



Agenda Item 8d.

February 16, 2016

ITEM NAME: Update on Borrowed Liquidity Approach

PROGRAM: Total Fund

ITEM TYPE: Asset Allocation, Performance & Risk – Information

EXECUTIVE SUMMARY

At its June 15, 2015 meeting, the Investment Committee (Committee) approved an interim strategic asset allocation target of 1% for Liquidity and expanded the range relative to target for the Liquidity asset class to +/- 3%. Staff communicated it would return with an Information item to reflect both enhanced reporting on the potential leverage attached to the expanded Liquidity range and also to outline procedures by which this kind of capability, or borrowed liquidity approach, would be controlled.

In this agenda item, staff presents operating guidelines (Guidelines) to implement the concept of borrowed liquidity (Attachment 1) and an example of how current Committee monthly reporting (Attachment 2) can reflect when the actual Liquidity allocation declines below 0.

STRATEGIC PLAN

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

BACKGROUND

An interim Liquidity target of 1% with a range of +/-3% was approved by the Committee in June 2015 following extensive discussion regarding the background of CalPERS Liquidity allocation and liquidity management during April and May 2015 Committee meetings.

During the May 2015 Committee meeting, staff discussed the use of a borrowed liquidity approach and the associated leverage implications related to the expanded Liquidity target range. These topics were discussed in more detail during the June 2015 Committee meeting, including a description of situations where the borrowed liquidity approach may be used, how it would be implemented and key governance considerations associated with the use of borrowed liquidity.

During the June 2015 Committee meeting, staff communicated its intent to return with an Information item that would outline procedures by which a borrowed liquidity approach would be controlled and reflect enhanced reporting.

ANALYSIS

The attached operating Guidelines (Attachment 1) have been adopted by the Investment Office Operating Committee and will provide staff with the flexibility to respond to unforeseen situations where cash in excess of what is available in the Liquidity allocation is required on short notice (such as a short-term “mismatch” between incoming and outgoing cash flows).

The Guidelines provide for an effective control model which captures decision making, tactical implementation, accounting, reporting and oversight, testing, and governing model as a function of the Operating Committee.

A sample of enhanced leverage reporting to the Committee is provided (Attachment 2) to disclose whenever the actual Liquidity allocation declines below 0.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Effective operating procedures and enhanced reporting benefit management of the CalPERS investment portfolio in a cost effective, transparent and risk-aware manner in order to generate returns to pay benefits.

ATTACHMENTS

Attachment 1 – Operating Guidelines for Implementing Borrowed Liquidity
Attachment 2 – Sample Board Report to Reflect Liquidity Allocation below 0.

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