

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

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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



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

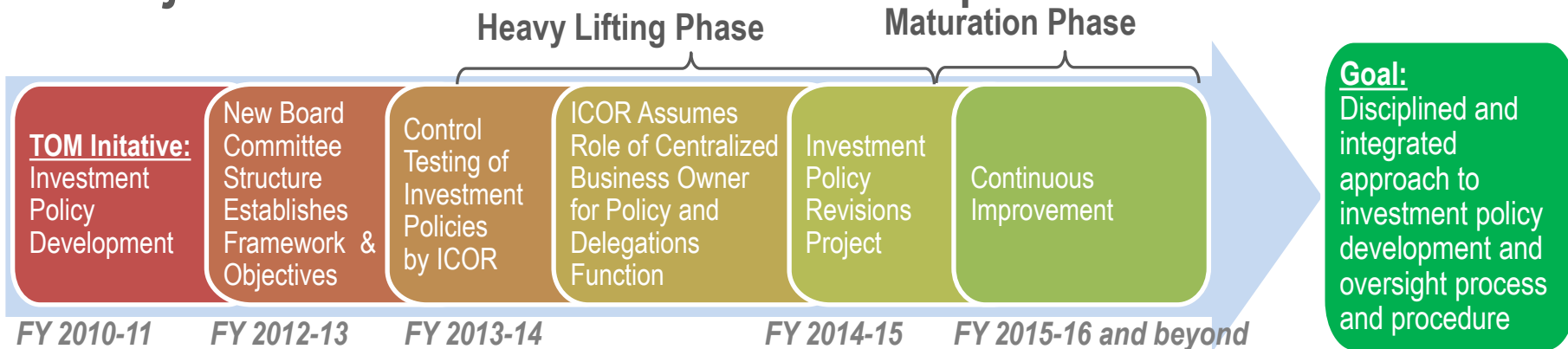
Moved to Staff Guidelines

- 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
 - Defined terms limited to those CalPERS-specific terms maintained in a glossary

Project Timeline and Next Steps

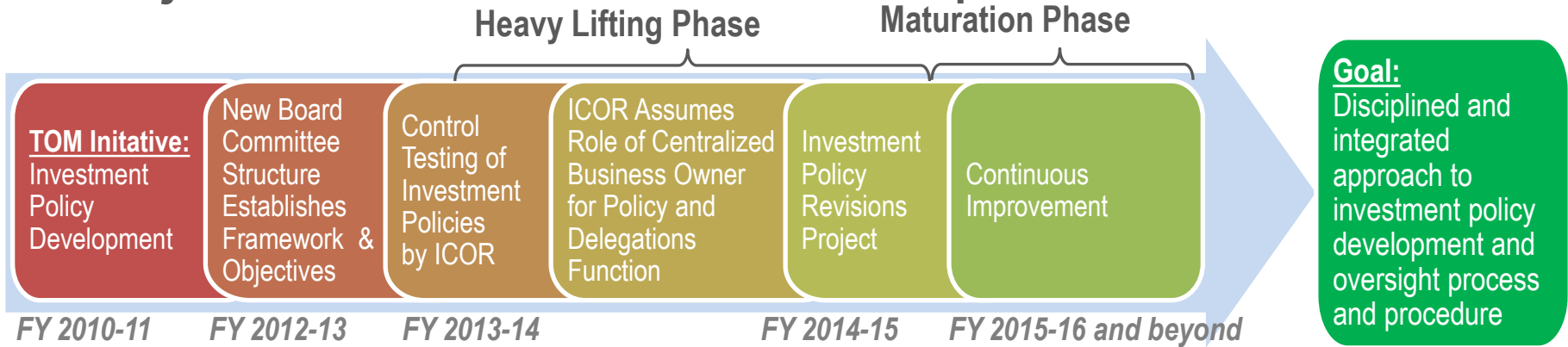


- February 2011:** Risk Heat Map presented in the fall of 2010 identified INVO organization operational gaps, which led to development of Target Operating Model (TOM) approved by Investment Committee

 - TOM initiatives were planned to address mitigation of the top risks
 - 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

Project Timeline and Next Steps (Continued)



- **March 2015:** Committee approval of new Total Fund Investment Policy
 - ICOR staff to present at March 16th Committee meeting the action item after incorporating the Committee’s feedback and guidance
- **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)
 - ICOR staff presents content revisions to Total Fund policy incorporating program level changes
- **2016 and Beyond:** Ongoing Policy Monitoring, Testing and Reporting
 - ICOR to continue to test compliance and effectiveness of policies
 - Continued reporting to the Committee of Policy exceptions