

# Treasury Management Program

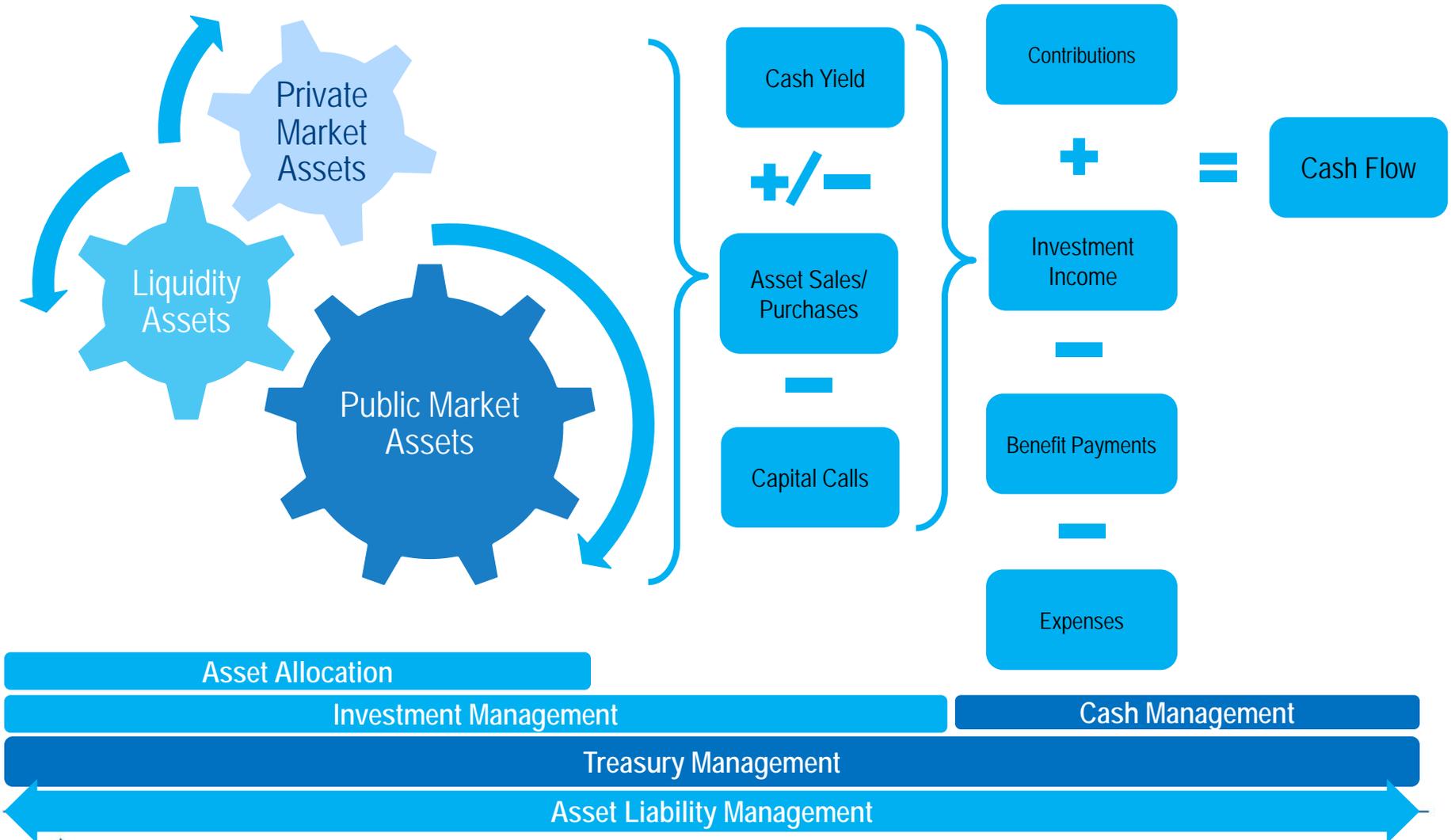
Finance & Administration Committee Presentation

# Why Treasury Management is Important

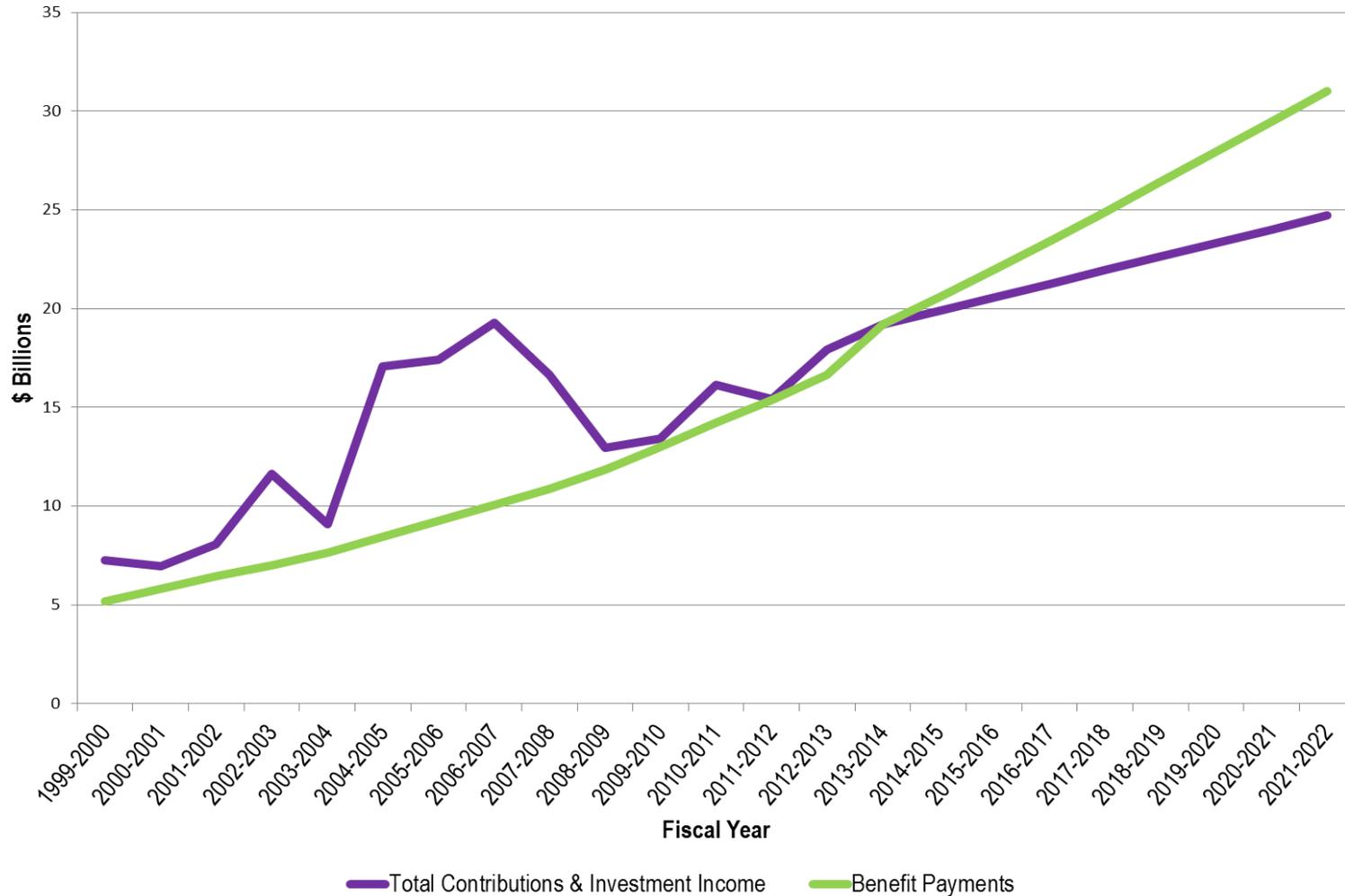
- Risks are identified early and mitigated
- Transactions costs minimized
- Avoid future liquidity problems
- Facilitates better decision-making
- Strengthen internal controls

Treasury Management Function Development – A Long-Term Journey

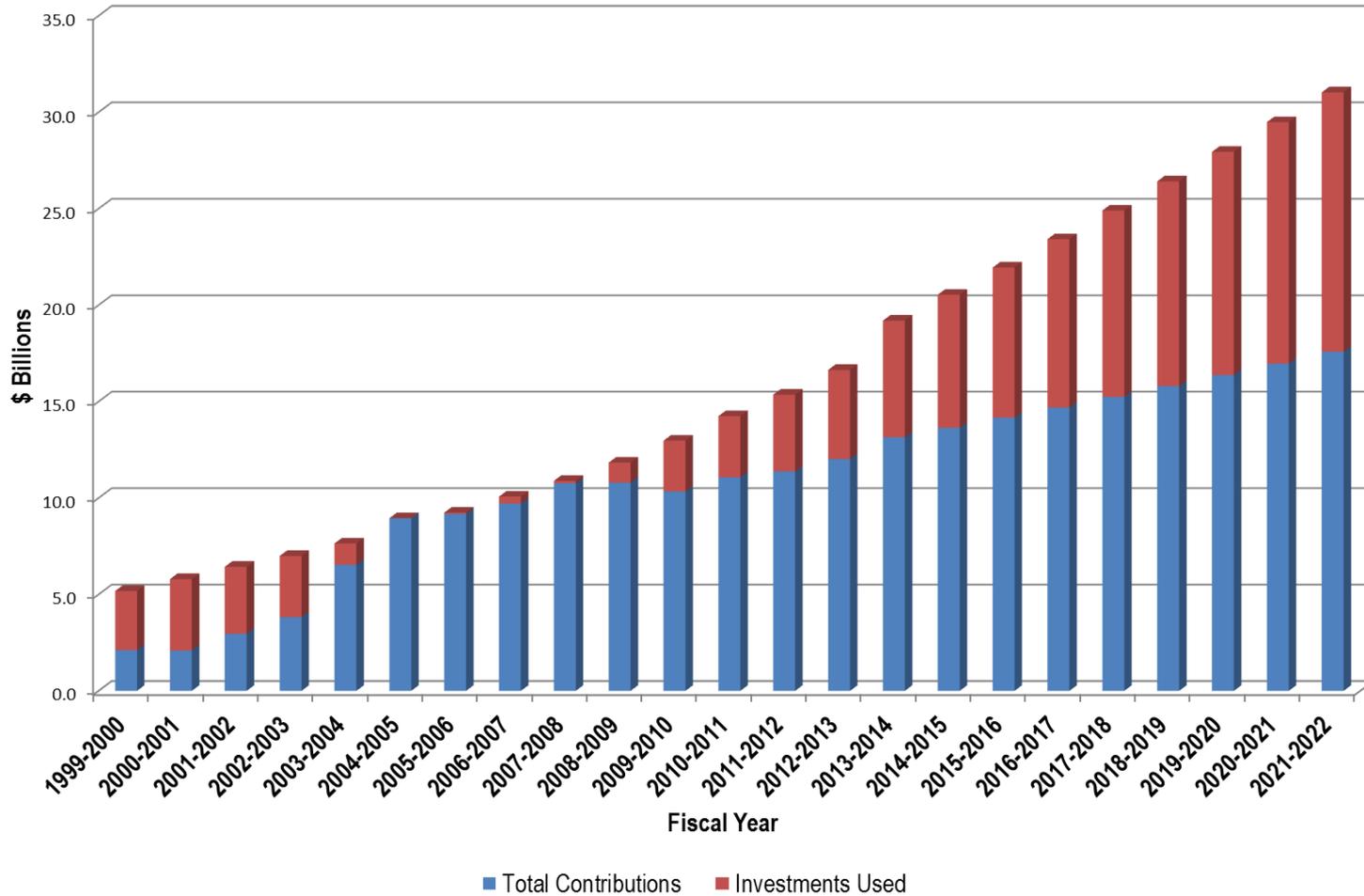
# Treasury Management & Generation of Cash Flow



## Historic & Projected PERF Cash Flow Analysis



## Historic & Projected PERF Contributions & Investments for Benefit Payments



# Treasury Management Foundation

**Goal of Treasury Management:** Ensure the payment of member benefits and organizational expenses without interruption regardless of market conditions and without the forced sale of assets

Cash to fund member benefits, investment capital calls, and organizational expenses



Cash in reserve for investment commitments, market events or interruptions in contributions



The “Right” Level of Liquidity

- How do we define “available” cash?
- What is the current level of available cash across the organization?
- What are the forecasted cash demands for member benefits? Investment operations? Organizational expenses?
- What will be the “available” cash tomorrow? One week? 30 days? 60 days?
- What are the forecasted cash demands for capital calls?
- What are the unfunded commitments levels?
- If key markets are stressed or contributions interrupted, how long can member benefits be paid from “available” cash?
- What is the maximum commitment amount that could be called during a period?
- What percentage of call-able, unfunded commitments should be held in cash reserve?
- What should be our expected durations for market event and contribution interruption scenario planning?
- What principles or protocols should be followed if “available cash: is depleted during a liquidity event?
- How do we measure cash and liquidity management?
- What is the “right” level of liquidity based on environmental factors?
- How often should liquidity levels be reviewed and adjusted?
- What are the assurances for accuracy and consistency?

# Treasury Management Foundation

**Goal of Treasury Management:** Ensure the payment of member benefits and organizational expenses without interruption regardless of market conditions and without the forced sale of assets

Cash to fund member benefits, investment capital calls, and organizational expenses **+** Cash in reserve for investment commitments, market events or interruptions in contributions **=** The "Right" Level of Liquidity

<p><b>Progress Made</b></p>	<ul style="list-style-type: none"> <li>• How do we define "available" cash?</li> <li>• What is the current level of available cash across the organization?</li> <li>• What are the forecasted cash demands for member benefits? Investment operations? Organizational expenses?</li> </ul>	<ul style="list-style-type: none"> <li>• What are the unfunded commitments levels?</li> <li>• If key markets are stressed or contributions interrupted, how long can member benefits be paid from "available" cash?</li> </ul>	<ul style="list-style-type: none"> <li>• How do we measure cash and liquidity management?</li> </ul>
<p><b>Next Phase</b></p>	<ul style="list-style-type: none"> <li>• What will be the "available" cash tomorrow? One week? 30 days? 60 days?</li> <li>• What are the forecasted cash demands for capital calls?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the maximum commitment amount that could be called during a period?</li> <li>• What percentage of call-able, unfunded commitments should be held in cash reserve?</li> <li>• What should be our expected durations for market event and contribution interruption scenario planning?</li> <li>• What principles or protocols should be followed if "available cash" is depleted during a liquidity event?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the "right" level of liquidity based on environmental factors?</li> <li>• How often should liquidity levels be reviewed and adjusted?</li> <li>• What are the assurances for accuracy and consistency?</li> </ul>

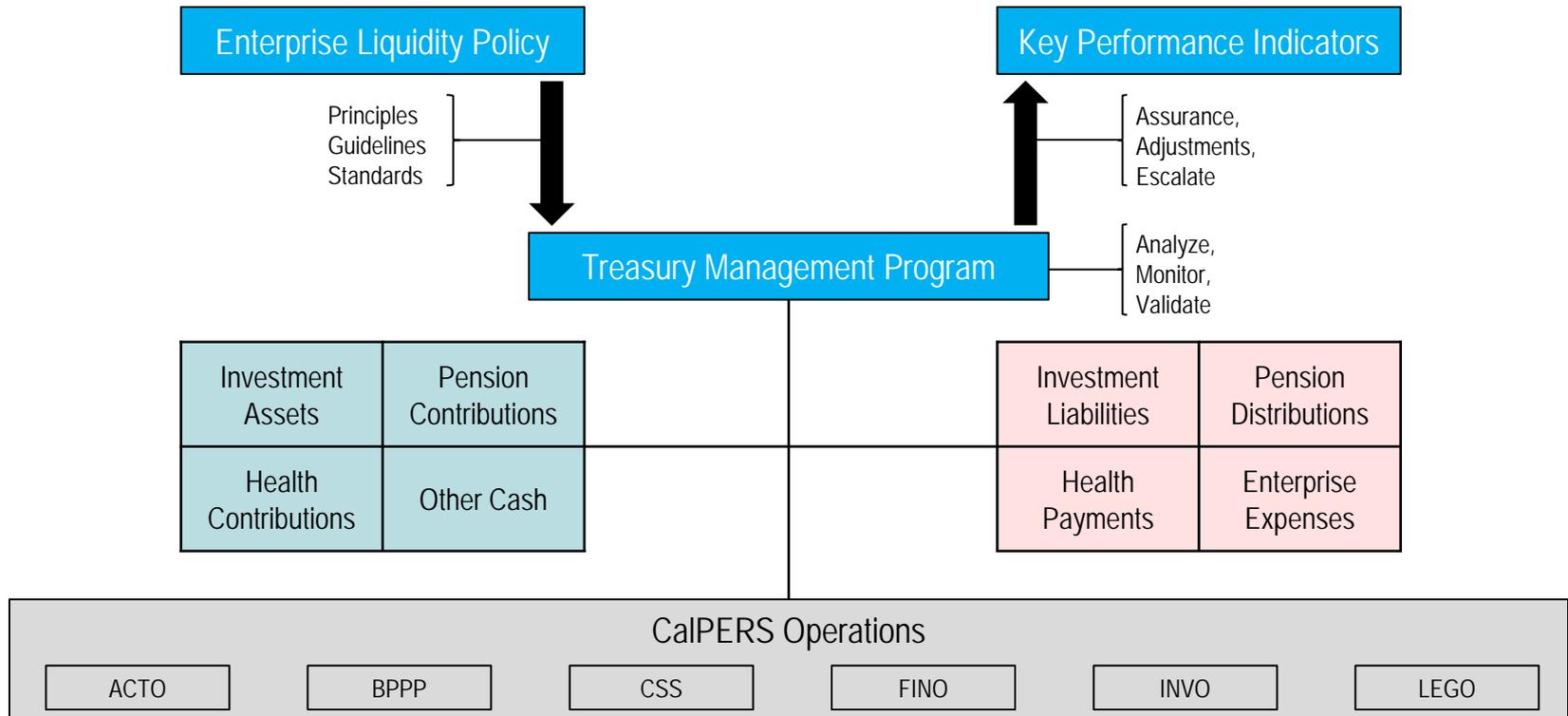
# Progress to Date

The project to establish the Treasury Management Program was launched in early June and several milestones have already been achieved.

Milestone	Description	Progress
Review Current Processes	Many current processes will be involved in a future state Treasury Management Program	High level review completed which serves as the foundation for the design of the Treasury Management Program
Treasury Definition of Cash	Many different definitions of cash suitable for different purposes exist but no agreement on a definition of cash in support of liquidity management	Definition and categorization of cash agreed upon by all groups which supports the Treasury Management Program
Enterprise Inventory of Cash	A comprehensive listing of the location and characterization of cash across the enterprise from a treasury perspective has not previously existed.	Development of an enterprise inventory of cash along with a framework identifying it's role within a liquidity model
Strategic Operating Model for the Treasury Management Program	CFO has been tasked with the development of a new Treasury Management Program for CalPERS.	Strategic Operating Model has been completed which details the framework, role, responsibilities, activities, and governance for the TMP program

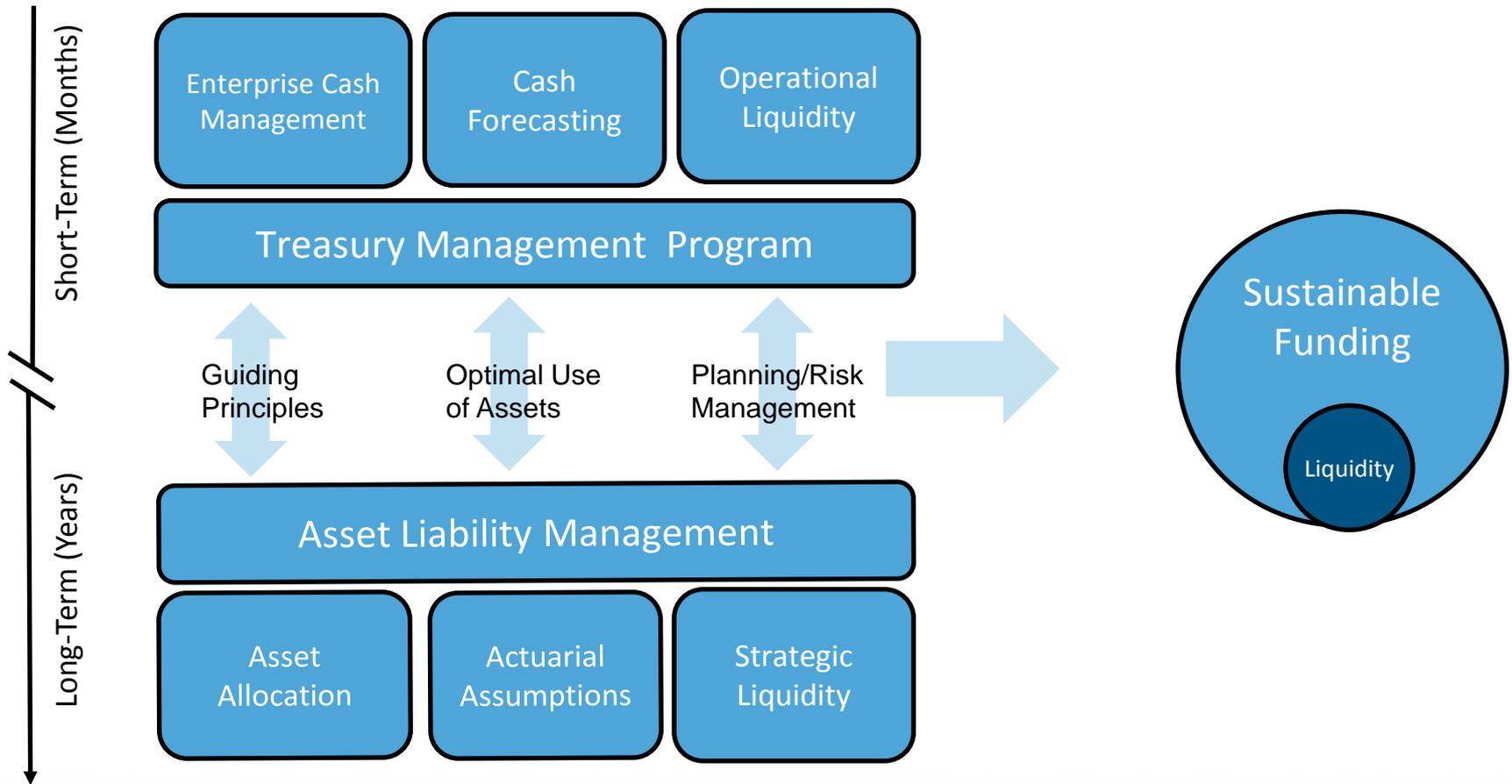
# Strategic Operating Model

**Goal of Treasury Management:** Ensure the payment of member benefits and organizational expenses without interruption regardless of market conditions and without the forced sale of assets



# TMP Relative to ALM

The Treasury Management Program aligns with the Asset Liability Management by applying the principals of asset and liability management from a short term perspective.



# How We are Going to Get There

2014				2015		
SEP	OCT	NOV	DEC	JAN	FEB	MAR
Milestone	Summary of Activities					
1. Detailed Design of Program Operations	<ul style="list-style-type: none"> <li>• Policy/Practices development</li> <li>• Governance/KPI development</li> <li>• Process workflows</li> </ul>					
2. Board Update: Current State	<ul style="list-style-type: none"> <li>• Provide Finance and Administration Committee with overview of current state analytics related to available cash, liabilities, and liquidity</li> </ul>					
3. Board Update: Treasury Management Program	<ul style="list-style-type: none"> <li>• Provide Finance and Administration Committee with progress report on TMP project, including best practices, KPIs and risk management.</li> </ul>					
4. Executive Workshop: Treasury Management Operations	<ul style="list-style-type: none"> <li>• Workshop with Executive team and other key stakeholders to review the strategic operational components of the Treasury Management Program and incorporate feedback.</li> </ul>					
5. Board Workshop: Treasury Management Policy	<ul style="list-style-type: none"> <li>• Workshop with Board and other key executives/stakeholders focused on:                             <ul style="list-style-type: none"> <li>• Goals/objectives, concepts, components, governance, strategic operations</li> <li>• CalPERS' Proposed Treasury Model</li> <li>• Preview Enterprise Liquidity policy</li> <li>• Guiding principals for enterprise liquidity</li> </ul> </li> </ul>					
6. Board Adoption of Enterprise Liquidity Policy	<ul style="list-style-type: none"> <li>• High level standards and guidelines for CalPERS' management of liquidity</li> <li>• Timeline for adoption</li> </ul>					
7. Budget Approval	<ul style="list-style-type: none"> <li>• Budget approval (if needed) including funding for Treasury Management staff, technology, and implementation</li> </ul>					