

# Investment Benchmarks – Part 2: Benchmark Roles, Uses, and Implications for CalPERS

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## Summary of Discussion

Following the previous session’s discussion of the portfolio priorities concept, this session explores CalPERS’ policy-level benchmark concepts, challenges, and opportunities.

Our starting points for discussion are that:

- Benchmark selection should be top-down, with a Total Fund perspective
- Benchmarks are how we assess success and should reflect CalPERS’ portfolio priorities (and therefore our Pension and Investment Beliefs)
- Benchmarks can have multiple roles, and should be tailored to best fit the purpose at hand

Discussion will also include implications for benchmark-related work over the next three to five years, including the 2017-18 Asset Liability Management process.

The materials for this session include:

- PowerPoint Presentation
- Background Information
  - Glossary of Terms  
A collection of term and concept definitions to support the benchmark topics discussions with the Committee. Where applicable, definitions are accompanied by a “CalPERS-specific” or other relevant example to provide context or illustration. The definitions in this document are focused on their context within the planned engagements with the Committee in early-mid 2015.
  - Chapter 1 “Origins, Uses, and Characteristics of U.S. Equity Benchmarks” from the monograph *Benchmarks and Investment Management*, by Laurence B. Siegel, 2003

This research was published by the research arm of the CFA Institute (previously known as the Association for Investment Management and Research (AIMR)). The CFA Institute Research Foundation is a not-for-profit organization that sponsors independent research for investors and investment professionals around the world.

This chapter provides a high-level overview on investment benchmarking. It is oriented toward equity benchmarking, but presents many universal principals that apply to all asset classes, including benchmark roles, desirable characteristics, and tradeoffs that are considered in benchmark construction.

- “Benchmarking Illiquid Assets” report extracts from *Global Leaders 2013 Research Results for CalPERS* by CEM, 2014

The attached extract is from a report prepared by CEM based on the CEM benchmarking service universe and responses from a set of “Global Leader” funds. The extract provides an overview of policy/fund-level benchmark trends, issues and opportunities regarding benchmarking illiquid assets (private equity, real estate, and infrastructure).

CalPERS’ private equity, real estate, and infrastructure benchmarks are consistent with the types most frequently used by the respondent groups identified in the report.

The provided extract includes summary findings for each asset class, as well as survey results regarding motivations cited by respondents investing in these illiquid assets.

- CalPERS Benchmarks Policy

CalPERS’ Statement of Investment Policy for Benchmarks (Policy) defines our policy for the selection and modification of program benchmarks.

We anticipate focusing on the Public Employees’ Retirement Fund (PERF) as a starting point for these discussions. Attachments A and C provide information on CalPERS’ specific policy benchmarks.

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