



Agenda Item 7a

September 16, 2014

ITEM NAME: Treasury Management (Liquidity) Update

PROGRAM: Financial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Finance & Administration Committee has tasked the Financial Office to identify a process for monitoring and managing the liquidity needs of the organization (i.e. Treasury Management Program). The project to design and implement the Treasury Management Program commenced in June 2014 and is guided by a cross departmental Advisory Committee and Project Team. During the first phase of this project, an assessment of the future program components was completed along with the development of a strategic operating model for the program. During the next phase of the project, the detailed operating model will be completed and the incremental requirements of the Treasury Management Program will be aligned with the CalPERS organization. The execution of the next project phase will begin in September 2014 and complete in March 2015. The implementation of the Treasury Management Program will help ensure the payment of member benefits and organizational expenses without interruption regardless of market conditions and without the sale of long term assets for short term cash demands.

STRATEGIC PLAN

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk-intelligent and innovative organization.

BACKGROUND

In 2012, CalPERS hired their first ever Chief Financial Officer to strengthen the financial and risk management operations including internal controls and treasury management. During November, 2013 Asset Allocation Workshop, ACTO, FINO, and INVO jointly identified to the Board the importance of establishing a Treasury Management function at CalPERS in response to the lessons learned from the 2008 liquidity crisis and the increasing cash-flow shortfall.

During the February, 2014 Finance & Administration Committee meeting, members tasked the CFO to identify a process for monitoring and managing the liquidity needs of the organization and explain cash management practices and liquidity targets at other pension plans. In June 2014, the project to establish the Treasury Management Program was commenced and the first phase was completed in August 2014.

ANALYSIS

The goal of the Treasury Management Program is to ensure the payment of member benefits and organizational expense without interruption regardless of market conditions and without the forced sale of assets. One of the key foundations to this program is the “right” level of liquidity which consists of cash to fund member benefits, investment capital calls and organizational expenses plus cash in reserves for investment commitments, market event or interruptions in contributions.

The project was launched in early June to document current state and define a strategic operating model for the Treasury Management Program.

BENEFITS/RISKS

An Enterprise Treasury Management Program is important to identify and mitigate risks early, avoid future liquidity problems, strengthen internal controls and facilitate better decision-making. The implementation of this Program would help safeguard CalPERS against future market events or contribution interruptions which could require the forced sale of long term valued assets to meet near term cash demands.

ATTACHMENTS

Attachment 1 – Treasury Management Program

KRISTIN MONTGOMERY
Controller

CHERYL EASON
Chief Financial Officer