

Total Fund Policy Review – Second Reading

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Introduction

Staff is seeking approval from the Investment Committee regarding the proposed revisions to the Total Fund Investment Policy resulting from the Strategic Asset Allocation (SAA) that the Board approved in the November 2021 Investment Committee meeting. This is the second read of the proposed changes presented in the March Committee meeting.

The proposed changes listed in this item are intended to further align policy with the evolution of the Real Assets and Private Debt programs and include:

- Adjust risk classifications in Real Assets Program
- Modify Private Debt strategy classifications and ranges

In addition, we received Board direction to define Private Debt strategies.

All other content presented in the first read to the Committee in March is unchanged.

Proposed Real Assets Policy Changes

Create flexibility to execute the strategic plan

Current Table

	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%

Proposed Table

	Real Assets	Real Estate	Infrastructure	Forestland
Core	65 - 100%	75 - 100%	50 - 100%	75 - 100%
Non-Core	0 - 35%	0 - 25%	0 - 50%	0 - 25%

- Update the risk classifications to combine Value Add and Opportunistic into a single Non-Core classification
- Decrease the lower end of the Core Infrastructure allocation from 60% to 50%
- Core allocations for Real Estate and Forestland remain unchanged
- Minimal change to the risk profile

Proposed Private Debt Policy Changes

Align Private Debt strategies with evolving market standards

- Direct Lending will continue to be the majority of the Private Debt strategy
- Align other categories with how we approach portfolio construction
 - Remove Liquidity Financing and Private Structured Products
 - Add Residential Mortgages as a separate strategy
- Provide flexibility with the strategy ranges to take advantage of opportunities in the market
- Minimal change to the risk profile

Current Table

Strategy	Range
Direct Lending	20 – 100%
Specialty Lending	5 – 40%
Liquidity Financing	0 – 25%
Real Estate Financing	5 – 40%
Private Structured Products	0 – 25%

Proposed Table

Strategy	Range
Direct Lending	20 – 100%
Residential Mortgages ¹	0 – 40%
Real Estate Financing	0 – 40%
Specialty Lending	0 – 40%

¹ – Change from First Reading - Added “Residential” to differentiate from Real Estate Financing

Private Debt Strategy Definitions

As directed by the Board, staff developed strategy definitions for inclusion in Policy-related procedures.

Definition	
Direct Lending	The strategy primarily focuses on direct loans to corporations.
Residential Mortgages	The strategy primarily focuses on private investments backed by residential real estate.
Real Estate Financing	The strategy primarily focuses on private investments backed by commercial real estate.
Specialty Lending	The strategy includes a diverse array of debt investments with different underlying credit exposure profiles backed by assets. These may include (1) consumer-related debt such as credit cards and solar loans, (2) non-consumer assets, such as equipment-based lending and aircraft leasing and (3) specialized lending to specific sectors such as sports, media and entertainment and life sciences.

CalPERS team recommends the Investment Committee adopt the proposed policy revisions as presented.