



Agenda Item 5a

November 18, 2013

ITEM NAME: Revision of the Global Equity Program Policy

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Global Equity Program Policy as shown in Attachment 1, the consultant opinion letter is provided as Attachment 2.

EXECUTIVE SUMMARY

The Global Equity Program Policy was presented to the Investment Committee (IC) for initial review on October 14, 2013.

The revised Global Equity Program Policy includes the following changes based on feedback from the initial review by the IC:

- Revised the *Purpose* section to add the CalPERS Investment Beliefs with the Total Fund Statement of Investment Policy.
- Revised *Strategic Objective F.* to indicate that Global Equity shall incorporate CalPERS Investment Beliefs when investing to influence sustainability issues including governance, risk management, human capital and environmental practices.

Changes made to the Global Equity Program Policy based on the IC's feedback are denoted with yellow highlighting within Attachment 1.

Staff seeks approval of the Global Equity Program Policy to include administrative functions which were deleted, and clarification of individual program details and terminology after the Global Equity and strategy-specific policies were repealed last year.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The adoption of the revised Global Equity Program Policy will ensure that CalPERS is able to effectively achieve the System's investment objectives through clear and current investment policy documentation.

INVESTMENT BELIEFS

This agenda item supports Investment Belief 10 – strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. CalPERS is best positioned for success if it operates with effective, clear processes such as investment policies.

BACKGROUND

In December 2012, the Investment Committee approved a single, simplified Global Equity policy while repealing nine program/strategy policies related to external and internal investment management. The goal of the simplified policy was to focus on the total Global Equity portfolio strategy rather than on the individual underlying programs.

ANALYSIS

By including references to the new Investment Beliefs within sections I. and II. F. of the revised policy, along with the changes presented during the initial review (see below), it emphasizes our commitment to improving transparency while clarifying the total Global Equity program goals. This revised policy:

- Clarifies that staff will contract with external managers and will transition emerging managers into direct, standard contracts using the exemption from competitive bidding process.
- Reinforces that each individual strategy's guideline defines limits and objectives, deleting forecast tracking error limits for individual strategies and focusing the policy on the total Global Equity portfolio.
- Aligns language to reflect the new Investment Beliefs such as referring to "sustainability" rather than "ESG."
- Clarifies that when directed by the Board, assets will be divested and benchmarks adjusted except when CalPERS does not have discretionary control of the assets such as in commingled funds and exchange traded funds.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance transparency into investment processes and strategy. The risks of not approving this policy include lack of clarity and direction to staff as they invest the Global Equity portfolio, thereby increasing the risks of missed opportunities and ambiguous implementation affecting emerging managers and divestment activities.

ATTACHMENT

Attachment 1 – Revised Global Equity Statement of Investment Policy

Attachment 2 – Consultant Opinion Letter – Proposed Changes to the Global Equity Policy

DAN BIENVENUE
Interim Senior Investment Officer
Global Equity

JOSEPH A. DEAR
Chief Investment Officer