



Agenda Item 8a

September 15, 2015

ITEM NAME: Proposed Revision of the Global Equity Policies – Initial Review

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

The purpose of this item is to provide the Investment Committee (Committee) proposed revisions to the Global Equity Policy as part of the Investment Policy Revision Roadmap Initiative (Project).

- On August 17, 2015, staff provided the Committee with an update to the Project, proposing: (1) policy revisions to consolidate, clarify, and standardize program area investment authorities, create measurable authority thresholds, and provide an appropriate level of detail within the policy; and (2) relocate any investment limits and constraints contained within investment delegations to investment policies.
- This revision to the Global Equity Policy is the first step in the next phase of aligning asset class policies with the Total Fund Policy and to simplify the policy through the removal of procedures.
- Staff is presenting the Statement of Investment Policy for Global Equity (Attachment 1) and the complete policy with tracked changes (Attachment 2) for initial review. The Wilshire Associates' Opinion Letter, responding to the proposed revised policy, is provided as Attachment 3.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policy will ensure that CalPERS is able to effectively achieve the System's investment objectives through clear and current investment policy documentation.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 9, Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error, and Belief 10, Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

BACKGROUND

Investment Policy Development was identified as being at a medium risk during Fiscal Year 2013-2014 and as such the Project became a key initiative of both the 2014-16 Investment Office Roadmap and Target Operating Model (TOM). As part of that initiative, in March 2015, the Committee approved the adoption of the Total Fund Investment Policy while repealing 14 legacy investment policies. The adoption of the new Total Fund Investment Policy allowed for minimizing complexity, improving transparency, and strengthening processes, systems, governance, and controls. The next phase of the Project is to incorporate revisions to the asset class policies aligning Global Equity with the Project's objective of consolidation, clarity, and standardization.

ANALYSIS

Incorporating these revisions will continue the policy simplification process while aligning the Global Equity Policy with the Total Fund Investment Policy, eliminating procedural or duplicative language and reducing operational risks by more clearly defining the Committee's desires and intentions with respect to staff's role in implementing the policy.

Specifically, the revised policy:

- Retained actions requiring the Committee to conduct, set, approve or oversee an activity, testable components of policy (such as investment limits, exposure ranges and prohibited actions or investments) and periodic reporting to the Committee.
- Moved to staff Policy Procedures procedural elements designed to implement the Policy objectives. These Policy Procedures are subject to an internal staff governance process overseeing changes, including periodic testing by ICOR.
- Removed from the Policy language that staff identified as duplicative, aspirational or editorial in nature.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance transparency into investment processes and strategy. The risks of not approving this policy include lack of clarity and direction to staff as they invest the Global Equity portfolio, thereby increasing the risks of missed opportunities and ambiguous implementation.

ATTACHMENTS

Attachment 1 – Revised Global Equity Statement of Investment Policy

Attachment 2 – Revised Global Equity Statement of Investment Policy (Black Lined)

Attachment 3 – Consultant Opinion Letter – Proposed Changes to the Global Equity
Policy

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