



Investment Committee

Agenda Item 7b

June 14, 2021

Item Name: Total Fund and Affiliate Fund Policy Updates

Program: Total Fund, Judges' Retirement System II Fund and Legislators' Retirement System Fund

Item Type: Information

Executive Summary

Staff is seeking input from the Investment Committee (Committee) on the proposed revisions to the Total Fund Investment Policy (Policy) that pertains to tracking error and related conforming changes to the Judges' Retirement System II Fund and Legislators' Retirement System Fund Policies (Affiliate Policies). The Long-Term Care Fund tracking error definition will be addressed during its upcoming Strategic Allocation review. No other Affiliate Fund policies require conforming changes.

Strategic Plan

These items further the CalPERS 2017-22 Strategic Plan by supporting strong governance and effective process to cultivate a risk-intelligent organization.

Investment Beliefs

This item supports CalPERS Investment Belief 5 – that CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution.

Background

This item is being brought to the Committee as per request by Committee's members at the November meeting. The proposed revisions will strengthen the Funds' governance and accountability and facilitate the alignment with the Committee's approved investment strategy.

Analysis

Highlights of the proposed revisions to the Policies are outlined below:

Total Fund Actionable Tracking Error Limit

Appendix 6 of the Policy is being updated to reflect changes to the tracking error methodology and monitoring activities (see Attachment 2 pg. 50 of 110). Additional conforming changes were made to other sections of this Policy (Asset Allocation Strategy section and Investment Risk

Management section - see Attachment 2 pgs. 8 and 11 of 110) and in two Affiliate Policies (see Attachment 2 pgs. 103 and 109 of 110).

Revisions to the Affiliate Policies set more conservative constraints on deviations from the policy targets as appropriate for passively managed funds.

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 – Tracking Error Limit – Proposed Policy Changes

Attachment 2 – Redlines of the Proposed Policies

Attachment 3 – Proposed Policies

Attachment 4 – Consultant Opinion Letter – Wilshire Associates

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