

## CalPERS INSIGHT

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Host: Bob Burton  
Guest: Janine Guillot

### Audio Transcript

Bob Burton:

Welcome once again to Insight, a program designed to keep you up-to-date on CalPERS issues. Our focus today is investment office operations. Managing the operational aspects of CalPERS investment portfolio of more than \$220 billion dollars is of course a huge responsibility. Our guest was brought in to take on that responsibility. Janine Guillot is CalPERS Chief Operating Investment Officer. She's used to dealing with big numbers. She came to CalPERS in April of 2010 from her position as managing director of Barclay's \$450 billion dollar global fixed income business. Janine welcome to Insight.

Janine Guillot:

Thank you, Bob.

Bob Burton:

Delighted to have you here. To begin with, what are the essential differences between your responsibilities as Chief Operating Investment Officer and those of our Chief Investment Officer, Joe Dear?

Janine Guillot:

Well, Joe's responsible for an entire investment office, including our investment strategy and the performance of our investment portfolio. I'm responsible for the operating aspects of the investment office. So, that includes functions like operations, policy development, technology, and some of our investment compliance functions. I'm also responsible for our corporate governance program, which includes how we interact with the Boards of the companies in which we invest, and how we integrate factors like the environment into our investment decision making process.

Bob Burton:

Where do you start when it comes to improving the operations of an investment office?

Janine Guillot:

Well, we start with looking at risk, and thinking about risk. So we've done two major efforts to help us prioritize. One is our risk heat map, which identified all of the top risks in the investment office. And the other project was our target operating model which identified standard investment management industry functions, and assessed risk in those functions. So those two efforts are guiding our priorities for a three to five year effort to improve our operating environment.

Bob Burton:

Things like internal controls, expense management, and the definition of roles within the players in the investment office, how much do they drive what you're trying to do?

Janine Guillot:

They drive everything we try to do and the end goal of improving our controls in our operating environment is around improving investment performance. Because operating errors or operating issues can cost the fund money that reduces investment performance. So everything we do is focused on how to deliver the best performance we can for our beneficiaries.

Bob Burton:

You mentioned risk a moment ago. Risk and compliance are terms we hear a lot in management circles. In layman's terms, can you explain what they are, and why they're so important?

Janine Guillot:

Well, risk became a very, very hot topic after the financial crisis of 2008. But it's very important when you talk about risk, is to focus on exactly what risks you're trying to manage, and who is accountable for managing those risks. So, in an investment context you can have market risk, so that's the risk that the market, say the equity market, moves up or down unexpectedly. You have counter party risk, which is what is the risk that your counter party is going to perform. Or you can have something like operating risk. And so we're very focused on identifying all of those risks and being very clear who's accountable for managing each of them.

Bob Burton:

And what about compliance?

Janine Guillot:

So for CalPERS, compliance means compliance with laws and regulations. So compliance means identifying all of the laws and regulations that apply to us and insuring we have processes to make sure we comply with those rules.

Bob Burton:

Stepping back and taking sort of a snapshot of where the operations of the investment office are right now, what do you view as our most important improvement, and on the other hand, what is our greatest challenge?

Janine Guillot:

So we're very proud of two things that we accomplished in the last year. One is the implementation of our new risk system, which will significantly improve our ability to manage our investment risk. And we're also very proud of work we've done to improve our custody relationship, and our processes around managing our custody relationship. Going forward for us, the big challenge is prioritization. The target operating model

work that I mentioned earlier identified six major projects that we are moving forward simultaneously, and our big effort is to manage those projects and prioritize effectively.

Bob Burton:

You have a very full plate. Glad you could make time to be with us today. Thank you very much, Janine. You've been watching Insight, Conversations with CalPERS Leaders. Our guest today was Janine Guillot, CalPERS Chief Operating Investment Officer. Join us again soon for more Insight.