



Agenda Item 5a

May 18, 2015

ITEM NAME: CalPERS Investment Beliefs Implementation Review

PROGRAM: Total Fund

ITEM TYPE: Total Fund – Information

EXECUTIVE SUMMARY

This item provides the initial findings of an in-depth review of CalPERS Investment Beliefs implementation since adoption in September 2013. The review, undertaken by Mr. Roger Urwin with Towers Watson in collaboration with CalPERS staff and Investment Committee members, was structured to:

- Apply oversight to the Investment Beliefs by assessing the effectiveness of use, and how current use measures up to key stakeholder expectations
- Conduct forward looking analysis
- Further strengthen CalPERS' use of the Beliefs

Attachment 1 includes a summary presentation of the outcomes of the review to date. Towers Watson's complete Discovery Report is provided as Attachment 2.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability.

BACKGROUND

In November 2012, a formal project was launched to develop a set of Investment Beliefs for CalPERS with participation from the IC, staff and Board Consultants (Wilshire, PCA). Towers Watson (TW) was engaged to facilitate the process.

In September 2013, CalPERS adopted ten Investment Beliefs intended to guide decision making, facilitate portfolio management, and enhance consistency. The Investment Beliefs were formalized into a Statement of Investment Policy in October 2013. The Investment Beliefs create a framework for the strategic management of the investment portfolio and inform organizational priorities. They also ensure alignment between CalPERS Board members, staff, and external managers. The Investment Beliefs are not a checklist to be applied to every decision. Rather, they are a guide for making judgments and decisions that often require balancing multiple, interrelated factors.

Since adoption, CalPERS' Investment Beliefs continue to be further articulated throughout CalPERS' culture. The Investment Beliefs have been integrated into Board and Committee orientations, staff onboarding, Investment Committee agenda items, and annual program review presentations. An in-depth review of CalPERS' implementation to date of the Investment Beliefs was incorporated as a key topic in the 2015 Investment Committee calendar.

ANALYSIS

Five "global best practice" attributes have been used as a basis for the 2015 Investment Beliefs implementation review:

1. Alignment – Are key stakeholders aligned in support, board and staff alignment, beliefs effectively embedded, etc.?
2. Applicability – Are individual asset classes able to implement all beliefs equally?
3. Actioning – What evidence is there that investment decisions were taken using the Beliefs (as a basis for strategic management), and that the Beliefs have influenced priorities?
4. Accuracy – Have investment outcomes (especially risk and performance) been consistent with the Beliefs?
5. Effective Governance – Have the Beliefs advanced the effectiveness of the staff/Board working relationships?

The coverage of the project has involved documentation review, one-to-one and group interviews conducted on-site in Sacramento and via conference calls, as well as survey questionnaires. Together these represent the governance assessment scope.

CalPERS practices were benchmarked against the five global best practice attributes outlined above and the selected Reference Group of 20 leading global asset owners. This generated an issues list where strengthened practice is possible, and led to the key recommendations for change. These issues and recommendations have been presented in the following areas:

1. The alignment and impact of Investment Beliefs embedded in staff practices
2. The traction of Investment Beliefs with staff
3. The alignment and impact of Investment Beliefs embedded in IC practices
4. Investment Beliefs in unsettled areas
5. Dialogue between IC and staff

BUDGET AND FISCAL IMPACTS

Not Applicable.

BENEFITS/RISKS

Not Applicable.

ATTACHMENTS

Attachment 1 – Presentation

Attachment 2 – Towers Watson Discovery Report

ERIC BAGGESEN
Senior Investment Officer
Asset Allocation and Risk Management

THEODORE ELIOPOULOS
Chief Investment Officer