



## Agenda Item 6a

September 16, 2013

**ITEM NAME:** Adoption of CalPERS Investment Beliefs and Initial Review of CalPERS Investment Beliefs Policy

**PROGRAM:** Total Fund

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

### **RECOMMENDATION**

Adopt the CalPERS Investment Beliefs (Investment Beliefs) as presented in Attachment 1 and conduct an initial review of the CalPERS Statement of Investment Policy for Investment Beliefs Policy (Policy) included in Attachment 2.

### **EXECUTIVE SUMMARY**

CalPERS Investment Committee (IC) and CalPERS staff (staff) have participated in a long-term process to develop a set of Investment Beliefs (Attachment 1). Staff recommends adoption of the Investment Beliefs. In addition, staff recommends an initial review of the Policy (Attachment 2) which will provide guidance regarding the purpose and use of the Investment Beliefs. Wilshire and PCA opinion letters regarding the proposed Policy are included as Attachments 3 and 4, respectively.

### **STRATEGIC PLAN**

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. Adopting a set of Investment Beliefs provides a framework for exercising judgment, making investment decisions and ensuring alignment among IC Members and staff.

### **BACKGROUND**

Investment Beliefs provide a basis for strategic management of the investment portfolio, inform organizational priorities and ensure alignment between the IC and staff. In November 2012, a formal project was launched to develop a set of Investment Beliefs for CalPERS with participation from the IC, staff and Board Consultants (Wilshire, PCA). Towers Watson (TW) was engaged to facilitate the process.

The Investment Beliefs project included in-depth one-on-one interviews with IC Members and staff. Board and staff input was analyzed and clustered into themes. In particular, there was a focus on identifying themes that had contentious and unsettled elements that required resolution.

In April 2013, an IC Workshop was held to enable the IC Members to discuss the contentious and unsettled themes and to understand various points of view. Staff conducted a similar exercise and staff views were shared with the IC Members as input to their deliberations. In addition, in March 2013, an Investment Beliefs Stakeholder Panel provided a forum for CalPERS stakeholders (an Employer Representative, Labor Representative and Pension Management Practitioner Representative) to engage in dialogue and share their perspectives on Investment Beliefs.

Staff presented a set of 10 draft Investment Beliefs to the IC Members at the July 2013 Board Offsite and sought feedback. Staff incorporated the feedback received and are presenting the Investment Beliefs for adoption.

The IC received public comment throughout the process. Staff is grateful for the participation and engagement of the full IC, Senior Investment Office staff and stakeholders in the Investment Beliefs development process.

#### **ANALYSIS**

Using a thorough and disciplined process, the IC and staff have achieved strong consensus around a set of Investment Beliefs. The proposed Investment Beliefs and sub-beliefs are included in Attachment 1.

Attachment 2 includes the Policy. Staff is requesting initial review of the Policy in September with formal adoption in October. Attachment 2 contains tracked changes which indicate areas where IC Member and public feedback received at the July 2013 Offsite have been incorporated into the Investment Beliefs.

The Policy requires CalPERS to develop and maintain a set of Investment Beliefs. It provides context for how the Investment Beliefs should be used. It makes clear that the Investment Beliefs are a framework for making judgmental decisions; they are not a checklist to be applied by rote to each decision.

The Policy also requires that staff:

1. Facilitate a periodic review of the Investment Beliefs in conjunction with the Strategic Asset Allocation process.
2. Report to the Committee on investment program strategy and its consistency with CalPERS Investment Beliefs.
3. Integrate the Investment Beliefs into Committee and staff orientation and ongoing staff communication programs.

Attachment 1 and 2 includes more detailed sub-beliefs that are actionable statements providing insight as to how the Investment Beliefs will be implemented.

The Investment Beliefs development process identified several topics that will require additional discussion among the IC and staff over time. These topics include investment performance measurement, risk management and measurement, active management and integration of sustainability factors into investment decision making. Staff will work with the IC Chair and Vice Chair to integrate these topics into the 2014 IC Calendar, after completion of the strategic asset allocation process.

#### **BUDGET AND FISCAL IMPACTS**

Not Applicable

#### **BENEFITS/RISKS**

Adopting a set of Investment Beliefs provides a framework for exercising judgment, making investment decisions and ensuring alignment among IC Members and staff, including:

- Providing a basis for strategic management of the investment portfolio
- Informing organizational priorities
- Ensuring alignment between the IC Members and staff
- Becoming part of the CalPERS culture

The biggest risk related to the adoption of the Investment Beliefs is that they do not become part of the CalPERS culture and are not reflected in CalPERS investment decisions. Staff is mitigating risk related to adopting the Investment Beliefs by presenting a draft Policy for review and adoption.

#### **ATTACHMENTS**

Attachment 1 – CalPERS Investment Beliefs and Sub-beliefs

Attachment 2 – CalPERS Statement of Investment Policy for Investment Beliefs

Attachment 3 – Wilshire Opinion Letter

Attachment 4 – PCA Opinion Letter

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