

Investment Beliefs Activities Update

August 18, 2014

Table of Contents

- Overview
- Rapid Results: Project Goal and Team
- Phase I: “Taking Inventory”
- Phase 2: “New Opportunities”
- Recommendations
- Appendix – Annual Program Review Template

Overview

- In October 2013, the CalPERS Investment Committee adopted a set of ten Investment Beliefs intended to guide decision making, facilitate portfolio management, and enhance consistency.
- The Investment Beliefs serve as a strategic management framework for the investment portfolio and inform organizational priorities.
- The Investment Beliefs Policy, which governs the establishment of the Investment Beliefs, requires that staff integrate the Investment Beliefs into Board and staff orientation and ongoing staff communication programs.
- In January 2014, the Investment Office Executive Team launched a Rapid Results Project (Project) in order to further the implementation of this Policy.

Overview | Rapid Results Project

- **Objective:** Incorporate Investment Beliefs into investment processes, policies and decision-making.
- **Project Focus:** Consider integration in areas such as:
 - The annual Investment Office (INVO) program reviews
 - Internal and external communication templates
 - Talent Management
- **The Rapid Results project was broken up into two phases:**
 - “Taking Inventory”: Conducted a survey with INVO staff to gauge the sentiment around the extent to which Investment Beliefs are currently integrated and supported by their program area.
 - “New Opportunities”: Highlighted new opportunities around Investment Beliefs integration in reporting and talent management.

Rapid Results Team

Co-Sponsors: Eric Baggesen
Anne Simpson

Team Leader: Nelson Da Conceicao

Goal(s): Incorporate Investment Beliefs into investment process, policy and decision making (potentially in areas such as the annual program reviews, policy templates, Investment Committee agenda templates, delegation templates, Investment Proposal Tracking System, Environmental, Social and Governance (ESG) measures, Talent Management, legislation, external representation of CalPERS).

Team Members

Name	Program Area
Scott Brown	Private Equity
Kat Chaussee	Policy & Business Services
Carrie Douglas-Fong	Real Assets
Vikas Garg	Absolute Return Strategies
John Johnson	Global Fixed Income
Courtney LeBlanc	Real Assets
Bill McGrew	Global Governance
Pamela Okino	Investment Servicing
Robert Perez	Investment Compliance
Alfonso Quant	Investment Servicing
Beth Richtman	Real Assets
Sean Tarte	Investment Servicing
Sin Sai Vang	Global Equities

Investment Beliefs Key

	Short Name	Investment Belief
1	Liabilities	Liabilities must influence the asset structure.
2	Long Time Horizon	A long time investment horizon is a responsibility and an advantage.
3	Stakeholders	CalPERS investment decisions may reflect wider stakeholder views.
4	Three Forms of Capital	Long-term value creation requires effective management of three forms of capital: financial, physical and human.
5	Accountability	CalPERS must articulate its investment goals and performance measure and ensure clear accountability for their execution.
6	Strategic Allocation	Strategic asset allocation is the dominant determinant of portfolio risk and return.
7	Risk Reward	CalPERS will take risk only where we have a strong belief we will be rewarded.
8	Costs	Costs matter and need to be effectively managed.
9	Multi-faceted Risk	Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.
10	Resources/Process	Strong processes and teamwork and deep resources are needed to achieve CalPERS' goals and objectives.

Phase I: “Taking Inventory”

Current Level of Integration

High response rate (74%) for INVO-wide survey shed light on two questions:

1. How integrated are the Investment Beliefs today?

Indicator: Percentage of respondents claiming Investment Beliefs are ‘already largely integrated’ in their Program Area

Key Learnings:

- High level of integration of Investment Beliefs associated with traditional investment management dimensions.
- Significant range within program Investment Beliefs integration reflecting asset classes’ philosophy and asset characteristics.

Investment Belief	Average Across Asset Classes		
8 – Costs	+	59%	
6 – Strategic Allocation	↓	58%	
7 – Risk Reward		55%	
2 – Horizon		54%	
1 – Liabilities		45%	
5 – Accountability		43%	
10 – Resources		36%	
3 – Stakeholders		34%	
4 – Three Forms of Capital		29%	
9 – Multi-Risk		-	29%

2. What is the potential for further integration?

Potential for Further Integration

Analysis of survey output using **ADKAR** change management framework shows:

- Strong levels of staff awareness and desire to integrate Investment Beliefs
- General perception of insufficient knowledge and inability to affect change
 - Investment Beliefs related to Risk (Multi-facets, Risk/Reward), Strategic Allocation and ‘Three Forms of Capital’ exhibit low ‘Knowledge’ score across all investment Programs
- Reinforcement scores are supportive, but lag the stellar scores for awareness and desire

ADKAR	Average Across Investment Beliefs
Awareness	84%
Desire	73%
Knowledge	-2%
Ability	12%
Reinforcement	37%
Investment Beliefs	Average Across ADKAR Dimensions
2 – Long Time Horizon	51%
5 – Accountability	44%
7 – Costs	43%
1 – Liabilities	43%
10 – Resources	43%
3 – Stakeholders	41%
7 – Risk Reward	40%
4 – Three Forms of Capital	37%
6 – Strategic Allocation	37%
9 – Multi-Risk	29%

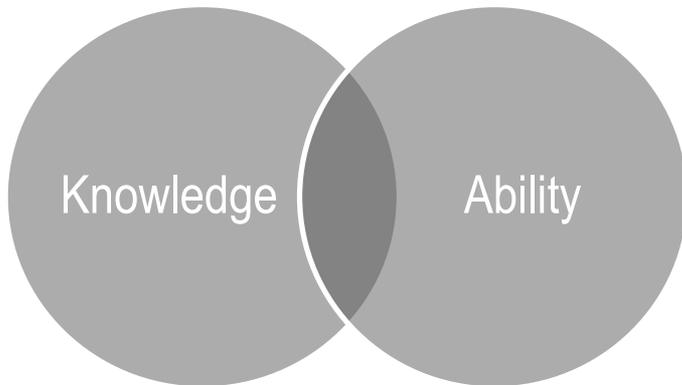
(Scores range from -100% to +100%)

Phase II: “Filling the Gap”

Opportunities for Impact

Objective: Identify concrete opportunities for Investment Belief integration in areas that will produce a leveraged impact along two dimensions:

1 Investment Beliefs Integration factors (ADKAR Analysis)



2 Alignment with Investment Policy

Investment Beliefs:

- Provide a basis for strategic management of the investment portfolio
- Inform organizational priorities
- Ensure alignment between the Committee and staff
- Become part of the CalPERS culture

Staff is responsible for the following:

- Facilitating a periodic review of the Investment Beliefs in conjunction with the Strategic Asset Allocation process.
- Reporting to the Committee on investment program strategy and its consistency with the Investment Beliefs.
- Integrating the Investment Beliefs into Committee and staff orientation and ongoing staff communication programs.

Opportunities

Two areas of focus were identified to address the opportunities for further Investment Beliefs integration:

Talent Management

- Recruit skills and encourage behaviors consistent with our Investment Beliefs
- Leverage new hires' appetite for corporate culture insights and global perspective on Investment Beliefs
- Leverage internal Investment Beliefs “expertise hot-spots” and staff training venues to increase knowledge

Annual Program Review

- Analysis revealed disparate information flows with selective and compartmentalized coverage of Investment Beliefs
- Goal is to move to a consistent base of content delivering comprehensive and integrated coverage of Investment Beliefs

Proposed initiatives to address the opportunities relating to Talent Management :

Recruitment

- Map Investment Beliefs to Core Competencies

Staff On-Boarding

- Design Investment Beliefs introductory session

Talent Development

- Organize Investment Beliefs-specific expert-lead staff communication sessions

Recommendations

Recommendations

Item	Recommendation
Annual Program Review Template – Link to Investment Policy	<ul style="list-style-type: none"> ✓ Adopt Annual Review template <ul style="list-style-type: none"> • Work with senior INVO staff to finalize commonly-accepted template • Presentation of pilot template to the Board before 2014-15 Annual Review
Talent Management: Recruitment	<ul style="list-style-type: none"> ✓ Add web-link to Investment Beliefs on job postings ✓ Confirm Investment Beliefs/Core Competencies with executive staff
Talent Management: On-Boarding	<ul style="list-style-type: none"> ✓ Include designed Investment Beliefs class in On-Boarding Curriculum
Talent Management: Continuing Education/Reinforcement	<ul style="list-style-type: none"> ✓ Confirm INVO Forum Investment Beliefs sessions <ul style="list-style-type: none"> • Assign Expert Speaker to planned session ✓ Create Investment Beliefs Spark Community or intranet
Investment Beliefs Integration Survey '2.0'	<ul style="list-style-type: none"> ✓ Re-Conduct Investment Beliefs Integration Survey prior to 2015-16 Annual Program Review, leveraging ADKAR framework <ul style="list-style-type: none"> • Assign Ownership

Appendix

Investment Belief Course Proposal Annual Review Template

Annual Program Review Template Outline

Section	Pages	Investment Beliefs Map									
		1	2	3	4	5	6	7	8	9	10
Executive Summary	2										
Review Outline	3										
I. Program Overview	4-8										
Program Role	5	■					■				
Program Investment Philosophy	6		■			■		■			
Policy Benchmark	7			■		■	■				
Program Characteristics	8					■	■		■	■	
II. Investment Review	9-23										
Performance Summary/Attribution	10-13					■		■		■	
ALM Assumptions Validation	14					■	■				
Portfolio Risk Profile	15			■		■				■	
Portfolio Active Risk	16-18					■		■		■	
Market Conditions & Portfolio Positioning	17-23					■		■		■	
III. Business Review	24-31										
Business Philosophy / Investment Model	25-26				■						■
Functional Organizational Chart	27										■
Staffing Overview	28				■						■
Program Expenses/AUM Mix	29-30				■				■		
Strategic Initiative	31		■		■	■				■	■
Conclusion	25										

- 1 Liabilities
- 2 Long Time Horizon
- 3 Stakeholders
- 4 Three Forms of Capital
- 5 Accountability
- 6 Strategic Allocation
- 7 Risk Reward
- 8 Costs
- 9 Multi-faceted Risk
- 10 Resources/Process

Results | Talent Management

INVO On-Boarding Investment Beliefs Course Proposal

Description:	The Investment Beliefs course will provide new employees an overview of the newly adopted Investment Beliefs. This course will be a one hour session consisting of a presentation, guest speakers discussing experiences with Investment Beliefs, and an interactive question & answer (Q&A) session.
Rationale/ Benefits of Attending:	This course will be valuable to the new employee, as well as INVO. The new employee will gain a general knowledge and understanding of our Investment Beliefs, which will provide a basis for strategic management of the investment portfolio, inform organizational priorities, help ensure alignment between the Committee and staff, and will attribute to the CalPERS culture. INVO will benefit by gaining a fresh perspective from new employees who can share experience and knowledge of investment beliefs from the private sector.
Objective:	At the completion of this workshop the participant will have a thorough understanding of the 10 CalPERS Investment Beliefs in order to make judgmental decisions that often require balancing multiple inter-related decision factors.
Course Outline:	<ul style="list-style-type: none"> - Introductions - PowerPoint Presentation by an Investment Beliefs Ambassador - Guest speakers will share experiences using the Investment Beliefs - Q&A session and discussion with 3-4 targeted questions for participants <ol style="list-style-type: none"> 1. What did the Investment Beliefs look like at your previous organization and/or in your previous role? 2. What experience have you had using any Investment Beliefs to help make investment decisions? 3. Do you have any suggestions for new Investment Beliefs or ways to better implement them here at CalPERS?