CHANGES

- **Revision of Appendix 3, Investment Constraints/Limitations at Table 3, Staff Authority Limits**—The prior Portfolio-level limits (\$ billion) for commitments and dispositions for the Managing Investment Director (“MID”) and Chief Investment Officer (“CIO”) have been consolidated into a single table. The individual limits for each Portfolio—Real Estate, Infrastructure, and Forestland—remain the same. However, the MID Cumulative Fiscal Year Limit (“FY Limit”) is now set at the Real Assets Portfolio level, at a total of \$15 billion, and Portfolio-level FY Limits are removed. The effect of this change is to reduce the FY Limit for the Real Assets Program from \$16 billion (the prior sum of the individual Portfolio FY Limits) to \$15 billion. Whereas before, the Real Estate and Infrastructure Portfolios had FY Limits of \$10 billion and \$3 billion, respectively, they now must share the Program limit across the Portfolios, inclusive of Forestland.

- **Deletion in Appendix 3, at Table 8, Leverage**—The table that established leverage limits for the Real Assets Program and individual Portfolios (Real Estate, Infrastructure, and Forestland) in terms of loan-to-value (“LTV”) ratios and debt service coverage ratios (“DSCR”) has been deleted in its entirety. These limits were moved to a new Investment Procedures & Guidelines document for the Total Fund Investment Policy—Investment Leverage Section, effective September 16, 2019. We confirm that the limits are intentionally unchanged in their new location.
- **Deletion in Appendix 1: Reporting to the Investment Committee**—Existing Item #2, requiring Staff to report concerns involving the Policy, has been deleted as a ministerial change reflecting prior Staff and Consultant agreement that these requirements are included in the Total Fund Policy and not necessary here.

SUMMARY OPINION

If adopted, the proposed changes to the cumulative fiscal year authority limits would maintain the individual portfolio FY Limits that have served the Program well for some time, while providing additional flexibility consistent with other changes that have focused policies and investment management at the RA Program level, including asset allocation, benchmarking, and reporting. The other proposed changes, if adopted, are appropriate and consistent with the ongoing efforts to streamline and harmonize policies and other governing documents at across the Total Fund and individual programs, including the RA Program. Meketa supports these revisions and believes they are in line with CalPERS’ Investment Beliefs.

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

Sincerely,



Christy Fields
Managing Principal



Lisa Bacon
Principal



David Glickman
Executive Vice President