

# Investment Office Roadmap Update

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Investment Committee

December 14, 2015

# Agenda

## Today's Objective

Review the following with the Investment Committee:

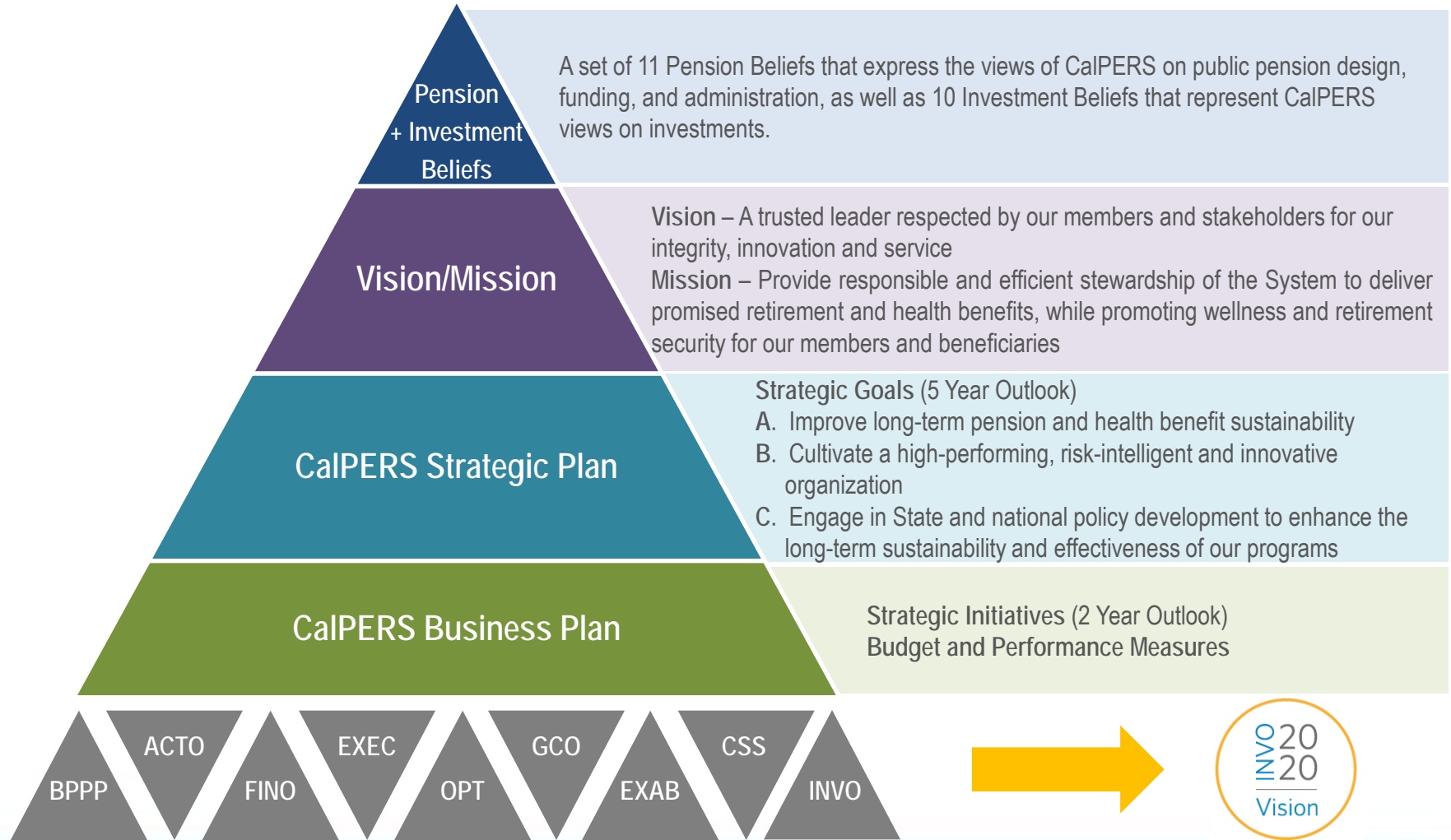


Progress on the Investment Office “2020 Vision”

- 2015-17 INVO Roadmap
- 2014-16 INVO Roadmap Accomplishments

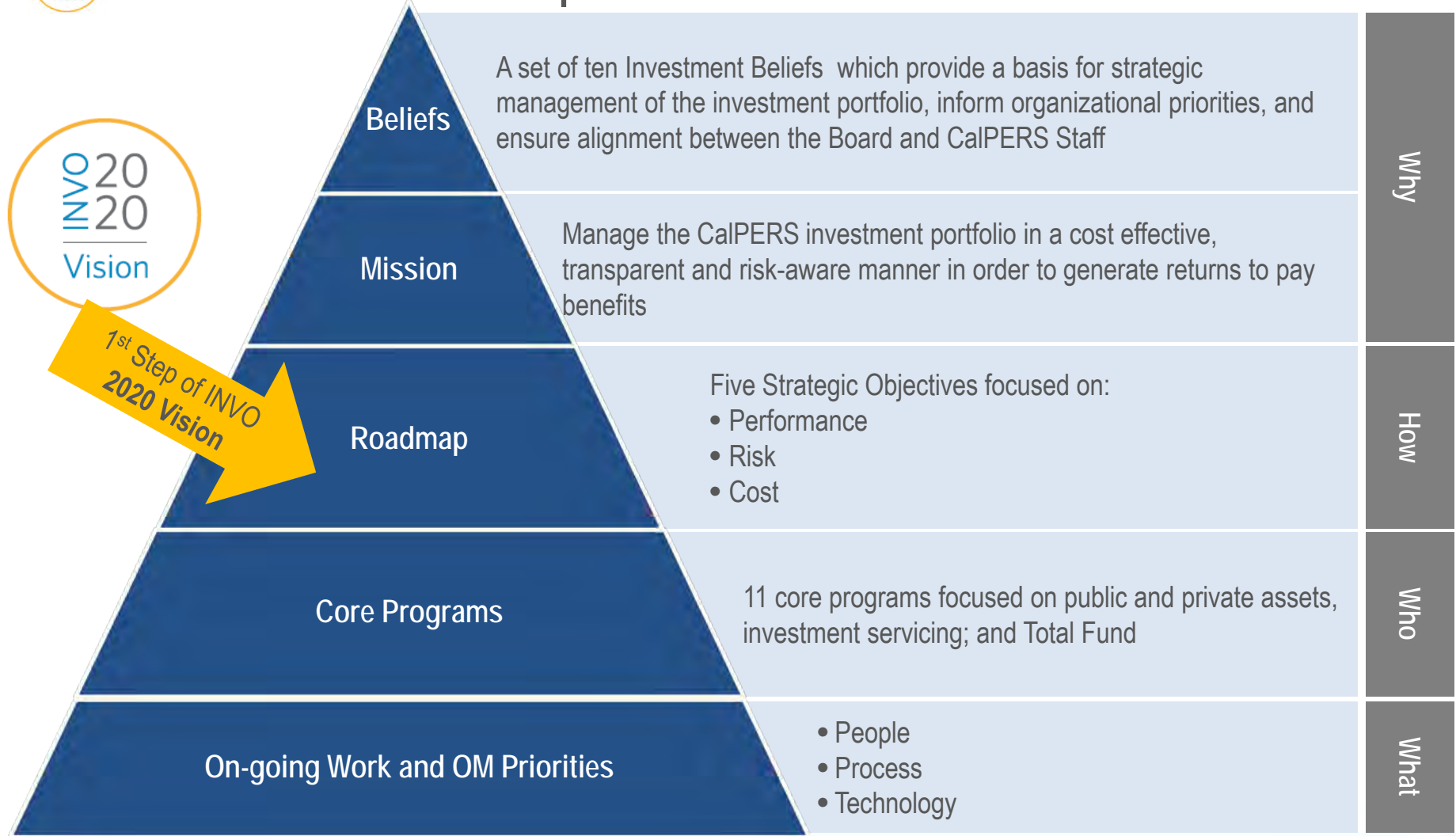


# Enterprise Alignment





# 2015-17 Roadmap





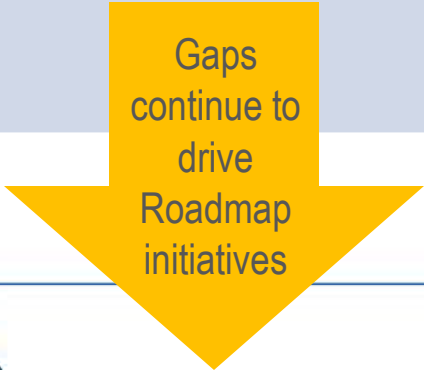
# Strategic Vision

FROM	TO – 2020 Vision	Current State	Status (Est.)
Long-term, static asset allocation framework	More dynamic framework, responsive to market conditions	Still relatively static. Enhancements needed and underway.	
Risks not transparent & understood	Key risks understood & managed	Risks better understood as key driver of portfolio and organization. Governance, private proxies, benchmarks and research framework need further development	
Tactical, asset class-based approaches to building strengths & competencies	Clear sense of our strengths & competencies we want to develop	Better understanding of competencies and competitive advantages. Need to continue Total Fund-focus	
Bottom up approach to value creation, sizing of investment strategies at asset class level	Integrated strategies for value creation that blend cross-asset class approaches, scaled for the total fund	Good focus on “bottom up” value creation. Need to execute cross-asset class approaches (Business Model)	
Inadequate reporting systems & data for effective cost management	Automated expense tracking & reporting systems, & improved cost effectiveness	Cost management reporting is now automated and timely. Increased knowledge of total costs being incurred to manage the portfolio	



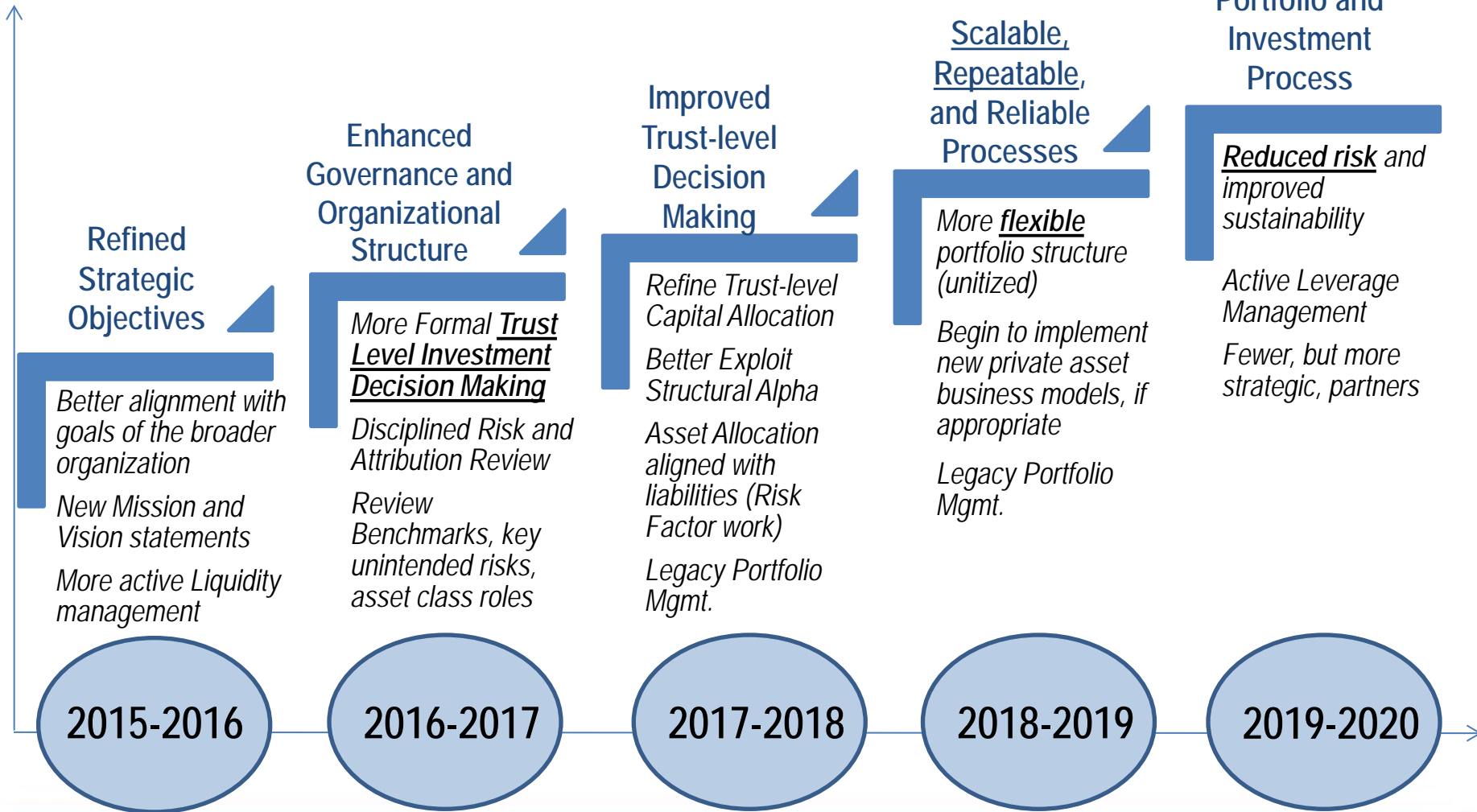
# Strategic Vision

FROM	TO	Current State	Status (Est.)
Lack of common systems, processes & analytics	Clear target operating model – strong operational data, governance, systems & controls	Strengthened processes and controls. Transitioned to “Investment Operating Model”	
Inconsistent culture & employee experience, diversity is valued but unmeasured	High performance culture & quality employee experience, includes diverse perspectives, views, skill sets and backgrounds	Improved focus on CalPERS/“One-Voice” culture. Increased awareness of varying experiences and diversity within asset classes	
Uneven approach to ESG, ever expanding requests, reactive, and focused on new commitments	Unified, holistic approach to assessing & engaging on ESG risks & opportunities	Newly developed manager expectations in place. Effective corporate engagement and proxy voting initiatives	





# INVO 2020 Vision Steps





# INVO 2020 Vision

## Mission

Manage the CalPERS investment portfolio in a cost-effective, transparent and risk-aware manner in order to generate returns to pay benefits.

## Vision

- The Investment Beliefs and CalPERS Core Values are the guiding principles underlying our investment decisions.
- We operate with a focus on repeatable, predictable, and scalable portfolios and practices.
- We see alignment of interests with our primary stakeholders, our business partners, and ourselves.
- We use clearly articulated performance, risk, and cost metrics to evaluate our value-add to the funds.
- Our investment and business activities are supported by a solid platform of effective risk management and controls.

### Refined Strategic Objectives

*Better alignment with goals of the broader organization*

*New Mission and Vision statements*

*Active Liquidity management*



2015-2016





## 2015-17 Roadmap Overview

### Capital Allocation

Enhance the Capital Allocation framework through improved risk factor modeling and greater understanding of trust-level investment risk and performance attribution

### Business Effectiveness

Enhance cost effectiveness, resource allocation, and efficiency of the investment program to increase net returns on assets

### Investment Beliefs & ESG

Integrate Investment Beliefs and environmental, social, and governance (ESG) risk considerations in to the investment decision-making process

### Investment Platform and Controls

Enhance the investment platform and internal controls environment to achieve optimum efficiency

### Investment Risk Management

Build effective risk review and decision processes within and across asset classes to ensure risks are fully understood, intended, and compensated

- **5** Strategic objectives that support INVO's Mission, Vision, CalPERS' Mission, and Core Values
- **36** Initiatives in progress
- Collaborative, cross asset class/program area effort: **6** Executive Sponsors nominated **26** Project Leads who chose **130** Team Members



## 2015-17 Roadmap Overview

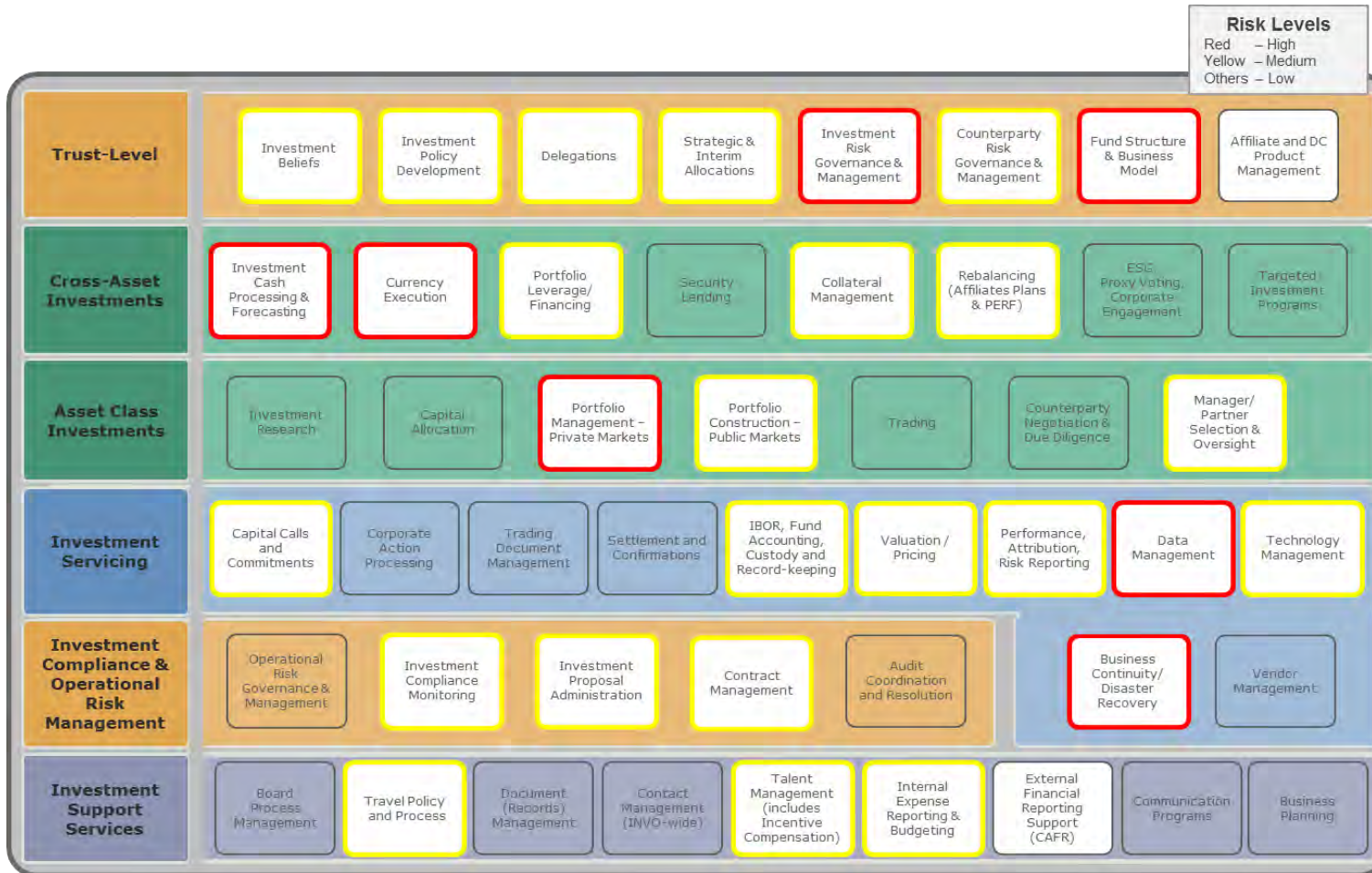
### Enhanced program management of the portfolio of Roadmap initiatives:

- Monthly check-ins with Project Leads to discuss initiative status and provide project management support
- Tracks interdependent initiatives / deliverables
- Monthly reports on status, risks and mitigation issues to:
  - Investment Management Committee
  - Executive Sponsors/ Project Leads
  - Strategic Planning Subcommittee

Effective program management is critical to ensure 36 projects remain on track



# 2015-17 Roadmap Overview: Initiative/ Risk Relationship



Risk levels refreshed & benchmarked in Q1 2015, monitored by the Operating Committee

- 7 High Risk Functions (~15%)
- 21 Moderate Risk Functions (~43%) Same as in May IC Update

# 2015-17 Roadmap Overview

## Concept (13)

- Benchmark Evaluation
- Public Market Proxies
- Fixed Income Portable Alpha
- Role of Private Markets
- High Yield Structured Investment Opportunities
- Investment Beliefs Integration Assessment
- ESG Sustainability Research
- Financial Markets Reform
- Private Markets Regulatory Compliance
- Execution Services Strategy
- CalPERS STIF
- Archer Expansion Feasibility Study
- Risk Factor Development

## Design (16)

- ISG Restructure
- Strategic Manager Selection & Monitoring Strategy
- INVO Mgmt Operating Report Development
- INVO Diversity and Inclusion Strategy
- Portfolio Priorities
- Volatility Harvesting Strategy
- PE Legacy Portfolio Monitoring & Optimization
- Investment Education & Training – Conference Management
- Investment Education & Training
- EM 5 Yr. Plan
- Authorized Signature List
- Performance Measurement & Attribution
- Trust Structure Redesign
- GIPS Implementation
- Liquidity – Operations
- Master Custodian RFP

## Implement (7)

- PERF Rebalancing Automation
- PM2 2.0
- Data Management – Core Capabilities
- Disaster Recovery/ Business Continuity
- PEARS
- Info Barrier and MNPI Enhancements
- Pricing / Valuation

*Expected Outputs:*  
Recommendations to IC,  
ISG, IMC, OC

*Expected Outputs:*  
Work plan and beginning of  
implementation

*Expected Outputs:*  
Completed policy, system  
workflow or strategy



# 2015-17 Initiatives Addressing Operating Model Risks

**Investment Strategy Group (ISG) Restructure Initiative:**  
 Improve the understanding and ownership of Trust-level investment risk and performance decisions

## Trust-Level Risk and Attribution

Ensures that investment risks are intended, understood, and compensated



## CIO, COIO, MIDs



## Portfolio Allocation

Provides organized approach to making asset class rebalance and tactical position decisions



## Governance and Sustainability

Ensures that ESG risk considerations are integrated into the investment-decision making process



## Trust-Level Investment Review

Provides a trust-level decision process and framework for the review of non-core programs, business models, assets and investments





# 2015-17 Initiatives Addressing Operating Model Risks

## Private Equity Portfolio Management Accounting & Data Services (PEARS)

### *Objective:*

- Complete Phase 1 of an integrated solution which enhances investment monitoring, improves risk management, and reduces operational inefficiencies. Solution incorporates:
  - A Portfolio Management System
  - Accounting and Data Services
- Complete Phase 2:
  - Profit share and management fee data collections and reporting
  - Upgraded production of the Quarterly Monitoring Report (QMR), additional portfolio company data, and graphical displays for investment structures

## Business Effectiveness

### *Objective:*

- Explore and propose governance and protocols to improve efficiencies in the manager selection and monitoring process, including a centralized model and development of an enhanced “waterfall” validation function.



# 2015-17 Initiatives Addressing Operating Model Risks

## Portfolio Priorities

### *Objective:*

- Articulate goals for the structure of the Total Fund through the development of priorities that will be expressed through benchmark selection and will connect Investment Beliefs to portfolio construction

## Performance Measurement and Attribution

### *Objective:*

- Provide timely, standard analytic reports and analyses that accurately measures performance, risks and exposures to assist in managing portfolios, monitoring risk and performance drivers, and reporting to the Board



# 2015-17 Quarter 1 Accomplishments

## Capital Allocation

- ✓ Investment Strategy Group (ISG) Restructure
  - Developed clear roles, responsibilities, and decision authorities for the ISG and related subcommittees
  - Began development of subcommittees' charter, membership, deliverables, and timelines

## Business Effectiveness

- ✓ Private Equity Legacy Portfolio Monitoring and Optimization
  - Developed a beta Legacy Portfolio quarterly monitoring report for PE/GE/RE Managing Investment Directors
  - Identified and implemented key monitoring metrics

## Investment Risk Management

- ✓ Liquidity - Operations
  - Began development of an enhanced liquidity reporting and monitoring framework which will aid stakeholders in review and decision making





# 2015-17 Quarter 1 Accomplishments

## Investment Beliefs and Environmental, Social and Governance (ESG)

- ✓ Investment Beliefs Integration Assessment (initiative COMPLETE)
  - July 2015 Board Offsite - Facilitated the Towers Watson Investment Beliefs Implementation Presentation
  - September 2015 IC Meeting – Presented an assessment and next steps of the Investment Beliefs integration
- ✓ Emerging Manager Five-Year Plan
  - In September 2015, staff hosted the Emerging, Transition and Diverse Manager Day (143 managers from 76 firms met with CalPERS senior asset class staff and their advisors)

## Investment Platform & Controls

- ✓ Execution Services Strategy
  - Staffing and resourcing plan finalized, new org. structure and team effective October 1<sup>st</sup>, 2015.
- ✓ Private Equity Portfolio Management Accounting & Data Services (PEARS)
  - Release 1 approved to Go Live effective October 1, 2015, which includes:
    - Historical data cleansing and validation
    - Creation of performance and accounting reporting
    - Establishment of a new accounting book of record and revised chart of accounts
    - Implementation of workflow-based business practices for all cash and valuation activities



# 2014-16 Closeout Accomplishments

## Investment Performance

- ✓ Affiliate Investment Programs (AIP) Process and Technology (TOM #24)
  - May 2015 – ARTEMIS went live; delivering risk mitigation, efficiency, and improved portfolio management for the Affiliate Trusts
- ✓ Private Equity Portfolio Management Accounting & Data Services (PEARS)
  - Began “live parallel” process, including Release 1 of Portfolio Manager Reports

## Asset Allocation

- ✓ Affiliate Funds ALM Review
  - June 2015 – The Board approved and/or adopted:
    - Recommendations to keep the existing allocation for the Affiliate Funds Long-Term Care Program
    - Proposed revisions to both the Statement of Investment Policy and the CalPERS’ Total Fund Investment Policy



# 2014-16 Closeout Accomplishments

## Environmental, Social and Governance (ESG) Strategy

- ✓ Carbon Footprint
  - Completed initial foot printing
- ✓ Principles and Proxy Voting
  - Year to date, 69% (54 /78) of shareowners approved shareowner proposals requesting proxy access
  - Additional 9 companies agreed to voluntary implementation

## Organization, Systems, and Controls

- ✓ Pricing and Valuation (TOM #12)
  - Completed Pricing and Valuation procedures for all asset classes
  - Moved forward with Quarterly valuations for Real Estate assets

## Cost Effectiveness

- ✓ Cost Effectiveness
  - INVO Fiscal Year 2014-15 cost savings was \$217 million
    - Primarily from improved fee structures on new commitments made by Real Assets and Private Equity
    - Includes \$196 million of reduced ongoing fees and expenses and \$21 million in one-time savings.

# INVO 2035 Considerations:

## Key Questions & Considerations

2035

### Technology

- Impact on trading processes
- Impact on investment set

### Business Model

- Size and Complexity
- New Internal management capabilities
- Changes in counterparty business models

### Market Environment

- Economic volatility/ Growth & new risks
- Regulatory and clearing requirements
- Climate change impact on investment values
- New investment categories & classes

### Physical Location

- New locations
- Increased interconnection of the world

### Talent

- Resource Availability
- Needed skillsets
- New ways of working
  - Remote
  - Part-time
- Increased diversity

What are the areas we think we will need more than a 5 year horizon to progress?

# Next Steps

- ✓ Continue to develop, manage and report 2015-17 Roadmap initiatives
- ✓ Finalize and operationalize the Investment Strategy Group Subcommittees
- ✓ Continue progress on 2020 Vision
  - Begin to identify 2016-18 Initiatives
- ✓ Begin framework and discussions for the INVO 2035 Strategy

# Summary

- 2020 Vision
  - Communicated to INVO Staff
  - 1<sup>st</sup> step (2015-17 Roadmap) has begun
  
- 2015-17 Roadmap initiatives
  - 5 Strategic objectives
  - 36 Roadmap Initiatives
  - Collaborative, cross asset class/program area effort
  - Formal Program Management and reporting function
  - Progress is being made
  
- INVO 2035
  - Strategy is in development