

---

**March 14, 2016****Item Name:** Revision of Affiliate Fund Policies and Repeal of Legacy Policies – Second Reading**Program:** Affiliate Funds**Item Type:** Action**Recommendation**

Approve staff's recommendations as presented regarding:

1. Revision of seven Affiliate Fund policies:
  - a. California Employers' Benefit Trust (CERBT)
  - b. Public Employees' Health Care Fund (HCF)
  - c. Judges' Retirement System (JRS) Fund
  - d. Judges' Retirement System II (JRS II) Fund
  - e. Legislators' Retirement System (LRS) Fund
  - f. Public Employees' Long-Term Care (LTC) Fund
  - g. Supplemental Income Plans (SIP)
  
2. Repeal of two legacy Affiliate-Fund-related policies:
  - a. Treasury Inflation-Protected Securities (TIPS) Policy
  - b. SIP Target Retirement Date Funds Policy

The proposed new Affiliate Fund policies (items 1a-1g above) are provided as Attachment 1. The current Affiliate Fund policies for comparison purposes are included as Attachment 2. The TIPS and SIP Target Retirement Date Funds policies that staff recommends for repeal are included as Attachment 3. Attachment 4 is Wilshire Associates' opinion letter.

**Executive Summary**

Following the first reading of the proposed policy changes presented at the February 16, 2016 Investment Committee (Committee) meeting, this item seeks Committee action on staff's proposal to revise seven Affiliate Fund policies, and repeal two legacy policies. The proposed policy changes were developed to reflect the new format and content guidelines established as part of the Investment Policy Revision Project (Project).

**Strategic Plan**

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent, and innovative organization. The proposed policy revisions, once approved by the Committee, will strengthen CalPERS' ability to achieve the System's investment objectives by maintaining clear, actionable, and testable investment policies.

## Investment Beliefs

This item supports CalPERS Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives, by improving the documentation governing the management of the Affiliate Funds.

## Background

This item builds upon previous agenda items presented to the Committee as part of the Project, which focused first on the Total Fund Policy, then on “asset-class specific” program policies. Over the course of the Project, staff has developed an updated template and a set of guiding principles and a methodology (as discussed in the February 2015 Committee meeting) for taking a holistic approach to CalPERS’ investment policies. The methodology, as related to policy content, is summarized below:

1. Retained in the policy – Requirements that the Committee conduct, set, approve, or oversee an activity, testable limits and constraints, and reporting requirements
2. Incorporated from delegations of authority - Investment limits and constraints contained within investment delegations
3. Moved to staff guidelines - Procedural elements oriented towards implementation of policy objectives
4. Removed from policies - Language that staff identified as duplicative, aspirational, or editorial in nature

The same template, guiding principles, and methodology applied to the Total Fund Policy and asset-class specific program policies have been applied to the Affiliate Fund policies presented herein.

## Analysis

Overall, no policy revisions have been proposed that materially affect investment risk management or measurement. In addition to the changes required as part of the Project, adjustments have been made to align the strategic asset allocation review schedules to be consistent with the four-year schedule established in the Total Fund Policy for the Public Employees’ Retirement Fund (PERF). The revised schedule is designed to better align with the routine review of actuarial assumptions and methods. Additional information on the key components of staff’s recommendations is outlined in the sections below.

### Revision of Affiliate Fund Policies in Accordance with Project Methodology

The proposed revised policies (Attachment 1) have been simplified to reflect the policy template and content methodology as outlined below.

1. Testable limits and constraints, Committee reporting requirements, and requirements specific to the roles outlined in the Committee’s delegation of authority (set, conduct, approve, and oversee), were retained as applicable.
  - a. Testable investment limits and constraints were consolidated within *Appendix 3 Investment Constraints/Limitations* to each policy.
  - b. Reporting requirements to the Committee were consolidated within *Appendix 1 Reporting to the Investment Committee* to each policy.

- c. Committee, staff, consultant, and manager responsibilities were consolidated within *Appendix 2 Investment Responsibilities*.
2. The Affiliate Funds delegation of authority document (number 07-04-INV) was reviewed and found to contain no investment limits or constraints that require inclusion in the policies.
3. The Affiliate Fund policies proposed for revision (Attachments 1 and 2) were reviewed and no procedural content was identified for relocation from the policies. However, in preparation for the proposed repeal of the TIPS Policy, staff has relocated to internal staff guidelines the specific limits for sector and duration risk related to the management of the Affiliate Fund TIPS exposures.
4. Consistent with prior policy revisions undertaken as part of the Project, duplicative, aspirational, or editorial content was removed.

#### Proposed Repeal of TIPS and SIP Target Retirement Date Fund Policies

To support the overall project goals to streamline CalPERS' investment policy documentation, staff recommends that the two Affiliate Fund policies below be repealed:

1. TIPS Policy
2. SIP Target Retirement Date Fund Policy

#### *Proposed TIPS Policy Repeal*

Staff recommends the current TIPS Policy be repealed because the management of U.S. inflation-linked bonds (including TIPS), as an asset-class component, is addressed within the existing Inflation Assets Policy. With the repeal of the current stand-alone TIPS Policy, staff proposes to relocate to internal staff guidelines relevant investment constraint content regarding the management of the Affiliate Funds' TIPS exposure.

This recommendation is intended to reduce operational complexity by consolidating applicable content for management of the Affiliate Funds' TIPS exposure into a more appropriate place within CalPERS' internal staff guidelines.

#### *Proposed Repeal of SIP Target Retirement Date Funds Policy*

The current SIP Target Retirement Date Funds Policy is proposed for repeal as relevant content is being incorporated into the existing SIP Policy. This recommendation is intended to reduce complexity and duplicative language through the creation of a single consolidated policy.

### **Budget and Fiscal Impacts**

Not Applicable.

### **Benefits and Risks**

Staff's recommendations are consistent with Target Operating Model objectives to design, develop, and implement a robust operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance, and controls.

Staff's recommendations are expected to provide the following benefits:

- Reduce operational risk through the use of clear, consolidated language considering both the Committee and staff's roles and responsibilities, and the removal of duplicative, aspirational, or editorial language.
- Enhance alignment and consistency throughout CalPERS' policy documentation.
- Reduce documentation complexity by consolidating and repealing legacy policies where separate policies do not add value.

Risks associated with not adopting the recommendations include:

- Potential elevation in operational-risk-related events due to unclear or difficult to locate Committee directives, limits, and constraints.
- The existence of conflicting language among varying investment policy documents.

### **Attachments**

Attachment 1 – Revised Policies Proposed for Adoption

Attachment 2 – Current Policies

Attachment 3 – Policies Proposed for Repeal

Attachment 4 – Wilshire Associates' Opinion Letter

---

**Katherine H. Crocker**

Investment Compliance and Operational Risk  
Investment Director

---

**Wylie Tollette**

Chief Operating Investment Officer