



## Consent

### Agenda Item 3e

May 14, 2012

**ITEM NAME:** Revision of Global Fixed Income Delegation Resolution for Professional Staff and Global Fixed Income Program Policy

**PROGRAM:** Global Fixed Income

**ITEM TYPE:** Policy & Delegation – Consent Action

#### **RECOMMENDATION**

Approve the revised Global Fixed Income Delegation Resolution for Professional Staff (Delegation No. 11-02-INV) and the revised Global Fixed Income Program Policy.

#### **EXECUTIVE SUMMARY**

Staff seeks approval of the revised delegation and policy as the current delegation and policy does not specifically mention the ability to internally manage the International Fixed Income Program. Global Fixed Income (GFI) has the resources necessary to insource funds from the International Fixed Income Program but is unable to do so until the appropriate governing documents are revised to reflect the ability to do so. Upon approval, staff will transfer \$500 million from external management to a portfolio to be managed by internal staff.

#### **BACKGROUND**

At the April 2012 Investment Committee (IC) meeting, it was discussed that GFI will insource a portion of the International Fixed Income Program currently being managed by external managers. In addition to saving management fees from insourcing, staff informed the IC of the existing internal expertise and the performance results of the internal currency and sovereign portfolios that are similar to an international mandate. Staff believes that the synergies with external managers and GFI would result in similar alphas as currently generated by external managers.

#### **ANALYSIS**

An alternative option would be to let the current external managers continue managing the International Fixed Income Program entirely. CalPERS paid a total of \$7.4 million in fees to these external managers for the 2010-11 fiscal year. It is estimated that CalPERS can save at least \$350,000 in base fees and approximately \$1 million in performance fees if staff is able to insource an initial amount of \$500 million.

Not only can fees be reduced, but GFI has proven in various programs (e.g. currency, sovereigns, and inflation-linked bonds) that they are capable of generating alpha.

Wilshire's Opinion letter (Attachment 3) is included, which recommends the approval of the Investment Committee.

**BENEFITS/RISKS**

The benefits to CalPERS include the possibility to further reduce fees paid to external managers and to increase staff knowledge and insights into a global economy that are gained through internally managing an international mandate. If approved, any associated concerns or risks related to internal staff being unable to generate equivalent alpha to the external managers will be mitigated in that only an initial amount of \$500 million of a \$3.6 billion program will be insourced.

**ATTACHMENTS**

- Attachment 1 – Global Fixed Income Delegation Resolution for Professional Staff
- Attachment 2 – Global Fixed Income Program Policy
- Attachment 3 – Wilshire Opinion Letter

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