



Agenda Item 6b

November 16, 2015

ITEM NAME: Revision of Global Equity Policies – Third Reading

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Statement of Investment Policy for Global Equity Policy (Global Equity Policy) as shown in Attachment 1.

EXECUTIVE SUMMARY

The Global Equity Policy was presented to the Investment Committee (Committee) for initial review on September 15, 2015 and action on October 19, 2015. The Committee Chair directed staff to revise specific language included in the Global Equity Policy and return to the Committee for further review and potential approval in November 2015.

The revised Global Equity Policy includes the following changes based on feedback from the October 19 review by the Committee:

- The Introduction Section has been revised to fix the syntax and further clarify the topics addressed within the CalPERS Total Fund Investment Policy.
- The Strategic Objective Section has been modified to eliminate the reference to absolute return and further clarify management of volatility.
- The redundancy that existed in the Investment Approaches and Parameters section regarding asset class tracking error has been eliminated.

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 Global Equity Policy based on the Investment Committee's feedback during the first reading in September are denoted by track changes while changes made subsequent to the October meeting appear as highlighted track changes within Attachment 2.

Staff seeks approval of the Global Equity Policy to align with the Total Fund Investment Policy and to simplify the policy 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 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.

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 Investment Policy for Global Equity
- Attachment 2 – Revised Investment Policy for Global Equity (track changes)
- Attachment 3 – Current Global Equity Policy
- Attachment 4 – CalPERS Specific Glossary of Terms
- Attachment 5 – Consultant Opinion Letter – Proposed Changes to the Global Equity Policy

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