



Agenda Item 9a

November 18, 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 the first phase of the project was successfully completed in August. The execution of the next project phase began in September 2014 and will complete in March 2015. The project remains on schedule to achieve the agreed upon milestones.

A primary goal of the Treasury Management Project is the establishment of a Treasury Management policy which defines the purpose, objectives, responsibilities, performance objectives, and approach for the Treasury Management Program. The Treasury Management policy framework has been developed collaboratively by the cross functional project team and identifies the core components of the future policy. This framework will be developed further during the next month into the fully articulated Treasury Management policy.

Since the October update, the Treasury Management project has achieved other key milestones including interviews with our public pension peers focused on Treasury Management best practices. In addition, a trial production exercise has been successfully completed for several key performance indicators based on CalPERS' September 30, 2014 data. The valuable information gained from these interviews and trials will help shape the CalPERS Treasury Management Program in the coming months.

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. 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.

At the September 2014 Board meeting, the Finance and Administration committee directed the CFO to provide the committee with a monthly progress report on the Treasury Management Program project to ensure timelines and objectives continue to be met.

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. A cornerstone of the Treasury Management Program is the reporting of key performance indicators which align with treasury management policies and provide a quantitative view of enterprise liquidity.

The project was launched in early June to document current state and define a strategic operating model for the Treasury Management Program. The strategic operating model is complete and the development of the detailed operating model is on schedule to achieve the agreed upon milestones.

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 – November Update: Treasury Management (Liquidity) Update

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