# Investment Committee Investment Policy Revision Project Update Total Fund Investment Policy Initial Review

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February 17, 2015



## Background and Objectives

- The Investment Policy Revisions Project is a key initiative identified in the Roadmap for reducing risk levels identified in the Target Operating Model
  - In November 2014, staff updated the Committee on the status of the Investment Policy Revision Project
  - Key objectives for this project included:
    - Creation of a new Total Fund Investment Policy which incorporates the consolidation of content across numerous existing policies
    - Removal of duplicative procedural, aspirational and editorial language while retaining key policy risk constraints and target exposure ranges
    - Standardization of the content, format, and style of investment policies
- Included in this project is a new policy development strategic framework and approach
  - This framework clarifies roles and responsibilities for meeting the above project objectives:
    - Integration of INVO governance structure
    - Establishment of guiding principles for policy development
    - Formalization of policy review timetable and cycle to coincide with the Committee's standing agenda item for annual program reviews



## Governance Roles and Responsibilities

#### **CalPERS Investment Committee**

Conduct: Strategic Asset Allocation and Select Asset Mix Set: Investment Policy Statements, Target Rate of Return, Interim Allocation Targets, Benchmarks and Risk Appetite & Tolerances

#### **CalPERS Investment Office Governance**

Review and Approve Program Guidelines, Monitor Compliance and Operational Risks

Investment Strategy Group

Review and
Recommend
Investment
Program Related
Guidelines and
Ranges

**Operating Committee** 

Review and Recommend Non-Investment Program Related Procedures **ICOR** 

Inventory, Test and Report Policy Exceptions CalPERS Risk and Audit Committee

**Enterprise Governance** 

**ECOM & OFAS** 

Governance Oversight and Assurance

General Pension
Consultant
Wilshire Associates

**Investment Office Program Areas** 

Identify Policy Revisions,
Policy Implementation, Ongoing Maintenance, and Reporting



#### Guiding Principles for Policy Development

- "Clarity of Roles": Policies should clearly define the Committee's authority and role in the activity to conduct, set, approve, and oversee
  - This requires clearly stating appropriate constraints and ranges set forth in each policy statement
- "Testable": Policies should be clear, measurable, and specific in order to evaluate their effectiveness, and reduce operational risks and complexity
- "Appropriate Level of Detail": Staff should be empowered to implement policies in the context of a robust governance and oversight framework, which further enhances the internal control environment

## Methodology for Policy Revisions

# Retained in Policy

- · Actions requiring the Committee to conduct, set, approve or oversee an activity
- Testable components of policies
  - Specific investment limits or exposure ranges
  - Prohibited actions or investments
- Clear and concise objectives designed to minimize operational risk
- · Committee reporting and communications requirements

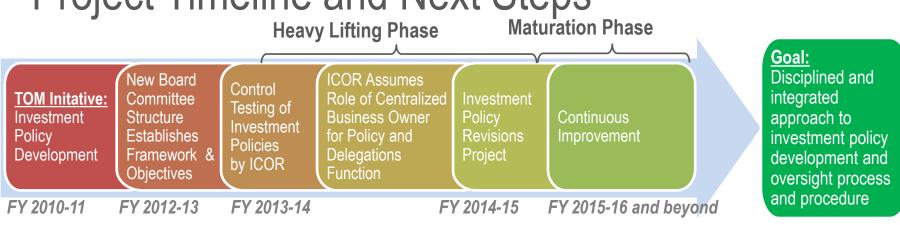
## Moved to Staff Guidelines

- Procedural elements intended to guide staff on what must be accomplished to achieve Policy objectives
  - Changes to staff guidelines and procedures would require approval of the Investment Strategy Group or INVO Operating Committee and concurrence by Wilshire Associates
  - These elements will continue to be tested by ICOR with any exceptions reported to the Operating Committee or Investment Strategy Group

# Removed from Policy

- Duplicative, aspirational and editorial language
- Definitional language describing investment related terminology
  - o Defined terms limited to those CalPERS-specific terms maintained in a glossary

#### Project Timeline and Next Steps



- February 2011: Risk Heat Map presented in the fall of 2010 identified INVO organization operational gaps, which led to development of Target Operating Model (TOM) approved by Investment Committee
  - TOM initiatives were planned to address mitigation of the top risks
  - o Investment Policy Development was identified as being at medium level of risk on the refreshed TOM
- February 2012: CalPERS Board of Administration approved a new Board Committee Structure to further strengthen its strategic oversight, accountability, and decision making
  - Designed to increase operational effectiveness and improve interactions between the full Board and CalPERS executives
  - New structure reduced the number of committees from seven to six
- April 2014: Policy and delegation functions assumed by Investment Compliance and Operational Risk Program



and procedure

#### Project Timeline and Next Steps (Continued) **Maturation Phase Heavy Lifting Phase** Goal: Disciplined and **New Board ICOR Assumes** Control integrated Committee Role of Centralized TOM Initative: Testing of Investment Structure **Business Owner Policy** Continuous approach to Investment Policy Establishes for Policy and Revisions Improvement investment policy Policies Development Framework & Delegations development and by ICOR Objectives Function oversight process

March 2015: Committee approval of new Total Fund Investment Policy

FY 2013-14

 ICOR staff to present at March 16<sup>th</sup> Committee meeting the action item after incorporating the Committee's feedback and guidance

FY 2014-15

FY 2015-16 and beyond

- Fall 2015: Alignment of investment program policies and procedures
  - INVO program area staff presents content revisions to the Committee for each area in conjunction with annual program review (late 2015)
  - o ICOR staff presents content revisions to Total Fund policy incorporating program level changes
- 2016 and Beyond: Ongoing Policy Monitoring, Testing and Reporting
  - o ICOR to continue to test compliance and effectiveness of policies
  - Continued reporting to the Committee of Policy exceptions



FY 2012-13

FY 2010-11