



Agenda Item 7a

August 17, 2015

ITEM NAME: Project Updates Regarding Investment Policy Revisions

PROGRAM: Total Fund Program

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

The purpose of this item is to provide the Investment Committee (Committee) with an update of the ongoing Investment Policy Revision Roadmap Initiative (Project).

Currently, investment limits and constraints reside in both investment policies (policies) and investment delegations of authority (delegations).

Staff proposes that certain limits and constraints on staff's investment authority included in the delegations are better contained within a comprehensive investment policy, and plans to take steps over the next six months to complete this consolidation. As a result, these limits and constraints will exist within both policy and delegations until such time in the future as agenda items are brought forward to the Committee to simplify the delegations.

The Committee will continue to have oversight of the limits and constraints on investment authority through its policy approval and oversight role as outlined in the Board Governance Policy and Committee delegation.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to cultivate a high-performing, risk-intelligent, and innovative organization. The foregoing proposal is intended to ensure that CalPERS is better able to achieve its investment objectives by providing clear and consistent investment limits and constraints within policies.

BACKGROUND

On December 15, 2014, staff presented to the Committee the item "Overview of Investment Office Delegation Resolutions for Professional Staff." This item highlighted that there are wide variations and inconsistencies in the authorities, limits, and constraints among program area and asset class delegations. Staff is proposing that a comprehensive review, refinement, and consolidation of investment limits and constraints within policies be completed in conjunction with the continuation of the Project. This will allow the policies to become a single comprehensive document encompassing all such investment risk limits and constraints, with clear oversight and governance from the Committee.

This Committee's approval of the new Total Fund Investment Policy in March 2015 concluded the initial phase of the Project. The next phase of aligning each program and asset class area's policies with the Total Fund Investment Policy is now underway and will be presented to the Committee as separate policy agenda items during the Annual Program Review cycle this fall. This will begin with the Global Equity Program in September 2015 and is expected to continue through to December 2015 with the Private Equity Program Review. The Project is anticipated to be completed in early 2016 when staff will return to the Committee with final Total Fund Investment Policy clean-up recommendations related to the policies.

ANALYSIS

Policy revisions are recommended to consolidate, clarify, and standardize program area investment authorities, create measurable authority thresholds, and provide the appropriate level of detail within policy.

Staff completed the following analysis of policies and delegations:

- Staff reviewed all policies and investment limits and constraints contained within the delegations utilizing the approach that was presented to the Committee during the Total Fund Investment Policy item in February 2015. In summary, staff's approach for policy development seeks the following key elements:
 - Clarity of Roles - between the Committee and staff
 - Testable - policies should be clear, measurable, and specific
 - Appropriate Level of Detail
- Staff applied this approach to each policy and delegation and followed a disciplined methodology to arrive at a recommendation of how best to incorporate each limit and constraint into the applicable policy.

Going forward, each Board Consultant will be provided with staff's analysis and an opportunity to review staff's methodology to ensure completeness and thoroughness as staff continues to present proposed investment policy revisions to the Committee during successive Annual Program Reviews. Wilshire Associates has been engaged for the development and approval of the Total Fund Investment Policy revision process and will also be engaged for the Annual Program Review phase of this policy work. Staff requested that Wilshire review this agenda item and its Consultant Opinion Letter is included as Attachment 1.

It is important to note this project does not intend to make any changes to existing delegated authorities. As a result, investment limits and constraints may exist in both investment policies, as well as in the current delegations. Separate agenda items to simplify various investment delegations of authority may be taken up at a later date.

Staff requests that the Committee be prepared to take action in the coming months to consolidate investment limits and constraints identified into policies in order to provide the Committee with clearer centralized controls over the investment process.

BUDGET AND FISCAL IMPACTS

Not Applicable.

BENEFITS/RISKS

The benefits of this recommendation:

- Investment limits and constraints will be consolidated into policies, consistent with the Committee's role to set and oversee investment policy.
- Policies will be more consistent among program areas, and will be more comprehensive in regards to the inclusion of risk limits and constraints.

The risk of not adopting this recommendation:

- A complete inventory of investment limits and constraints will continue to require multiple source documents, increasing the potential for confusion and resulting execution errors.

ATTACHMENTS

Attachment 1 – Wilshire Consultant Opinion Letter

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