



Investment Committee

Agenda Item 5b

September 19, 2022

Item Name: Revisions to the Total Fund Policies - Private Asset Classes – First Reading

Program: Total Fund

Item Type: Information

Executive Summary

This item is seeking input from the Investment Committee (Committee) regarding the proposed revisions to the Total Fund Investment Policy resulting from the Asset Liability Management (ALM) adoptions at the 2021 November Committee meeting. Following feedback from the Committee, staff will return at a subsequent meeting for a second reading of the policies.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the Fund.

Investment Beliefs

This item supports the following Investment Beliefs:

- Investment Belief 5 – CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution
- Investment Belief 6 – Strategic asset allocation is the dominant determinant of portfolio risk and return
- Investment Belief 7 – CalPERS will take risk only where we have a strong belief we will be rewarded for it
- Investment Belief 10 – Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Background

In November 2021, the Board approved a new Strategic Asset Allocation (SAA), which included increased allocations to Private Equity and Real Assets and the inclusion of Private Debt. The proposed revisions to the policy will support the Committee's adopted return rate and SAA, as well as strengthen and facilitate the Fund's governance and accountability to achieve the CalPERS goals and objectives.

Analysis

In order to facilitate achievement of the 6.8% expected return, this policy review is centered on supporting the implementation of the Private Asset Classes as it relates to the 2021 Strategic Asset Allocation adopted at the November 2021 Committee meeting. Proposed changes include:

1. Total Fund

- a. Updates to the Staff Delegation Limits for Private Assets
- b. Revise Prudent Person Opinion (PPO) requirements for Private Equity and Real Assets and establish PPO requirements for Private Debt
- c. Updates to the Private Equity Program limitations and constraints
- d. Updates to the Real Assets Program limitations and constraints

For a more detailed summary of the proposed changes, refer to Attachment 2.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The changes support maintenance of a strong governance framework for the management of the System's assets. There are no anticipated risks.

Attachments

Attachment 1 – Policy Revisions Review – First Read Presentation

Attachment 2 – Inventory of Policy Revisions – Summary of Key Changes

Attachment 3 – Proposed Total Fund Policy (mark-up view)

Attachment 4 – Proposed Total Fund Policy (clean view)

Attachment 5 – Proposed CalPERS Glossary (mark-up view)

Attachment 6 – Proposed CalPERS Glossary (clean view)

Attachment 7 – Consultant Opinion Letter – Wilshire Associates (General Pension Consultant)

Attachment 8 – Consultant Opinion Letter – Meketa Investment Group (Private Equity)

Attachment 9 – Consultant Opinion Letter – Meketa Investment Group (Real Estate and Infrastructure)

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