



## Agenda Item 6a

November 16, 2015

**ITEM NAME:** Revision of Fixed Income Policies – Second Reading

**PROGRAM:** Fixed Income

**ITEM TYPE:** Policy & Delegation – Action

### RECOMMENDATIONS

- (1) Approve the following five revised Fixed Income Programs Policies (Attachment 1)
  - Global Fixed Income Program Policy
  - Inflation Assets Policy
  - Liquidity Program Policy
  - Low Duration Fixed Income Program Policy
  - Securities Lending Policy
  
- (2) Repeal the Credit Enhancement Program Policy as it has been consolidated with the Global Fixed Income Program Policy (Attachment 2)

Current Fixed Income Programs Policies are provided in Attachment 3. The Wilshire Associates Opinion Letter is provided as Attachment 4.

### EXECUTIVE SUMMARY

The Fixed Income Programs Policies were presented to the Investment Committee (Committee) for first review on October 19, 2015.

The revised Fixed Income Programs Policies include the following changes based on feedback from the first review by the Committee:

- The introduction sections were modified to include changes that resulted from Committee direction that took place during the Global Equity Policy discussion in October.
- External Manager responsibilities were included to provide consistency among all program policies moving forward.
- Credit Enhancement Program limits were added to Appendix 3 of the Global Fixed Income Program Policy.
- The Inflation Assets Policy Appendix 3 table was modified to denote that the total bond portfolio is a compilation of the various subsequent subsets.
- The Low Duration Fixed Income Program Policy Appendix 3 Dollar-Denominated minimum S&P credit rating was corrected to BBB- and added the corresponding Fitch and/or Moody's ratings to various tables to enhance clarity.
- The Investment Policy for Securities Lending Appendix 3 Liquidity Guidelines was modified to indicate that the three liquidity categories are cumulative.

There are no changes proposed to staff reporting obligations (Appendix 1), as staff will continue with the current level of reporting. Changes made to the Fixed Income Programs Policies based on the Committee's feedback are denoted by track changes within Attachment 1.

Staff seeks approval of the Fixed Income Programs Policies to align with the Total Fund Investment Policy and to simplify the policies through the removal of procedures.

### **STRATEGIC PLAN**

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policies 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 posing a medium compliance and operational risk during Fiscal Year 2013-2014, and as such 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 Fixed Income with the Project's objective of consolidation, clarity, and standardization.

### **ANALYSIS**

Incorporating these revisions will continue the policy simplification process while aligning the Fixed Income Programs Policies 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 policies.

### **BUDGET AND FISCAL IMPACTS**

Not Applicable

**BENEFITS/RISKS**

Approving the requested policy changes will enhance the transparency of investment processes and strategy. The risks of not approving the policies include lack of clarity and direction to staff as they implement the various investment programs, thereby increasing the risks of missed opportunities and failure to comply with the Committee's policy directives.

**ATTACHMENTS**

Attachment 1 – Revised Fixed Income Programs Policies (Global Fixed Income, Inflation Assets, Liquidity, Low Duration Fixed Income, Securities Lending)

Attachment 2 – Policy Proposed for Repeal – Credit Enhancement Program Policy

Attachment 3 – Current Fixed Income Programs Policies corresponding to policies in Attachment 1

Attachment 4 – Wilshire Associates Opinion Letter – Revision of Fixed Income Programs Policies

---

CURTIS D. ISHII  
Managing Investment Director  
Global Fixed Income

---

WYLIE TOLLETTE  
Chief Operating Investment Officer

---

THEODORE ELIOPOULOS  
Chief Investment Officer