



Agenda Item 6a

December 16, 2014

ITEM NAME: Treasury Management (Liquidity) Update

PROGRAM: Financial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

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 principles of Treasury Management have been developed to provide a foundational guide for the Treasury Management policy and the practices and procedures for the ongoing Treasury Management Program. These principles have been developed in collaboration with the cross functional project team, Advisory Committee, and the CalPERS' Executive Staff.

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, Actuarial Office, Financial Office, and Investment Office 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.

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.

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. Since the November update, the Treasury Management project has achieved other key milestones including the completion of interviews with our public pension peers focused on Treasury Management best practices. The findings and analysis from the peer interviews and surveys will be presented to the Board during the January Board Workshop. In addition, the liquidity measures and key performance indicators presented during the October and November Committee continue to be refined with a focus on projecting liquidity for funding during stressed market and environmental events. The results of this work will also be incorporated into the January Board Workshop.

The Treasury Management project has achieved a key milestone with the development of the principles of Treasury Management. The principles of Treasury Management represent a sound foundation to build on, ensuring the organization has adequate though not excessive cash resources, and financial tools and operational flexibility to ensure the level of funds are available which are necessary to meet the liquidity needs at all times. These principles are influenced by and designed to align with CalPERS' Core Values, Pension Beliefs, and Investment Beliefs. The principles are a prelude to the policy, foundational concepts of the Treasury Management program and intended to guide the future development of the policy, practices and procedures. These principles were built upon the key concept of Funding which is the payment of member benefits and all other CalPERS obligations. The principles are:

Principle #1: Policy and Governance

The CalPERS Board of Administration shall approve and annually review the significant policies and strategies related to treasury management.

Principle #2: Management

CalPERS shall have a management structure in place to effectively execute liquidity strategies which ensure Funding to respond to dynamic market and operational environments appropriately and effectively.

Principle #3: Measurement and Reporting

CalPERS will utilize a structured approach in the measurement and reporting of the current and future enterprise liquidity based on a detailed understanding of current liquid assets, projected enterprise cash flows, the accuracy of those projections and a consideration of both market-related liquidity risks and external environment events.

Principle #4: Cash Flow Forecasting

Cash flow forecasting represents a fundamental cash management activity that is managed by the Treasury but whose execution may be delegated to line-of-business managers who are responsible for activities that underlie the cash flow information.

Principle #5: Contingency Planning

Market and external environmental events impacting liquidity are an eventuality for which CalPERS must maintain a plan which describes the enterprise response and protocols during these events.

Principle #6: Treasury Resources

Strong processes, skilled staff, and adequate information systems are required for measuring, monitoring, controlling and reporting liquidity positions with respect to Funding.

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.

KRISTIN MONTGOMERY
Controller

CHERYL EASON
Chief Financial Officer