



Consent

Agenda Item 4c(2)

December 10, 2012

ITEM NAME: Special Review Implementation Plan – Investment Office

PROGRAM: Investment Compliance and Operational Risk

ITEM TYPE: Total Fund – Consent Information

EXECUTIVE SUMMARY

In October 2009, CalPERS publicly announced a special review (Special Review) to be led by Steptoe & Johnson LLP. The purpose of the review was to examine whether the interests of the institution's participants and beneficiaries had been harmed by the use of placement agents or related activities, to pursue remedial measures addressing any such harm, and to make recommendations to prevent future harm. In February 2011, the CalPERS Board of Administration (the Board) approved a series of recommendations from the Special Review. The Investment Office (INVO) undertook the responsibility for eight initiatives with respect to these measures.

INVO has been reporting quarterly to the Committee on the status of these eight initiatives.

All of the initiatives have either been completed or, as necessary, have been incorporated into the Investment Compliance and Operational Risk (ICOR) compliance testing and monitoring process. The results of ICOR's compliance monitoring of the remaining initiatives will be reported annually to the Investment Committee (the Committee) along with ICOR's other testing results. Therefore, the report on the Special Review Implementation Plan will no longer be a standalone report to the Committee.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. This agenda item provides the Committee with an update on implementation of the Special Review recommendations and integration of the Special Review Implementation Plan into INVO's processes to mitigate risk and improve governance.

BACKGROUND

One of the primary functions of the ICOR Program is implementing processes and controls designed to ensure that INVO staff comply with policies, laws and regulations. ICOR has completed an inventory of U.S. laws, rules and regulations applicable to INVO and the Enterprise Compliance Division has completed an inventory of California state laws applicable to each program area of the California Public Employees' Retirement System. In addition, ICOR has developed an inventory of controls currently in place to ensure compliance with these laws, regulations and policies and will begin independent testing of key controls in December 2012.

ANALYSIS

INVO undertook responsibility for eight initiatives with respect to recommendations from the Special Review:

- (a) Tracking and reporting use of placement agents
 - (b) Adoption of the Real Estate Alignment of Interest Policy
 - (c) Developing a focused program to obtain below market fees on new commitments in Private Equity and Real Estate
 - (d) Working with the Institutional Limited Partners Association (ILPA) to increase the numbers of Private Equity general partners who are ILPA signers
 - (e) Implementing a new travel policy with a compliance pre-clearance process
 - (f) Adopting a mandate that for those investments where CalPERS is the sole limited partner, all meetings be conducted at the general partners' office at CalPERS
 - (g) Revising the Role of the Private Asset Class Board Investment Consultant Policy
 - (h) Reorganizing the Investment Office to separate and functionalize negotiation and monitoring roles
- Items (e), (g) and (h) have been completed
 - Item (a), the tracking and reporting of the use of placement agents, is now provided within a standing monthly agenda item in the Total Fund Monthly Report
 - Items (a), (e) and (f) that require ongoing monitoring are now part of ICOR's policy monitoring and testing program
 - Items (b), (c) and (d) are ongoing efforts that staff is making with our external managers. Staff will continue to focus on these efforts as well as other initiatives to obtain greater transparency and accountability in the expenditure of partnership assets.

Attachment 1 provides additional details on actions taken to implement the Special Review recommendations.

ATTACHMENTS

Attachment 1 – Special Review Implementation Plan Status Report

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