



Agenda Item 6a

December 15, 2014

ITEM NAME: Benchmarks Review

PROGRAM: Total Fund

ITEM TYPE: Asset Allocation, Performance & Risk – Information

EXECUTIVE SUMMARY

This item outlines the proposed scope and timeline for a series of engagements with the Investment Committee (Committee) to explore the roles, uses, and implications of CalPERS' policy benchmarks. Staff expects these engagements may lead to Statement of Investment Policy revisions in the near-term, and will influence staff's work on key initiatives over the next three to five years.

STRATEGIC PLAN

This item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. Benchmarks are a key tool used to guide, manage, and measure investment decisions and performance.

BACKGROUND

Benchmarks were raised as a topic deserving additional discussion with the Committee during the 2013-14 Asset Liability Management (ALM) process. The topic of benchmarking is potentially very broad, so to make the highest use of the Committee's time, staff proposes to focus on CalPERS' policy benchmark over a series of sessions in 2015.

Throughout 2014, the Asset Allocation team met with key stakeholders, including members of the Investment Office senior management team, the Actuarial Office, and the Board's Investment Consultants to identify key benchmarks-related topics, issues, and opportunities. The following themes emerged from those discussions:

- Benchmark selection should be top-down, driven by CalPERS' Beliefs
- Establishing portfolio investment objectives and priorities will allow us to drive CalPERS' Beliefs into the investment portfolio (and by extension the benchmarks)
- There are multiple roles for benchmarks at CalPERS and benchmarks should be tailored to the specific purpose at hand

ANALYSIS

With the feedback received through the 2013-14 ALM process and interviews with key stakeholders earlier this year, staff proposes a series of focused engagements related to benchmark issues for 2015. Through these engagements we will:

- Discuss the roles that benchmarks play within CalPERS, including:
 - Key benchmark-related concepts (e.g., desirable benchmark attributes, weighting schemes, differences between public and private markets)
 - CalPERS' current policy benchmark, associated asset class benchmarks, issues and opportunities
- Discuss initiatives to inform and influence work over the next three to five years, including:
 - Refining CalPERS' policy benchmarks review and change process to reflect a top-down approach
 - Enhancing our ALM processes to incorporate benchmarks that reflect CalPERS' portfolio investment objectives and priorities

Expected Outcomes

Pending feedback from the Committee, these engagements may result in the modification of applicable Statements of Investment Policy documents. These policy document changes would focus on formalizing the selection and review process for CalPERS' policy benchmarks.

The feedback received through these engagements will materially shape staff's work over the next three to five years on key initiatives, including:

- Continued integration and articulation of CalPERS' Beliefs into investment processes, particularly portfolio construction and benchmarks
- Factor-based asset allocation analysis and its application to CalPERS' assets and liabilities
- Development of analytical techniques and implementation tools for the upcoming 2017-18 ALM process

Table 1 on the following page outlines the engagements with the Committee currently planned for 2015.

Table 1 – Proposed Timeline of Engagements

#	Timeframe - Session	Purpose and Key Topics
1	January 2015 Portfolio Priorities Discussion	Discuss enhancements to the 2017-18 ALM process to better reflect CalPERS' portfolio investment objectives and priorities and incorporate them into benchmark selection
2	January 2015 Benchmarks: Roles, Uses and Implications for CalPERS	Refresh knowledge base of key benchmarks concepts and discuss issues and opportunities with CalPERS' current policy benchmarks
3	Early to Mid-2015	Refine portfolio priorities Review and revise Statements of Investment Policy (as appropriate)

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Not Applicable

ATTACHMENTS

Attachment 1 – Discussion of Benchmarks Presentation

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