



Agenda Item 7b

February 18, 2014

ITEM NAME: Revision of the Global Fixed Income Delegation Resolution for Professional Staff

PROGRAM: Global Fixed Income

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Global Fixed Income (GFI) Delegation Resolution for Professional Staff, Delegation No: 11-02-INV, as provided in Attachment 1. The consultant opinion letter from Wilshire Associates is provided as Attachment 2.

EXECUTIVE SUMMARY

GFI is seeking to update and clarify changes to the Delegation Resolution which would provide an updated and consistent delegation. The changes are:

- Include the ability for the Chief Investment Officer (CIO) and the Senior Investment Officer (SIO) to select externally managed portfolios to be in alignment with the Board Governance Policy and the powers delegated to the Investment Committee(IC).
- Provide clarity that the CIO/SIO have the ability to invest in and dispose of not just commodities derivatives but all derivative instruments consistent with Board approved Investment Policies.
- Remove references to the Barclays Aggregate Program (BA) Policy as this policy was repealed by the IC on December 16, 2013.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. The revised GFI Delegation Resolution provides the CIO/SIO an updated and more explicit delegation to better determine his or her authority to make investment decisions.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 2: A long time investment horizon is a responsibility and an advantage. The long time horizon requires that CalPERS consider the impact of its actions on future generations of members and taxpayers.

BACKGROUND

The first proposed change is related to external managers. The current delegation is not consistent with the Board Governance Policy and the powers delegated to the IC. Appendix A of the Board Governance Policy permits the CIO/SIO the ability to select and terminate externally managed portfolios. Staff failed to update the GFI Delegation Resolution which currently includes language to terminate but not to select externally managed portfolios.

The second proposed change to the GFI Delegation Resolution is in regards to derivatives. As the Delegation Resolution is currently written, the CIO/SIO can only invest in and dispose of commodity derivative instruments. However, many of the GFI investment policies allow for derivatives outside of commodities such as Credit Default Swaps, financial futures and options on financial futures.

Lastly, on December 16, 2013, the IC approved the repeal of the BA Policy. The BA was originally adopted as the fixed income investment allocation vehicle for the Health Care Fund (HCF) and was later incorporated into the Supplemental Income Plans (SIP) fund lineup in 2007. Assets were transferred from BA to the State Street Global Advisors (SSgA) passive index funds beginning in October 2013 with the last of the assets transferred on October 17, 2013. As a result of the transition, the BA no longer holds any assets and no assets are intended to be held in the foreseeable future.

ANALYSIS

The suggested changes to the GFI Delegation Resolution are administrative in nature and will provide an up-to-date and consistent delegation for the CIO/SIO. Changes will provide consistency with the Board Governance Policy and the powers delegated to the IC, the investment policies of GFI, and reflect the repeal of the BA Policy.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Revision of the GFI Delegated Resolution is not anticipated to have any associated risk. Adopting the proposed changes will provide additional clarity around the investment decisions that have been delegated to the SIO of GFI and the CIO. Failure to revise the GFI Delegation Resolution would result in continued ambiguity and potential disagreement over the intent in the future, which could present operational and reputational risks to CalPERS.

ATTACHMENTS

Attachment 1 – Revised Global Fixed Income Delegation Resolution for Professional Staff

Attachment 2 – Wilshire Associates Opinion Letter

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