



## Agenda Item 9a

September 15, 2015

**ITEM NAME:** Investment Strategic Measures

**PROGRAM:** ENTERPRISE

**ITEM TYPE:** Strategic Plan - Information

### **EXECUTIVE SUMMARY**

This agenda item is an update on the organization's progress in meeting the goals of the California Public Employees' Retirement System (CalPERS) 2012-17 Strategic Plan, as measured through a suite of Board affirmed Strategic Measures (Attachment 1). Specifically, Strategic Measures 1-3, which evaluate investment performance relative to relevant targets, and the ability of the Investment Office to achieve target investment returns in a cost effective manner through active management of the portfolio.

### **STRATEGIC PLAN**

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

### **BACKGROUND**

In August 2012, the CalPERS Board of Administration (Board) adopted the CalPERS 2012-17 Strategic Plan. In July 2013, an initial set of Strategic Measures were developed as part of a larger effort to support the use of enterprise-wide measurements to guide the organization. In July 2014, the Board affirmed the suite of Strategic Measures which included Strategic Measures 1-3 covered in this item.

### **ANALYSIS**

#### Strategic Measure 1: Annualized excess investment returns relative to Actuarial Rate of Return Assumptions

Strategic Measure 1 seeks to measure the organization's ability to achieve the Actuarial Rate of Return (AROR) Assumption, currently 7.5 percent, over a full business cycle. This measure is the most important of the three investment related items in terms of overall organizational health and has a direct impact on employer contribution rates and the ability to sustain beneficiary payments over the long-term.

The Board of Administration determines the AROR based on information and analysis provided through the Asset Liability Management (ALM) Workshops, delivered by the Financial, Investment, and Actuarial offices. These workshops assist the Board in understanding the anticipated Rate of Return metrics attached to the investment market opportunity set available to CalPERS while considering long-term

actuarial assumptions and resulting effect on the contribution levels for employees and employers.

Actual performance is reflected within the Strategic Measures visual display tool, and highlights the 1, 3, 5, and 10-Year annualized return performance relative to the AROR. Current challenges exist in the actual investment market opportunity set and in CalPERS' ability to meet the AROR.

Strategic Measure 2: Annualized excess investment returns relative to Policy Benchmark

Strategic Measure 2 seeks to measure the effectiveness of the Investment Office in meeting the objective of achieving superior investment returns when compared against the Policy benchmark. This benchmark is a composite established by the Investment Committee through the ALM process and is composed of the assigned asset class benchmarks and target weights. The policy benchmarks and weights are fixed and do not vary except by Investment Committee action

Actual performance is reflected within the strategic measures display tool, and highlights the 1, 3, 5 and 10-Year annualized return performance relative to the policy benchmark. Portfolio performance is affected by staff decisions on the active under- or over-weighting of the asset classes within their policy ranges, as well as the performance of the individual asset classes versus their specified policy benchmark.

Strategic Measure 3: Net value added relative to an appropriate peer universe median return adjusted for composition of asset allocation and after expenses

Strategic Measure 3 seeks to measure the ability of the Investment Office to outperform relevant peers as selected by the CEM organization after adjusting returns and costs for differences in asset allocation mix between peers so they can be accurately compared.

Actual performance is reflected within the strategic measures visual display tool, and highlights the 1, 3, and 5-Year average excess return net of investment expenses, relative to the comparable peer group median.

**BUDGET AND FISCAL IMPACTS**

Not applicable

**BENEFITS/RISKS**

Risk management is central to managing CalPERS' assets and to achieving the strategic objectives. A framework for risk management is established through the adoption of investment policies for total fund strategic asset allocation, individual asset classes and portfolios with appropriate benchmarks. The level of risk assumed will be monitored and reported using selected risk metrics as required in the Risk Management Policy.

**ATTACHMENTS**

Attachment 1 – Strategic Measure Summary  
Attachment 2 – Investment Measures Report

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