



## **Agenda Item 10a**

February 18, 2015

**ITEM NAME:** Treasury Management Policy (First Reading)

**PROGRAM:** Financial Office

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

The goal of the Treasury Management Program is to ensure the payment of member benefits and organizational expenses without interruption. The Policy sets forth the responsibilities, structure, and approach to ensure these member benefits and organizational obligation payments are provided without interruption, provide an integrated oversight structure, maintain appropriate coverage and reserve levels for the enterprise, and manage enterprise liquidity risk. The Policy builds on the foundational principles of Treasury Management presented to the Board in December and discussed during the January Treasury Management Workshop.

The proposed Statement of Financial Policy for Treasury Management is provided as Attachment 1. Staff is presenting this policy for initial review and will bring the policy to the Committee's review for approval in March.

### **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 ("CFO") 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 explore 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.

The second phase of this project began in September 2014 and the CFO has provided a monthly update on progress and milestones reached. Accomplishments to date include the development of a detailed operating model, the principles of Treasury Management, a Treasury Management Board Workshop presented in January 2015, and the initial draft of the Treasury Management Policy.

## **ANALYSIS**

Based on the feedback from the Treasury Management Board Workshop, the Treasury Management Policy establishes the purpose, objectives, responsibilities, and approach for the Treasury Management Program. This foundation allows the Staff to establish the governance, management, practices, and infrastructure necessary to:

- Better align the levels of liquidity within the organization with the near term obligations.
- Identify and plan CalPERS' response to market and non-market events impacting enterprise liquidity.

The Policy sets forth the responsibilities, structure, and approach to ensure these member benefits and organizational obligation payments are provided without interruption, provide an integrated oversight structure, maintain appropriate coverage and reserve levels for the enterprise, and manage enterprise liquidity risk. Once in place, this program will continue to ensure the payment of member benefits and other obligations while optimizing program assets and mitigating liquidity risk.

## **BUDGET AND FISCAL IMPACTS**

No budget or fiscal impact at this time.

## **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 – Statement of Financial Policy for Treasury Management

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Controller

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