

This document summarizes the key recommendations identified by Mr. Roger Urwin, Towers Watson, in the course of the 2015 Investment Beliefs Implementation Review.

Investment Beliefs Implementation Review Recommendations			Staff Interpretation
Category	Ref. #	Specific Item(s)	
Strengthening the Investment Beliefs Alignment	1	Use program reviews to help bring out regular reviews of beliefs application	<p><i>Currently In Practice – Continue</i></p> <p>Investment Beliefs were integrated into Investment Office annual asset class program review templates in 2014.</p> <p>In the interest of allowing a full experience of the revised templates staff intends to use the templates, largely unchanged, for the 2015 period.</p> <p>An in-depth review and reconsideration of the templates may be warranted upon completion of the next Strategic Asset Allocation process and review of the Beliefs in 2017-18.</p>
	2	Embed beliefs as part of performance review and qualitative input to compensation	<p><i>Currently In Practice – Continue</i></p>
	3	Strengthen the cultural and leadership influences on using Investment Beliefs	<p><i>Recommendation Consistent With Current Workstreams/ Initiatives</i></p> <p>Deepened integration of Investment Beliefs will continue to be a priority and is evidenced through a considerable number of Investment Office 2020 Vision Roadmap initiatives such as:</p> <ul style="list-style-type: none"> • Enhancement of staff's internal Investment Strategy Group governance to include several standing subcommittees, including one focused on governance and sustainability issues.

Investment Beliefs Implementation Review Recommendations			Staff Interpretation
Category	Ref. #	Specific Item(s)	
			<ul style="list-style-type: none"> Ongoing work with Portfolio Priorities concept will strengthen the linkages between Beliefs and portfolio construction with a Total Fund perspective.
Strengthening the Investment Beliefs Traction with Staff	4	Work to fill out narrative and evidence supporting the Investment Beliefs in accordance with global best practice hierarchy [set out in May 2015 Implementation Review, Towers Watson Discovery Report]	<p><i>No Change at This Time.</i></p> <p>In the course of the Beliefs development and adoption, CalPERS made a deliberate choice not to develop detailed narrative/evidence statements to accompany each Belief set in consideration of the:</p> <ul style="list-style-type: none"> Evolving nature of a beliefs system, and Perceived required flexibility to capture best long-term results of a beliefs adoption program. <p>Staff believes that the circumstances which underpinned the choice outlined above have not changed at this time. However, this issue could be revisited when the scheduled reviews of the Beliefs are undertaken in the future.</p>
Further Embedding Investment Beliefs in IC Practices	5	<p>Sustained strengthening of Investment Committee (IC) alignment with the following “soft steps:”</p> <p>a) Working to a culture and practice of diversity in dialogue, unity in conviction</p>	<p>a) <i>Recommend to Area Outside of Investment Office</i> - The Board continues to enact and refine improvements to its governance process consistent with the findings of the 2012 Board Governance Study. Staff anticipates many of the initiatives undertaken in response to that work will continue to support the Board in this respect.</p>

Investment Beliefs Implementation Review Recommendations		Staff Interpretation	
Category	Ref. #	Specific Item(s)	
		<p>b) Ensure Board adoption of Beliefs is undertaken annually following discussion</p> <p>c) Ensure consulting input reinforces the Beliefs application</p>	
Tackle the Interpretation of Investment Beliefs in Unsettled Areas	6	Commit time at the 2015 July Board and Executive Offsite to further explore perceived unsettled issues related to the Investment Beliefs around risk (Beliefs 1 and 9), and ESG (Beliefs 2,3 and 4)	<p><i>Complete</i></p> <p>This recommendation has already been taken up and was completed on July 13, 2015. Additional recommendations were proposed to address issues related to the Beliefs regarding risk and ESG.</p>
	7	<i>Following July 2015 session on Risk-related Beliefs –</i> Continue to evolve the risk governance. This could include consideration of development of a “checklist” of high-level principles for annual review and evaluation	<p><i>Recommend Consistent with Current Workstreams/ Initiatives</i></p> <p>CalPERS has several initiatives underway related to enhancing our risk governance. The consideration of a checklist could be considered as part of these activities.</p>
	8	<i>Following July 2015 session on Risk-related Beliefs –</i> Staff to consider ways to provide more consistent and decision-orientated risk feed to the	<p><i>Recommendation Consistent With Current Workstreams/ Initiatives</i></p> <p>Effective risk information is a key priority and a complex issue. There is currently an Investment Office Roadmap initiative</p>

Investment Beliefs Implementation Review Recommendations		Staff Interpretation
Category	Ref. #	Specific Item(s)
		Board, including measures around mission impairment.
		underway which seeks to enhance reporting to the Board regarding performance, risks and exposures.
	9	<p><i>Following July 2015 session on Risk-related Beliefs – Strategic dialogue should be enhanced around how the Board fulfills its “risk intelligence” target – The concepts of risk factors and mission impairment may be ideal topics to start with</i></p>
		<p><i>Recommendation Consistent With Current Workstreams/ Initiatives</i></p> <p>Staff anticipates continued focused discussions in Asset Liability Management Workshops and Board Special Sessions.</p>
	10	<p><i>Following July 2015 session on ESG-related Beliefs – Continue strategic dialogue and staff/Board engagement on topics of integrated ESG and focused research (on topics such as integrated reporting, performance data, stranded assets, divestment, etc.)</i></p>
		<p><i>Recommendation Consistent With Current Workstreams/ Initiatives</i></p> <p>These topics are being explored through a number of initiatives and workstreams. Several engagements with the Board on these topics are currently planned and will be reflected in the upcoming IC calendar(s).</p>
	11	<p><i>Following July 2015 session on ESG-related Beliefs – Resolve differences in Board and staff sentiment on accountability (This was raised in an Offsite polling question regarding if Board-directed investment policies should be captured in a reference portfolio so that impacts of the stances can be attributed to the Board’s decision)</i></p>
		<p><i>Recommend Additional Discussion</i></p> <p>Staff believes it is important to address this issue of Board and staff accountability.</p>

Investment Beliefs Implementation Review Recommendations			Staff Interpretation
Category	Ref. #	Specific Item(s)	
Using Investment Beliefs as a Catalyst to Governance Change	12	Board and staff consider how to develop a “dialogue culture” in their engagement, this could include:	<i>Recommendation Consistent With Current Workstreams/ Initiatives</i>
		<ul style="list-style-type: none"> a) Use of outside facilitation to resolve differences and strategic choices b) Use of sub-groups to address the most complex issues (recognizing that Board unity is ultimately required) 	Recent work in the Board Governance Committee appears to be in alignment with this recommendation.

It is important to note that some of the recommendations are related to topics and challenges that are complex, evolving, and likely require multi-year and iterative effort.