



# Investment Committee

## Agenda Item 7a

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**December 16, 2019**

**Item Name:** Private Asset Class Program-Policy Revisions – Second Reading

**Programs:** Private Equity and Real Assets

**Item Type:** Action

### **Recommendation**

Approve the revised Private Equity Program Policy (PE Program Policy) and Real Assets Program Policy (RA Program Policy) as presented by staff.

### **Executive Summary**

This item seeks the Investment Committee's (Committee's) consideration and action regarding the proposed updates and revisions to the PE Program Policy and RA Program Policy (together, Program Policies) resulting from this year's annual investment-policy review process.

In response to committee-member feedback received at the first reading of the Program Policies, staff is proposing one additional change to the PE Program Policy.

### **Strategic Plan**

This item 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**

Proposed changes to the Program Policies were presented to the Committee for a first reading at the November 18, 2019 meeting of the Committee. More information on Agenda Item 10a can be found on the [CalPERS website](#).

### **Analysis**

As noted above, staff is proposing an additional change to the PE Program Policy regarding the definition of "Customized Investment Account" in the CalPERS Specific Glossary of Terms, to clarify the Committee's expectation that staff remains responsible for evaluating the appropriateness of a prospective investment partner's investment expertise in the context of the proposed investment strategy.

The proposed additional change to the definition of "Customized Investment Account" in the CalPERS Specific Glossary of Terms is indicated in Attachments 5 and 6 to this agenda item.

**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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Katherine H. Crocker  
Investment Director  
Investment Controls & Operational Risk

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Dan Bienvenue  
Interim Chief Operating Investment Officer

# CalPERS Investment Policy for Private Equity Program

## Effective Date

This policy is effective [Month DD, YYYY] and supersedes all previous Private Equity Program investment policies.

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## Introduction

The California Public Employees' Retirement System (CalPERS) Total Fund Investment Policy, adopted by the CalPERS Investment Committee (Committee), sets forth the CalPERS investment beliefs and overarching investment purposes and objectives with respect to its investment programs. The CalPERS Total Fund Investment Policy specifically covers key areas of investment strategy, including performance objectives, asset allocation strategies, benchmark selection, investment risk management, and derivatives, leverage, and divestment policies, among other elements that are applicable to all asset classes and programs at CalPERS.

This document sets forth the investment policy (Program Policy) for the Private Equity (PE) Program (Program). The design of this Program Policy ensures that Staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.

## Strategic Objective

The Program's strategic objective is to maximize risk-adjusted rates of return and enhance the equity return to the Fund.

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.

## Investment Approaches & Parameters

### A. Approach

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments, co- investments, and **Customized Investment Accounts**.
2. Top-down strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing.

### B. Specific Risk Parameters

There are specific risks associated with private equity investments that shall be monitored and mitigated by CalPERS commensurate with the expected return as each investment proposal is considered, including but not limited to the following major risk categories:

1. Leverage: The increased volatility risk posed by the existence of non-recourse debt at the underlying investment level.
2. Operating and Business: The potential for certain investments to entail exceptional operating and business risks.
3. Liquidity: The liquidity risks inherent in private equity, given typical time horizons of 5-10 years and generally limited opportunities for sale in the secondary market.
4. Structural: The risks arising from a potential misalignment of interests between the general partner and the limited partners, which may be mitigated by, among other things, structuring fees and incentive payments and other key aspects of the business relationship so as to better align the interests of the partners.
5. Valuation: The risks associated with the valuation process for partnerships and co-investments, including whether the general partner employs an appropriate valuation discipline.

The investment approach for the portfolio shall seek to reduce risk through appropriate diversification by geography, industry, **Vintage Year** and investment strategy.

C. Investment Vehicle Parameters

Investment vehicles may take the form of limited partnerships, limited liability companies (LLCs), or other similar limited liability legal structures.

## Investment Constraints/ Limitations

See Appendix 3 for program investment constraints.

## Glossary of CalPERS Specific Terms

**Bold Italicized** terms appearing in the Program Policy are “CalPERS specific” in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

## Policy Document History

**History** See Appendix 4 for historical details of the Committee’s adoption of, and subsequent revisions to, this Program

### Policy Appendices

See the [Total Fund Policy](#) appendices for overarching reporting requirements and responsibilities for Investment Committee, Staff, **General Pension Consultant, and Private Asset Class Board Investment Consultant**.

### Appendix 1: Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee:

- Investment Office Staff
- **General Pension Consultant**

*Table 1: Investment Office Staff Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	No less than annually
2.	Staff shall report regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.	Monthly

*Table 2: General Pension Consultant Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmarks and this Program Policy and other applicable CalPERS Policies.	No less than annually

## Appendix 2: Investment Responsibilities

The following sections provide details regarding investment-related responsibilities for the:

- Investment Office Staff
- **Private Asset Class Board Investment Consultant**
- General Partner

### *Investment Office Staff Responsibilities*

1. All aspects of program portfolio management, including monitoring, analyzing, evaluating performance relative to the appropriate benchmark, selecting investments, and contracting with general partners.
2. Monitor general partners in the implementation of, and compliance with, the Program Policy.
3. Develop and maintain selection guidelines for private equity investments.
4. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
5. Monitor non-recourse debt as a risk factor.

### *Private Asset Class Board Investment Consultant Responsibilities*

1. Provide independent perspective and counsel to the Committee, to include routine communication with Investment Office staff and periodic reviews of processes and procedures.

### *General Partner Responsibilities*

1. All aspects of portfolio management as set forth in each general partner's limited partnership agreement or contract with CalPERS and the Program Policy and Total Fund Policy.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of the fund.

### Appendix 3: Investment Constraints/Limitations

#### A. Strategy Allocation Targets & Ranges:

Strategy	Target	Range
Buyouts	65%	55% - 75%
Credit Related	10%	0% - 15%
Venture Capital	1%	0% - 7%
Growth/Expansion	15%	5% - 20%
Opportunistic	10%	0% - 15%

#### B. Investment Parameters:

##### Staff Authority Limits

Net Asset Value (NAV) in billions

The Managing Investment Director (MID) and Chief Investment Officer (CIO) limits apply per commitment.	Funds	Co-Investments	Customized Investment Account	Secondary
MID	\$0.5	\$0.3	\$1.3	\$0.9
CIO	\$1	\$0.6	\$1.9	\$1.7
MID Fiscal Year Limit*	\$10	\$3	\$5	\$3

\*Fiscal Year Limit applies to cumulative commitments.

1. Commitment approval will be required for commitments beyond those authorized for the CIO. If there is a vacancy in the CIO position, Committee approval will be required for commitment authority otherwise delegated to the CIO.
2. The aggregate **Net Committed Capital** to any one general partner is limited to 10% or less of PE's total Net Committed Capital. Any exceptions to this must be specifically approved by the Committee. On August 18, 2014, the Committee approved three exceptions, increasing the maximum exposure from 10% to 15% for the following general partners: Blackstone, Carlyle and Apollo.
3. Co-Investments are subject to the further restriction that the co-investment must be made alongside a firm with which the PE Program has an active commitment.
4. Fund Investment Limitation - CalPERS commitments to any one fund cannot exceed 25% of the fund.

## Appendix 4: Private Equity Program Policy Document History

Date	Detail
1997-04-04 1997-04-14	Approved by the Policy Subcommittee Adopted by the Investment Committee
2005-03-11 2005-04-18	Revised by the Policy Subcommittee Approved by the Investment Committee
2005-09-16 2005-10-17	Revised by the Policy Subcommittee Approved by the Investment Committee
2006-04-14 2006-05-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2008-08-18 2008-09-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2009-06-16	Administrative changes made to align with Policy Review Project
2009-12-14 2010-02-16	Revised by the Policy Subcommittee Approved by the Investment Committee
2011-10-17 2011-11-14	Revised by the Policy Subcommittee Approved by the Investment Committee
2012-05-14	Administrative changes made to reflect Delegation revisions
2013-06-12	Administrative changes made to reflect Private Asset Class Board Consultant Policy revisions
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-06-24	Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”
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2015-12-14	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions
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2018-08-13	Approved by the Investment Committee Revisions to the depiction of commitment and fiscal year limits for investment types to dollar-thresholds, as well as updates to targets and ranges for the Buyouts and credit-related strategies.
YYYY-MM-DD	[Approved by the Investment Committee

Date	Detail
	Updates were made to CalPERS Specific Glossary of Terms. Administrative changes were to reflect business process changes and migrate policy into an accessible template.]

# CalPERS Investment Policy for Private Equity Program

## Effective Date

This policy is effective [Month DD, YYYY] ~~immediately upon adoption~~ and supersedes all previous Private Equity Program investment policies.

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## Introduction

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This document sets forth the investment policy (Program Policy) for the Private Equity (PE) Program (Program). The design of this Program Policy ensures that Staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.~~This Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy. This Policy shall also be managed to comply with all applicable Investment Office policies.~~

## Strategic Objective

The Program's strategic objective is to maximize risk-adjusted rates of return and enhance the equity return to the Fund.

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.~~Details regarding various levels of responsibility for this Program are provided in Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.~~

## Investment Approaches & Parameters

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	<del>Staff shall report concerns, problems, material changes, and all violations of the Policy. These reports shall include explanations of any violations and appropriate recommendations for corrective action.</del>	<del>At next Committee meeting, or sooner if deemed necessary</del>
2.	Staff shall report regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.	Monthly

*Table 2: General Pension Consultant Reporting Responsibilities*

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<u>YYYY-MM-DD</u>	<u>[Approved by the Investment Committee</u>

Date	Detail
	<u>Updates were made to CalPERS Specific Glossary of Terms.</u> <u>Administrative changes were to reflect business process changes and migrate policy into an accessible template.]</u>

# CalPERS Investment Policy for Real Assets Program

## Effective Date

This Policy is effective [Month DD, YYYY] and supersedes all previous Real Assets Program investment policies.

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## Introduction

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This document sets forth the investment policy (Program Policy) for the Real Assets Program (Program), which is comprised of the following three portfolios: Real Estate, Infrastructure, and Forestland. The design of this Program Policy ensures that staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.

## Strategic Objective

The Program's strategic objective is to provide stable and predictable cash yield, diversification of equity risk, and inflation protection.

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Investment Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.

## Investment Approaches and Parameters

1. Real Assets Program Allocations

Program allocation targets and ranges are listed in the Total Fund Investment Policy.

2. Diversification and Limits

To mitigate risk, staff shall maintain an appropriate level of diversification within the Program. Staff shall monitor the Program for adherence to the Key Policy Parameters specified in Appendix 3 to this Policy.

3. Infrastructure and Forestland Parameters

The Key Policy Parameters pertaining to risk classifications, geographic regions, and leverage will apply to (a) the Infrastructure portfolio only when the Net Asset Value (NAV) for that portfolio exceeds \$5.0 billion and (b) the Forestland portfolio only when the NAV for that portfolio exceeds \$3.0 billion.

## Investment Constraints/Limitations

See Appendix 3 for program investment constraints.

## Glossary of CalPERS Specific Terms

***Bold italicized*** terms appearing in the Program Policy are “CalPERS specific” in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

## Policy Document History

See Appendix 4 for historical details of the Committee’s adoption of, and subsequent revisions to, this Program Policy.

## Policy Appendices

See the [Total Fund Investment Policy](#) appendices for overarching reporting requirements and responsibilities for the Investment Committee, staff, ***General Pension Consultant***, and ***Private Asset Class Board Investment Consultant***.

## Appendix 1: Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee:

1. Investment Office staff
2. **General Pension Consultant**

*Table 1: Investment Office Staff Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	No less than annually
2.	Staff shall maintain a Strategic Plan approved by the Committee setting forth CalPERS' long-term objectives for investment and management of the Program. Changes to the Strategic Plan require Committee approval.	At a minimum every five years

*Table 2: General Pension Consultant Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmarks and this Program Policy and other applicable CalPERS policies.	No less than annually

## Appendix 2: Investment Responsibilities

The following sections provide details regarding investment-related responsibilities for the:

- Investment Committee
- **General Pension Consultant**
- **Private Asset Class Board Investment Consultants**
- Managers/Partners

As used in this Policy, the term “manager” refers to third-party managers under the Program, and the term “partner” includes managing members of Limited Liability Companies.

### *Investment Office Staff Responsibilities*

1. Undertake all aspects of portfolio management including monitoring, trading, analyzing, and evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers/partners consistent with all applicable policies and procedures.
2. Develop and maintain investment procedures, program guidelines, and portfolio guidelines.
3. Screen and evaluate investment proposals consistent with the Program’s Strategic Plan, Appendix 3, and applicable investment policies and procedures.
4. Execute approved investment transactions, including negotiating investment agreements, performing initial and ongoing due diligence, and closing transactions.

### *General Pension Consultant Responsibilities*

1. Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office staff and periodic reviews of processes and procedures.

### *Private Asset Class Board Investment Consultants Responsibilities*

The responsibilities of the respective board consultants are specified in the “Private Asset Class Board Investment Consultants” section of, and the reporting and responsibility appendices to, the Total Fund Investment Policy.

### *Manager/Partner Responsibilities*

1. Manage its allocated portion of the Program in accordance with (a) each manager/partner’s contract or partnership/operating agreement with CalPERS and (b) applicable policies.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of its allocated portion of the Program.

## Appendix 3: Investment Constraints/Limitations

### *Staff Authority Limits*

Table 3 below outlines the NAV limits at which staff may undertake commitments and dispositions.

Commitment limits (i) include new commitments, additional commitments made for investments in existing assets, and debt pay-downs, and (ii) apply only to the amount committed or invested, excluding any leverage or fees.

*Table 3: Staff Authority Limits - Real Assets Program*

	Commitments (\$ billions)	Dispositions (\$ billions)
Managing Investment Director limit per: (Real Estate)	\$3	\$3
Chief Investment Officer limit per: (Real Estate)	\$6	\$6
Managing Investment Director limit per: (Infrastructure)	\$1	\$1
Chief Investment Officer limit per: (Infrastructure)	\$2	\$2
Managing Investment Director limit per: (Forestland)	\$1	\$1
Chief Investment Officer limit per: (Forestland)	\$2	\$2
Managing Investment Director Cumulative Fiscal Year Limit: (Real Assets)	\$15	\$15

### *Key Policy Parameters*

#### 1. Partner Relationship Exposure

The maximum Partner Relationship Exposure for the Program is 20%. Similarly, the maximum exposure to outstanding investments with no **External Manager** is also 20%. For purposes of this Appendix 3,

- a. "Partner Relationship Exposure" means, with reference to any given Partner Relationship, the ratio of (i) the NAV of assets under management with such

Partner Relationship, plus total unfunded commitments, to (ii) the total NAV of the Program plus total unfunded commitments; and

- b. “Partner Relationship” means, collectively, the total investment allocation with any one manager or partner, or, in cases where the Program has investments with multiple members of an affiliated group of managers and/or partners, the investment allocation with that affiliated group.

## 2. Risk Classifications

The Program will be divided into three risk classifications: core, value add, and opportunistic. Individual assets will be assigned to the appropriate risk classification.

The permitted NAV percentage ranges for each risk classification are outlined in Table 4.

*Table 4: Risk Classifications*

Risk Classification	Real Assets	Real Estate	Infrastructure	Forestland
Core	75-100%	75-100%	60–100%	75-100%
Value Add	0-25%	0-25%	0–25%	0-25%
Opportunistic*	0-25%	0-25%	0–25%	0-25%

\*Development assets will have a limit of 10% of the Program and each portfolio. All Development assets will be assigned the “opportunistic” risk classification.

## 3. Geography

Staff will pursue a global real assets investment strategy, with emphasis in the United States. International markets are categorized as Developed, Emerging, and Frontier, based on FTSE classification of markets. The permitted NAV percentage ranges for each geographic region are outlined in Table 5.

*Table 5: Geography*

Region	Real Assets	Real Estate	Infrastructure	Forestland
United States	70-100%	75-100%	40–100%	50-100%
International Developed Markets	0-30%	0-25%	0-60%	0-50%
International Emerging Markets	0-15%	0-15%	0-15%	0-15%
International Frontier Markets	0-5%	0-5%	0-5%	0-5%

## 4. Public Securities

Public securities will not exceed 10% of the Program.

## Appendix 4: Policy Document History

Table 6: Real Assets Program Policy History

Date	Detail
2011-04-11	Approved by the Policy Subcommittee
2011-05-16	Adopted by the Investment Committee
2011-06-15	Approved by the Policy Subcommittee
2011-08-15	Adopted by the Investment Committee
2013-04-15	Approved by the Investment Committee
2013-12-16	Approved by the Investment Committee
2014-05-28	Administrative changes to (1) align this policy with the Global Derivatives and Counterparty Risk Policy, and (2) to standardize reporting frequencies to the Investment Committee to “no less than annually”
2014-05-28	Administrative changes to reflect the Policy Glossary of Terms Update Project
2016-02-16	Approved by the Investment Committee Added Attachment D, Investment Limits and Constraints, to incorporate Investment Restructuring Project revisions
2016-08-15	The Investment Policy for Real Assets was conditionally approved by the Investment Committee pending approval of the Real Assets Investment Policy Procedures and Guidelines by the Board's Investment Consultants. The Policy was reformatted to incorporate Investment Policy Revision Project revisions.  As of November 30, 2016, the IPPGs were approved by the Board Investment Consultants. Real Assets staff requested the updated Investment Policy for Real Assets and the IPPGs be effective as of January 1, 2017.
2018-03-19	Approved by the Investment Committee Revisions to clarify fiscal year commitment limits specific to the Managing Investment Director, and establish a threshold at which the concentration limits apply to the Forestland Portfolio.
2018-11-13	Approved by the Investment Committee Revisions to clarify that threshold limits apply to leverage considerations for the Forestland and Infrastructure programs, clarify that the Real Assets Strategic Plan shall be used in the evaluation of investment proposals, and several ministerial updates.
2018-12-17	Approved by the Investment Committee

Date	Detail
	Revision of the regional ranges for the Infrastructure portfolio to increase the permitted exposure to International Developed Markets by 10% with a corresponding reduction to the permitted exposure to the U.S.
2019-01-08	Administrative changes made to migrate policy into an accessible template.
YYYY-DD-MM	[Approved by the Investment Committee  Updates were made to RA Program Policy staff authority limits. Administrative changes were to reflect business process changes and migrate policy into an accessible template.]

# CalPERS Investment Policy for Real Assets Program

## Effective Date

This Policy is effective as of [Month DD, YYYY] ~~December 17, 2018~~ and supersedes all previous Real Assets Program investment policies.

## Contents

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## Introduction

The California Public Employees' Retirement System (CalPERS) Total Fund Investment Policy, adopted by the CalPERS Investment Committee (Committee), sets forth the CalPERS investment beliefs and overarching investment purposes and objectives with respect to its investment programs. The CalPERS Total Fund Investment Policy specifically covers key areas of investment strategy, including performance objectives, asset allocation strategies, benchmark selection, investment risk management, and derivatives, leverage, and divestment policies, among other elements that are applicable to all asset classes and programs at CalPERS.

This document sets forth the investment policy (Program Policy) for the Real Assets Program (Program), which is comprised of the following three portfolios: Real Estate, Infrastructure, and Forestland. The design of this Program Policy ensures that staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to ~~conditions contained within the~~ the CalPERS Total Fund Investment Policy (Total Fund Policy). ~~Staff shall manage this Program Policy in compliance with all applicable Investment Office policies, and any related Investment Policy Procedures and Guidelines (IPPG) documentation. Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.~~

## Strategic Objective

The Program's strategic objective is to provide stable and predictable cash yield, diversification of equity risk, and inflation protection.

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Investment Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities, to this Program Policy.

## Investment Approaches and Parameters

1. Real Assets Program Allocations  
Program allocation targets and ranges are listed in the Total Fund Investment Policy.
2. Diversification and Limits

To mitigate risk, staff shall maintain an appropriate level of diversification within the Program. Staff shall monitor the Program for adherence to the Key Policy Parameters specified in Appendix 3 to this Policy.

3. Infrastructure and Forestland Parameters

The Key Policy Parameters pertaining to risk classifications, geographic regions, and leverage will apply to (a) the Infrastructure portfolio only when the Net Asset Value (NAV) for that portfolio exceeds \$5.0 billion and (b) the Forestland portfolio only when the NAV for that portfolio exceeds \$3.0 billion.

## Investment Constraints/Limitations

See Appendix 3 for program investment constraints.

## Glossary of CalPERS Specific Terms

***Bold italicized*** terms appearing in the Program Policy are “CalPERS specific” in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

## Policy Document History

See Appendix 4 for historical details of the Committee’s adoption of, and subsequent revisions to, this Program Policy.

## Policy Appendices

See the [Total Fund Investment Policy](#) appendices for overarching reporting requirements and responsibilities for the Investment Committee, staff, ***General Pension Consultant***, and ***Private Asset Class Board Investment Consultant***.

Appendix 1: Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee:

1. Investment Office staff
2. **General Pension Consultant**

*Table 1: Investment Office Staff Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	No less than annually
<del>2.</del>	<del>Staff shall report concerns, problems, material changes, and all violations of the Policy. These reports shall include explanations of any violations and appropriate recommendations for corrective action.</del>	<del>At the next Committee meeting, or sooner if deemed necessary</del>
<del>3.2.</del>	Staff shall maintain a Strategic Plan approved by the Committee setting forth CalPERS' long-term objectives for investment and management of the Program. Changes to the Strategic Plan require Committee approval.	At a minimum every five years

*Table 2: General Pension Consultant Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmarks and this <u>Program</u> Policy and other applicable CalPERS policies.	No less than annually

## Appendix 2: Investment Responsibilities

The following sections ~~This appendix~~ provides details regarding investment-related responsibilities for the:

- Investment Committee
- **General Pension Consultant**
- **Private Asset Class Board Investment Consultants**
- Managers/Partners

As used in this Policy, the term “manager” refers to third-party managers under the Program, and the term “partner” includes managing members of Limited Liability Companies.

### *Investment Office Staff Responsibilities*

1. Undertake all aspects of portfolio management including monitoring, trading, analyzing, and evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers/partners consistent with all applicable policies and procedures.
2. Develop and maintain investment procedures, program guidelines, and portfolio guidelines.
3. Screen and evaluate investment proposals consistent with the Program’s Strategic Plan, Appendix 3, and applicable investment policies and procedures.
4. Execute approved investment transactions, including negotiating investment agreements, performing initial and ongoing due diligence, and closing transactions.

### *General Pension Consultant Responsibilities*

1. Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office staff and periodic reviews of processes and procedures.

### *Private Asset Class Board Investment Consultants Responsibilities*

The responsibilities of the respective board consultants are specified in the “Private Asset Class Board Investment Consultants” section of, and the reporting and responsibility appendices to, the Total Fund Investment Policy.

### *Manager/Partner Responsibilities*

1. Manage its allocated portion of the Program in accordance with (a) each manager/partner’s contract or partnership/operating agreement with CalPERS and (b) applicable policies.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of its allocated portion of the Program.

Appendix 3: Investment Constraints/Limitations

*Staff Authority Limits*

Tables 3, 4, and 5 below outline ~~for each component portfolio~~ the NAV limits at which staff may undertake commitments and dispositions.

-Commitment limits (i) include new commitments, additional commitments made for investments in existing assets, and debt pay-downs, and (ii) apply only to the amount committed or invested, excluding any leverage or fees.

*Table 3: Staff Authority Limits - Real ~~Assets~~ ~~Estate~~ ~~Program~~ ~~Portfolio~~*

	Commitments (\$ billions)	Dispositions (\$ billions)
Managing Investment Director limit per: <u>(Real Estate)</u>	\$3	\$3
Chief Investment Officer limit per: <u>(Real Estate)</u>	\$6	\$6
Managing Investment Director limit per: <u>(Infrastructure)</u>	<u>\$1</u>	<u>\$1</u>
Chief Investment Officer limit per: <u>(Infrastructure)</u>	<u>\$2</u>	<u>\$2</u>
Managing Investment Director limit per: <u>(Forestland)</u>	<u>\$1</u>	<u>\$1</u>
Chief Investment Officer limit per: <u>(Forestland)</u>	<u>\$2</u>	<u>\$2</u>
Managing Investment Director Cumulative Fiscal Year Limit: <u>(Real Assets)</u>	\$ <u>15</u> <del>0</del>	\$ <u>15</u> <del>0</del>

~~Table 4: Staff Authority Limits—Infrastructure Portfolio~~

	<del>Investments (\$ billions)</del>	<del>Dispositions (\$ billions)</del>
Managing Investment Director limit per:	\$1	\$1
Chief Investment Officer limit per:	\$2	\$2
Managing Investment Director Cumulative Fiscal Year Limit	\$3	\$3

Table 5: Staff Authority Limits—Forestland Portfolio

	Investments (\$ billions)	Dispositions (\$ billions)
Managing Investment Director limit per:	\$1	\$1
Chief Investment Officer limit per:	\$2	\$2
Managing Investment Director Cumulative Fiscal Year Limit	\$3	\$3

*Key Policy Parameters*

1. Partner Relationship Exposure

The maximum Partner Relationship Exposure for the Program is 20%. Similarly, the maximum exposure to outstanding investments with no **External Manager** is also 20%. For purposes of this Appendix 3,

- a. “Partner Relationship Exposure” means, with reference to any given Partner Relationship, the ratio of (i) the NAV of assets under management with such Partner Relationship, plus total unfunded commitments, to (ii) the total NAV of the Program plus total unfunded commitments; and
- b. “Partner Relationship” means, collectively, the total investment allocation with any one manager or partner, or, in cases where the Program has investments with multiple members of an affiliated group of managers and/or partners, the investment allocation with that affiliated group.

2. Risk Classifications

The Program will be divided into three risk classifications: core, value add, and opportunistic. Individual assets will be assigned to the appropriate risk classification. The permitted NAV percentage ranges for each risk classification are outlined in Table 46.

*Table 46: Risk Classifications*

Risk Classification	Real Assets	Real Estate	Infrastructure	Forestland
Core	75-100%	75-100%	60-100%	75-100%
Value Add	0-25%	0-25%	0-25%	0-25%
Opportunistic*	0-25%	0-25%	0-25%	0-25%

\*Development assets will have a limit of 10% of the Program and each portfolio. All Development assets will be assigned the “opportunistic” risk classification.

### 3. Geography

Staff will pursue a global real assets investment strategy, with emphasis in the United States. International markets are categorized as Developed, Emerging, and Frontier, based on FTSE classification of markets. The permitted NAV percentage ranges for each geographic region are outlined in Table 57.

*Table 57: Geography*

Region	Real Assets	Real Estate	Infrastructure	Forestland
United States	70-100%	75-100%	40-100%	50-100%
International Developed Markets	0-30%	0-25%	0-60%	0-50%
International Emerging Markets	0-15%	0-15%	0-15%	0-15%
International Frontier Markets	0-5%	0-5%	0-5%	0-5%

### 4. Public Securities

Public securities will not exceed 10% of the Program.

### ~~5. Leverage~~

~~Leverage parameters shall be measured on a loan to value ratio (LTV) and debt service coverage ratio (DSCR) basis. The permitted leverage parameters are outlined in Table 8.~~

*Table 8: Leverage*

Leverage	Real Assets	Real Estate	Infrastructure	Forestland
LTV (maximum)	55%	50%	65%	40%
DSCR (minimum) Total	1.40	1.50	1.25	1.25
— Core	N/A	2.00	N/A	N/A

## Appendix 4: Policy Document History

Table 69: Real Assets Program Policy History

Date	Detail
2011-04-11	Approved by the Policy Subcommittee
2011-05-16	Adopted by the Investment Committee
2011-06-15	Approved by the Policy Subcommittee
2011-08-15	Adopted by the Investment Committee
2013-04-15	Approved by the Investment Committee
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2018-12-17	Approved by the Investment Committee

Date	Detail
	Revision of the regional ranges for the Infrastructure portfolio to increase the permitted exposure to International Developed Markets by 10% with a corresponding reduction to the permitted exposure to the U.S.
2019-01-08	Administrative changes made to migrate policy into an accessible template.
<u>YYYY-DD-MM</u>	<u>[Approved by the Investment Committee</u>  <u>Updates were made to RA Program Policy staff authority limits.</u> <u>Administrative changes were to reflect business process changes and</u> <u>migrate policy into an accessible template.]</u>

### CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
<b><i>Alternative Solicitation Process</i></b>	A process for identifying and selecting external asset managers utilizing the on-line Investment Proposal Tracking System. This process may target a particular strategy type, or may continuously assess submitted investment proposals and replaces a formal request for proposal.	<ul style="list-style-type: none"> <li>• Global Equity</li> </ul>
<b><i>Asset Class Tracking Error</i></b>	The expected or <i>ex ante</i> annualized standard deviation of the return difference between an asset class and its assigned strategic benchmark as calculated from the Investment Office Risk Management system.	<ul style="list-style-type: none"> <li>• Global Equity</li> </ul>
<b><i>Corporate Sector</i></b>	As defined by CalPERS corporate investment managers in BlackRock Solutions, Aladdin product. Examples of sectors include banking, independent finance, diversified telecom, etc.	<ul style="list-style-type: none"> <li>• Global Fixed Income Program</li> <li>• Low Duration Fixed Income Program</li> </ul>
<b><i>Customized Investment Account</i></b>	An investment structure in which CalPERS partners with a firm that has appropriate investment expertise for the proposed investment strategy. Other than the general partner, CalPERS would be the sole investor. This structure may have an individual mandate or may invest alongside other similarly structured funds in the same investments with different terms.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> <li>• Total Fund Investment</li> </ul>
<b><i>Emerging Management Team</i></b>	<p>A firm raising a first or second time Institutional Fund.</p> <p>Institutional Fund – A Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors have made a commitment.</p>	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>

### CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
<b><i>External Manager</i></b>	An asset management firm that is seeking to be, or has been, retained by CalPERS or by a CalPERS Vehicle to manage a portfolio of assets (including securities) for a fee. The external manager usually has full discretion to manage CalPERS assets, consistent with investment management guidelines provided by CalPERS and fiduciary responsibility.	<ul style="list-style-type: none"> <li>• California Employers; Retiree Benefit Trust</li> <li>• Global Governance</li> <li>• Currency Overlay Program</li> <li>• Global Equity</li> <li>• Global Fixed Income Program</li> <li>• Inflation Assets</li> <li>• Judges Retirement Fund</li> <li>• Judges Retirement System II Fund</li> <li>• Legislators' Retirement System Fund</li> <li>• Liquidity Program</li> <li>• Low Duration Fixed Income Program</li> <li>• Public Employees' Health Care Fund</li> <li>• Public Employees' Long-Term Care Fund</li> <li>• Securities Lending</li> <li>• Supplemental Income Plans</li> <li>• Total Fund Investment</li> </ul>
<b><i>General Pension Consultant</i></b>	An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities. (Also, referred to as Primary Board Consultant).	<ul style="list-style-type: none"> <li>• California Employers; Retiree Benefit Trust</li> <li>• Currency Overlay Program</li> <li>• Global Equity</li> <li>• Global Fixed Income Program</li> <li>• Inflation Assets</li> <li>• Judges Retirement Fund</li> <li>• Judges Retirement System II Fund</li> <li>• Legislators' Retirement System Fund</li> <li>• Liquidity Program</li> <li>• Low Duration Fixed Income Program</li> <li>• Public Employees' Health Care Fund</li> <li>• Public Employees' Long-Term Care Fund</li> <li>• Real Assets Program</li> <li>• Securities Lending</li> <li>• Supplemental Income Plans</li> <li>• Total Fund Investment</li> </ul>

### CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
<b><i>High Quality LIBOR</i></b>	A limited-duration, highly liquid, LIBOR-based fund managed by CalPERS staff.	<ul style="list-style-type: none"> <li>• Global Fixed Income Program</li> <li>• Inflation Assets</li> <li>• Low Duration Fixed Income Program</li> <li>• Total Fund Investment</li> </ul>
<b><i>Legacy Commitments</i></b>	With regard to the Securities Lending Investment Policy, legacy commitments refers to commitments held in the cash collateral reinvestment portfolio prior to adoption of the Securities Lending Investment Policy dated February 16, 2010.	<ul style="list-style-type: none"> <li>• Securities Lending</li> </ul>
<b><i>Leveraged Bank Loans</i></b>	Loans made by banks that are typically partially secured by assets and are made to non-investment grade companies with a debt/EBITDA ratio greater than 3.5 and have a spread to LIBOR of greater than 250 basis points.	<ul style="list-style-type: none"> <li>• Global Fixed Income Program</li> </ul>
<b><i>Net Committed Capital</i></b>	Remaining cost plus unfunded commitments.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b><i>Net Exposure</i></b>	The sum of the notional market value of long (positive) and short (negative) positions in all non-option instruments, plus the delta adjusted notional value of all options positions.	<ul style="list-style-type: none"> <li>• Global Equity</li> <li>• Total Fund Investment</li> </ul>
<b><i>Outsourcer</i></b>	A portfolio company that intends to provide services in a manner that will cause the outsourcing, on more than a de minimis basis, to the private sector of existing U.S. state and local public sector jobs.	<ul style="list-style-type: none"> <li>• Restricting PE Investments in Public Sector Outsourcers</li> </ul>
<b><i>Private Asset Class Board Investment Consultant</i></b>	An individual or organization that provides specialized professional assistance to the Investment Committee related to an asset class regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory service to the Investment Committee.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> <li>• Real Assets Program</li> <li>• Total Fund Investment</li> </ul>
<b><i>Prudent Person Opinion</i></b>	An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151 (c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> <li>• Total Fund Investment</li> </ul>

### CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
<b><i>Second-Quartile Firm</i></b>	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the second-quartile of a private equity industry benchmark.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b><i>Top Quartile Firm</i></b>	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the top-quartile of a private equity industry benchmark.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b><i>Vintage Year</i></b>	The year in which the first capital drawdown of the partnership occurs.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>

## CalPERS Specific Glossary of Terms

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<b>Alternative Solicitation Process</b>	A process for identifying and selecting external asset managers utilizing the on-line Investment Proposal Tracking System. This process may target a particular strategy type, or may continuously assess submitted investment proposals and replaces a formal request for proposal.	<ul style="list-style-type: none"> <li>• Global Equity</li> </ul>
<b>Asset Class Tracking Error</b>	The expected or <i>ex ante</i> annualized standard deviation of the return difference between an asset class and its assigned strategic benchmark as calculated from the Investment Office Risk Management system.	<ul style="list-style-type: none"> <li>• Global Equity</li> </ul>
<b>Corporate Sector</b>	As defined by CalPERS corporate investment managers in BlackRock Solutions, Aladdin product. Examples of sectors include banking, independent finance, diversified telecom, etc.	<ul style="list-style-type: none"> <li>• Global Fixed Income Program</li> <li>• Low Duration Fixed Income Program</li> </ul>
<b>Customized Investment Account</b>	An investment structure in which CalPERS partners with a firm that has <u>distinct appropriate</u> investment expertise <del>in an industry, geographic region or investment style and has demonstrated the ability to provide top-quartile returns for the</del> <u>proposed investment strategy</u> . Other than the general partner, CalPERS would be the sole investor. This structure may have an individual mandate or may invest alongside other similarly structured funds in the same investments with different terms.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> <li>• Total Fund Investment</li> </ul>
<b>Emerging Management Team</b>	A firm raising a first or second time Institutional Fund.  Institutional Fund – A Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors have made a commitment.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>

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## CalPERS Specific Glossary of Terms

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<b>Leveraged Bank Loans</b>	Loans made by banks that are typically partially secured by assets and are made to non-investment grade companies with a debt/EBITDA ratio greater than 3.5 and have a spread to LIBOR of greater than 250 basis points.	<ul style="list-style-type: none"> <li>• Global Fixed Income Program</li> </ul>
<b>Net Committed Capital</b>	Remaining cost plus unfunded commitments.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b>Net Exposure</b>	The sum of the notional market value of long (positive) and short (negative) positions in all non-option instruments, plus the delta adjusted notional value of all options positions.	<ul style="list-style-type: none"> <li>• Global Equity</li> <li>• Total Fund Investment</li> </ul>
<b>Outsourcer</b>	A portfolio company that intends to provide services in a manner that will cause the outsourcing, on more than a de minimis basis, to the private sector of existing U.S. state and local public sector jobs.	<ul style="list-style-type: none"> <li>• Restricting PE Investments in Public Sector Outsourcers</li> </ul>
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### CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
<b><i>Second-Quartile Firm</i></b>	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the second-quartile of a private equity industry benchmark.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b><i>Top Quartile Firm</i></b>	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the top-quartile of a private equity industry benchmark.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>
<b><i>Vintage Year</i></b>	The year in which the first capital drawdown of the partnership occurs.	<ul style="list-style-type: none"> <li>• Private Equity Program</li> </ul>



M E K E T A I N V E S T M E N T G R O U P

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December 16, 2019

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

**RE: REVISION OF THE PRIVATE EQUITY INVESTMENT POLICY – SECOND READING**

Dear Mr. Feckner:

In November, Meketa Investment Group (“Meketa”) had been asked in its capacity as Board Consultant for the Private Equity Program (the “Program”) to opine on the revisions of the CalPERS’ Investment Policy for the Private Equity Program (the “Policy”) submitted to the Investment Committee for a first reading on November 18, 2019. For the December meeting, Meketa has been asked to provide an opinion on the second reading of the revisions to the Policy, which are described in Item 7a. While this second reading does not include any additional changes to the Policy since the first reading, Staff has clarified the definition of “Customized Investment Account” as per the Board’s request.

For the Private Equity program, the proposed revisions amend the definition of “Customized Investment Account” as well as make certain ministerial and clean up changes to the Policy. As described below, we support Staff’s revisions to the Policy.

**CUSTOMIZED INVESTMENT ACCOUNT**

As we outlined in our letter for the first reading, a Customized Investment Account (“CIA”) is an investment structure where CalPERS is the only investor and as such, would likely have terms that are different from a commingled fund alternative. The CIA may invest alongside a commingled fund or have an individual mandate. The CIA structure allows Staff to leverage an investment commitment by CalPERS in order to negotiate favorable terms and conditions with the CIA’s manager.

The term “Customized Investment Account” is included as a defined term in CalPERS Specific Glossary of Terms (“Glossary”). For the second reading, Staff has clarified that the manager of the CIA must have the appropriate investment expertise for the proposed strategy. This clarification would be combined with the change in the first reading which eliminated the existing requirement that the investment firm sponsoring the CIA have “demonstrated the ability to provide

December 16, 2019  
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top quartile returns.” As we stated in our prior letter, the “top quartile” requirement is backward looking and does not capture all the elements that Staff would consider when selecting a manager for a CIA. We believe these collective changes to the CIA definition will allow Staff to look widely for attractive partners for CIAs. We note that Staff must obtain a Prudent Person Opinion (“PPO”) for all CIAs. Additionally, Meketa, as CalPERS’ Private Equity Board Consultant, will participate in the review of all CIAs with our focus being on Policy compliance.

#### SUMMARY OPINION

If adopted, the proposed changes to the Policy would provide Staff with an expanded set of potential CIA sponsors to choose from and thereby increase Staff’s ability to select attractive, appropriately experienced managers to partner with. As we noted, Staff will continue to need to obtain a PPO for all CIAs, and Meketa will participate in the review from a policy compliance perspective. 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,



Stephen McCourt  
Managing Principal



Judy Chambers  
Managing Principal



Steven Hartt  
Principal

SPM/JC/SKH/jls



**Thomas Toth, CFA**  
**Managing Director**

November 26, 2019

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

Re: Second Reading of Private Equity and Real Asset Program Policy Revisions

Dear Mr. Feckner:

You requested Wilshire's opinion as it relates to the second reading of the Private Equity (PE) and Real Assets (RA) Program Policy Revisions. Wilshire has reviewed the documents and remains comfortable with the changes discussed during the first reading.

Within the glossary definition for a Customized Investment Account, "*distinct* investment expertise" has been replaced with "*appropriate* investment expertise." This more open verbiage is meant to encompass proficiency in specific industries or styles for example, without limiting the opportunity set to just those factors. Further, eliminating the requirement for demonstrated top-quartile returns is not meant to imply that an examination of historical track records will no longer occur. In fact, it will remain a key component of due diligence in an effort to ascertain whether strong prior results are repeatable and sustainable going forward. Rather, the change means the Private Equity team will not be limited by the glossary definition to diligence *only* those strategies with strong past performance. This will allow for consideration of a broader opportunity set, which Wilshire supports.

There were no additional changes requested for the Real Assets policy in this second reading. Wilshire is comfortable that the policy revisions allow for reasonable flexibility in implementation by Staff as they source and diligence opportunities without increasing strategic risk.

Please do not hesitate to contact us should you require anything further or have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Toth'.



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December 16, 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—  
 SECOND READING**

Dear Mr. Feckner:

In November, Meketa Investment Group (“Meketa”) had 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. In this same capacity, Meketa has been asked to provide an opinion on the second reading of the proposed revisions to the RA Program Policy, which are described in Item 7a. No changes are proposed from the first reading to the second reading.

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 re-affirm our support for this second reading of Staff’s proposed revisions to the RA Program Policy that we provided for the first reading.

**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 are 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 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

CLF/EFB/DG/jls