

Investment Committee Total Fund Investment Policy Revisions Initial Review

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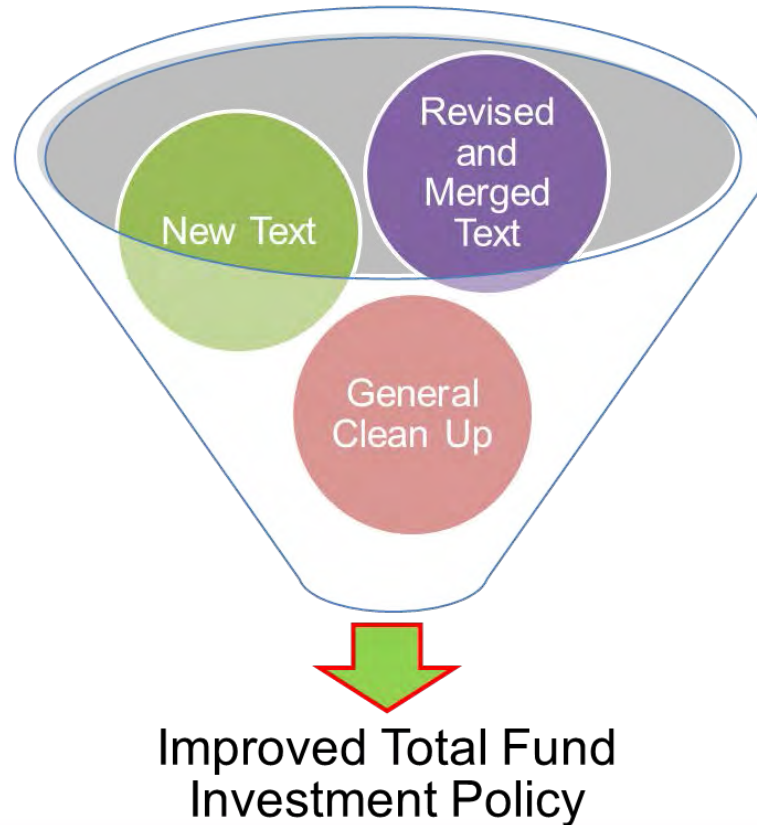
Investment Director

February 16, 2016

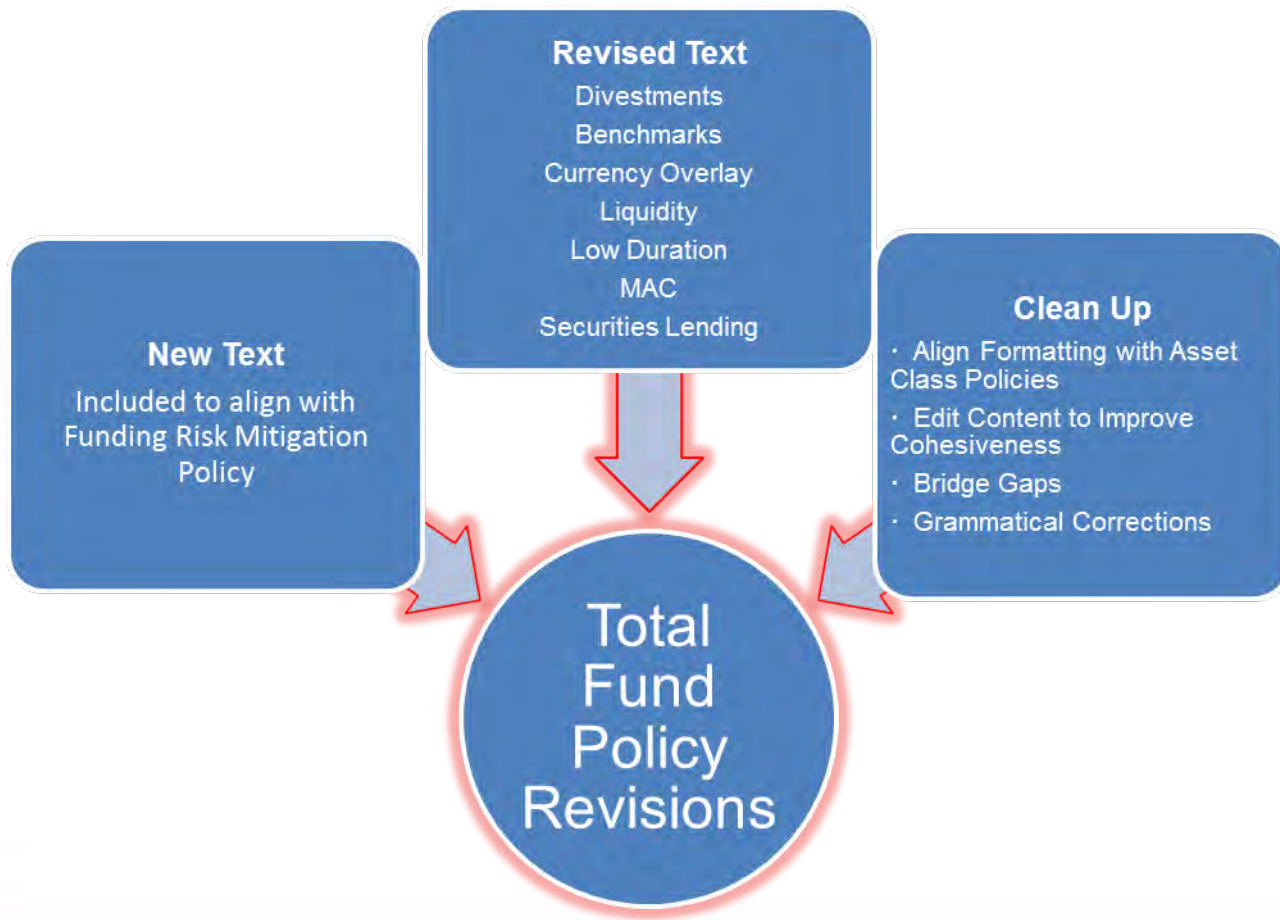
Background, Objectives, & Next Steps

- **The Investment Policy Revisions Project is a key initiative identified in the Roadmap for reducing risk levels identified in the Target Operating Model**
 - ✓ The Committee adopted the Total Fund Investment Policy in March 2015
 - ✓ The Committee continued to review and adopt individual asset class investment policies aligned with the new Total Fund Investment Policy format throughout the remainder of 2015
- **Key objectives** for this project include:
 - Established overarching Guiding Principles for policy development
 - Creation of the new Total Fund Investment Policy incorporating content across numerous existing policies
 - Review and alignment of asset class policies with Total Fund Investment Policy
 - Removal of duplicative procedural, aspirational, and editorial language while retaining key policy risk constraints and target exposure ranges
 - Standardization of the content, format, and style of investment policies
- **Next Steps:**
 - Review and approve proposed Total Fund Policy revisions to:
 - Incorporate Funding Risk Mitigation Policy component,
 - Consolidate additional cross program policies
 - Finalize alignment with individual program policies
 - Remove remaining inconsistencies
 - Committee review, comment, and approval of Affiliate Investment Program policies
 - Completion of Project and transition to core workload with ongoing Committee oversight during Annual Program Reviews and Trust Level Reporting

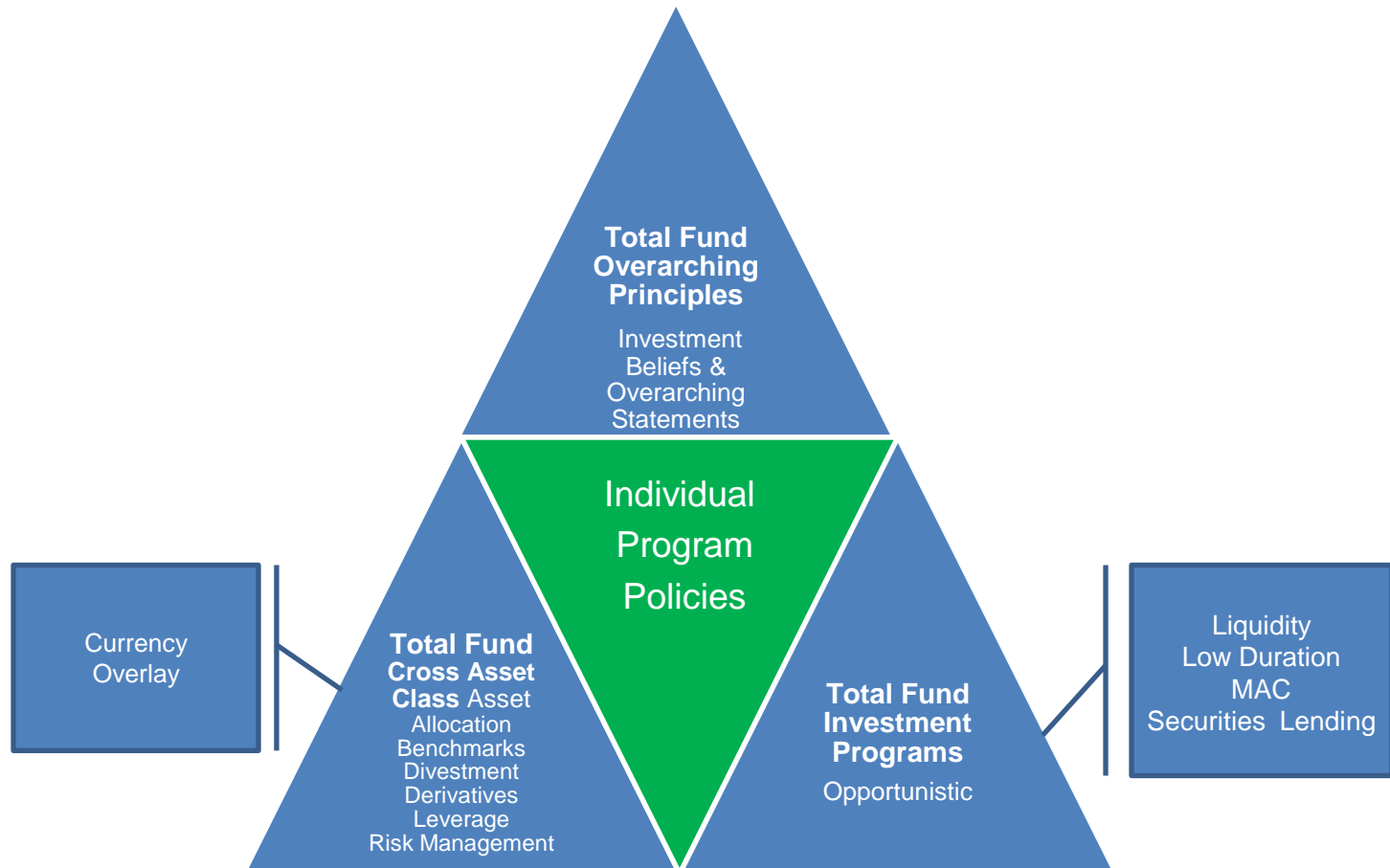
Total Fund Investment Policy Revision Components



Total Fund Investment Policy Proposed Revision Summary



Total Fund Investment Policy Taxonomy



Governance is strengthened by consistently applying clear overarching principles, limits, and constraints to guide & support all INVO program areas

Appendix

- The following have been included for Committee reference purposes
 - Guiding Principles for Policy Development
 - Methodology for Policy Revisions

Guiding Principles for Policy Development

- **“Clarity of Roles”**: Policies should clearly define the Committee’s authority and role in the activity to **conduct, set, approve, and oversee**
 - This requires clearly stating appropriate constraints and ranges set forth in each policy statement
- **“Testable”**: Policies should be clear, measurable, and specific in order to evaluate their effectiveness, and reduce operational risks and complexity
- **“Appropriate Level of Detail”**: Staff should be empowered to implement policies with a robust governance and oversight framework, which further enhances the internal control environment

Methodology for Policy Revisions

Retained in Policy

- Actions requiring the Committee to conduct, set, approve or oversee an activity
- Testable components of policies
 - Specific investment limits or exposure ranges
 - Prohibited actions or investments
- Clear and concise objectives designed to minimize operational risk
- Committee reporting and communications requirements

Moved to Staff Guidelines

- Procedural elements intended to guide staff on what must be accomplished to achieve Policy objectives
 - Changes to staff guidelines and procedures would require approval of the Investment Strategy Group or INVO Operating Committee and concurrence by Wilshire Associates
 - These elements will continue to be tested by ICOR with any exceptions reported to the Operating Committee or Investment Strategy Group

Removed from Policy

- Duplicative, aspirational and editorial language
- Definitional language describing investment related terminology
 - Only approved definitions for the Investment Office is maintained are the CalPERS Specific Glossary