



Agenda Item 6a

November 13, 2012

ITEM NAME: Global Equity Program Policy Consolidation

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

This agenda item is a first reading and outlines staff's proposal to establish a new streamlined Global Equity Asset Class Policy (GE Policy). The new GE Policy would provide greater consistency and alignment with the current portfolio management philosophy and investment objectives. Additionally, the new GE Policy would consolidate and replace a number of legacy policies.

Pending feedback from the Investment Committee and taking account of other inputs, any policy adoption, revision, or repeal will be brought back to the Committee for action as a second reading in December 2012. A draft of the proposed GE Policy, and copies of the policies that would be repealed, are provided as attachments 1-9. An opinion letter from Wilshire Associates is provided as attachment 10.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. The adoption of a clear, updated, and unified GE Policy will enhance CalPERS ability to achieve the System's investment objectives.

BACKGROUND

The review and consolidation of Global Equity investment policies constitutes an important step in the ongoing restructure of the asset class. The legacy policy documents contain a significant amount of procedural language as well as restatement of parameters contained in applicable CalPERS Investment Office (INVO) policies such as those dealing with derivatives and leverage. The development of the new GE Policy has been undertaken in conjunction with a comprehensive investment procedure review and update effort within the asset class. The new GE Policy reflects the refinement of multiple processes and objectives within the Global Equity Program.

ANALYSIS

A core element of the proposed GE Policy is the formal assimilation of the legacy sub-programs contained within Global Equity. This assimilation significantly improves the ability to manage the asset class as a single pool, focused on the overall objectives relative to the custom FTSE All World, All Capitalization benchmark which represents the primary characteristics.

Another important concept is a re-orientation on specific risk parameters such as an overall tracking error for the entire asset class. This “re-focusing” supports the notion of risk budgeting or targeting as a central tenet of overall investment risk management. Within this concept, all Global Equity strategies must be examined in aggregate to understand the total risk of the program. Additionally, the proposed GE Policy provides for a mechanism to ensure an awareness and involvement from all appropriate parties within the Investment Office before changes to the structure of the Global Equity portfolio are executed. The new GE Policy would also better align the Global Equity policy framework with the policy structures utilized by other CalPERS asset classes.

Other significant changes that would be included in the new GE Policy are:

1. A mechanism to mitigate the effects of any explicit investment threshold being breached.
2. The recognition that monitoring various aspects of the asset class thresholds occurs not only within the Global Equity asset class, but also within the INVO Risk Management and Investment Compliance teams.
3. A uniform categorization of strategies as either “index” (managed within a 50 basis point tracking error threshold) or “active” for strategies with tracking error greater than 50 basis points.

ATTACHMENTS

- Attachment 1 – Proposed Global Equity Program Policy
- Attachment 2 – Strike-through version of the Externally Managed Strategies Policy
- Attachment 3 – Strike-through version of the Global Equity Emerging Manager Fund of Funds Policy
- Attachment 4 – Strike-through versions of the Global Equity Sub-Asset Class Allocation Ranges Policy
- Attachment 5 – Strike-through version of the Internally Managed Affiliate Equity Index Funds Policy
- Attachment 6 – Strike-through version of the Internally Managed Global Enhanced Equity Strategies Policy
- Attachment 7 – Strike-through version of the Internally Managed Global Equity Index Funds Policy

- Attachment 8 – Strike-through version of the Manager Development Program I and II (MDP) Policy and Manager Transition Policy
- Attachment 9 – Strike-through version of the Monitoring Externally Managed Portfolios Policy
- Attachment 10 – Wilshire Associates Opinion Letter

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