



Agenda Item 6a

March 17, 2014

ITEM NAME: Review of Investment Committee Delegation

PROGRAM: Administration

ITEM TYPE: Committee Governance – Action

RECOMMENDATION

Recommend proposed changes to the Investment Committee (IC) Delegation for Board consideration and approval at the April Board meeting.

EXECUTIVE SUMMARY

The Board of Administration Governance Policy requires an annual review of the Board delegation to the IC. The Chair and senior Investment staff conducted a review of the delegation. Recommended changes are set forth in Attachment 1.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. Conducting periodic reviews of delegation documentation supports the IC in maintaining current and accurate governance documents.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 10: Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. Conducting periodic reviews of delegation documentation improves governance and clarifies authority and process between the IC and staff.

BACKGROUND

In 2011, Funston Advisory Services was commissioned by the Board to examine significant areas of Board oversight, governance practices, accountability and decision-making. The purpose of the review was to enhance the effectiveness of the CalPERS Board of Administration.

In September 2011, a final report was presented to the Board which offered many recommendations that were subsequently included in the Board of Administration Governance Policy (Governance Policy), including a provision that committee delegations be reviewed annually.

The Governance Policy also established the following terminology to define the level of authority retained in Powers Reserved and authority delegated to the IC:

- **Conduct** – The Board performs the tasks described.
- **Set** – The Board is actively engaged in developing the strategies and plans for the delegated activities and has final approval authority.
- **Approve** – The Board has final decision authority on delegated activities.
- **Oversee** – The Board requires adequate information to monitor and provide direction and support, as appropriate, on delegated activities.

In December 2011, Board of Administration committee delegation resolutions were updated and approved.

In April 2013, an annual review of the IC delegation was completed and the Board approved one change – that the IC is authorized to ~~approve~~ conduct strategic asset allocation including expected rate of return and risk tolerances for each fund for which the Board has responsibility; and approve the total fund policy benchmark for each fund.

ANALYSIS

Staff has reviewed the current IC delegation and proposes that changes be made to eliminate conflicting language in specific authorities in order to create clarity of direction and interpretation. Included is the use of:

- Standardized straight forward language as prescribed in the Governance Policy to reduce confusion and operational risk
- Simple and concise statements to ensure understanding of intent

After review by the IC Chair and senior Investment staff, a number of proposed IC delegation changes have been identified.

Attachment 1 is the complete delegation with track changes.

The following table lists the proposed changes with accompanying rationale:

Proposed Changes	Rationale
(2) Approve <u>investment policies</u> and oversee compliance with investment policies.	Clarifies which items IC approves and which it oversees.
(3) Conduct strategic asset allocation, including expected <u>set the target rate of return and select the asset allocation mix risk tolerances for each fund, for which the Board has responsibility; and approve the total fund policy benchmark for each fund.</u>	Divide delegation (3) into two separate authorities (3 and 4) to clarify each authority and eliminate conflicts and redundancy with (6), set risks and appetite.
(4) Approve <u>total fund and asset class policy benchmarks.</u>	Clarifies in one delegation that the Board approves total fund and asset class strategic benchmarks as prescribed by the Benchmarks Policy.
(4)(5) Approve and oversee asset class strategic plans, <u>and portfolio construction guidelines, target rate of return, and benchmarks.</u>	Reinforces that the IC approves and oversees asset class strategic plans and portfolio construction guidelines via annual program reviews. Reference to target rate of return and benchmarks was removed as it is covered in authorities (3) and (4).
(14)(15) Set the benchmarks <u>criteria</u> and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee	Replaces "benchmark" with "criteria" to avoid confusion with financial benchmark terminology as this is a reporting related rather than return related concept.
(16)(17) Adopt <u>Approve</u> investment-related regulations.	Replaces "adopt" with "approve" to align with the four defined levels of authority provided in the Governance Policy.

If the IC approves these changes, staff will bring an amended Delegation to the Board for review and approval at the April meeting.

BUDGET AND FISCAL IMPACTS

Not applicable.

BENEFITS/RISKS

Conducting a periodic review of the IC Delegation is consistent with good governance principles and mitigates operational and reputational risks. These changes will reduce the risk of staff not properly managing the portfolio within the appropriate delegated authority.

ATTACHMENTS

Attachment 1 – Board of Administration Delegation Resolution No. IC-11-01
Attachment 2 – Consultant Opinion Letter

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