



## Agenda Item 10a

November 16, 2015

**ITEM NAME:** Proposed Revision of Private Equity Program Policies – First Reading

**PROGRAM:** Private Equity

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

### **EXECUTIVE SUMMARY**

The purpose of this item is to provide the Investment Committee (Committee) the proposed revisions to the Private Equity Program Policy (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, constraints, and CalPERS specific defined terms contained within investment delegations to investment policies and the CalPERS Specific Glossary (Glossary).
- This revision to Private Equity Program Policy is the first step in the next phase of aligning asset class policies with the Total Fund Investment Policy and simplifying the policy through the removal of procedures.
- Staff is presenting the Private Equity Program Policy (Attachment 1) and providing the current policy for comparison purposes (Attachment 2) for Committee consideration and direction. Attachment 3 is a proposed revised CalPERS Specific Glossary of Terms that includes additional definitions that presently reside within the Private Equity Delegation Resolution. The Pension Consulting Alliance (PCA) Opinion Letter, responding to the proposed revised policy, is provided as Attachment 4.

### **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.

## **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 Private Equity with the Project's objective of consolidation, clarity, and standardization.

## **ANALYSIS**

Incorporating these revisions will continue the policy simplification process while aligning the Policy with the Total Fund Investment Policy, eliminating procedural or duplicative language, consolidating CalPERS specific terms within the Glossary, 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 (1) requirements that the Committee conduct, set, approve, or oversee an activity, (2) the testable components of policy (such as investment limits, exposure ranges, and prohibited actions or investments), and (3) periodic reporting to the Committee.
- Incorporated program limits and constraints that are presently included within investment delegations.
- Moved to 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 Investment Compliance and Operational Risk.
- Utilized the revised Total Fund Investment Policy template format to better organize policy content and centralize testable elements within appendices to clarify responsibilities and reduce the potential for operational risk events.
- Included in the Glossary the CalPERS specific investment terms currently defined in the Private Equity Delegation Resolution.
- Removed from the policy the language that staff identified as duplicative, aspirational, or editorial in nature.
- Updated the Introduction section to correspond with changes that were previously incorporated in the Global Equity and Fixed Income Program Policies resulting from prior Committee discussion and direction.

There are no changes proposed to staff reporting obligations (Appendix 1), as staff will continue with the current level of reporting. Although staff is not requesting any modifications to the investment authorities, limitations, or constraints, staff will likely come back to the Committee at a later date to request a change to the constraints to align the delegations between Real Assets and Private Equity.

**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 this policy 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 – Proposed Private Equity Program Policy
- Attachment 2 – Current Private Equity Program Policy
- Attachment 3 – Proposed Revised CalPERS Specific Glossary of Terms
- Attachment 4 – PCA Opinion Letter – Proposed Revision of Private Equity Program Policy

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