

# Investment Office Roadmap and Target Operating Model Update

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Investment Committee

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# INVO 2020 Vision

## 2020 Focus:

- ✓ Reduce cost, complexity, and risk
- ✓ Fewer, but more strategic partnerships with external managers.



## 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 seek **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**.



# INVO 2020 Vision Steps

## Refined Strategic Objectives

2015-16

*Better alignment with goals of the broader organization*

*New Mission and Vision statements*

*More active Liquidity management*

## Enhanced Governance and Organizational Structure

2016-17

*More Formal **Trust Level Investment Decision Making***

*Disciplined Risk and Attribution Review*

*Review Benchmarks, key unintended risks, asset class roles*

## Improved Trust-level Decision Making

2017-18

*Refine Trust-level Capital Allocation*

*Better Exploit Structural Alpha*

*Asset Allocation aligned with liabilities (Risk Factor work)*

*Legacy Portfolio Mgmt.*

## Scalable, Repeatable, and Reliable Processes

2018-19

*More **flexible** portfolio structure (unitized)*

*Begin to implement new private asset business models, if appropriate*

*Legacy Portfolio Mgmt.*

## Factor-based Portfolio and Investment Process

2019-20

***Reduced risk** and improved sustainability*

*Active Leverage Management*

*Fewer, but more strategic, partners*



# 2015-17 Roadmap Strategic Objectives

## 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 & Controls

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

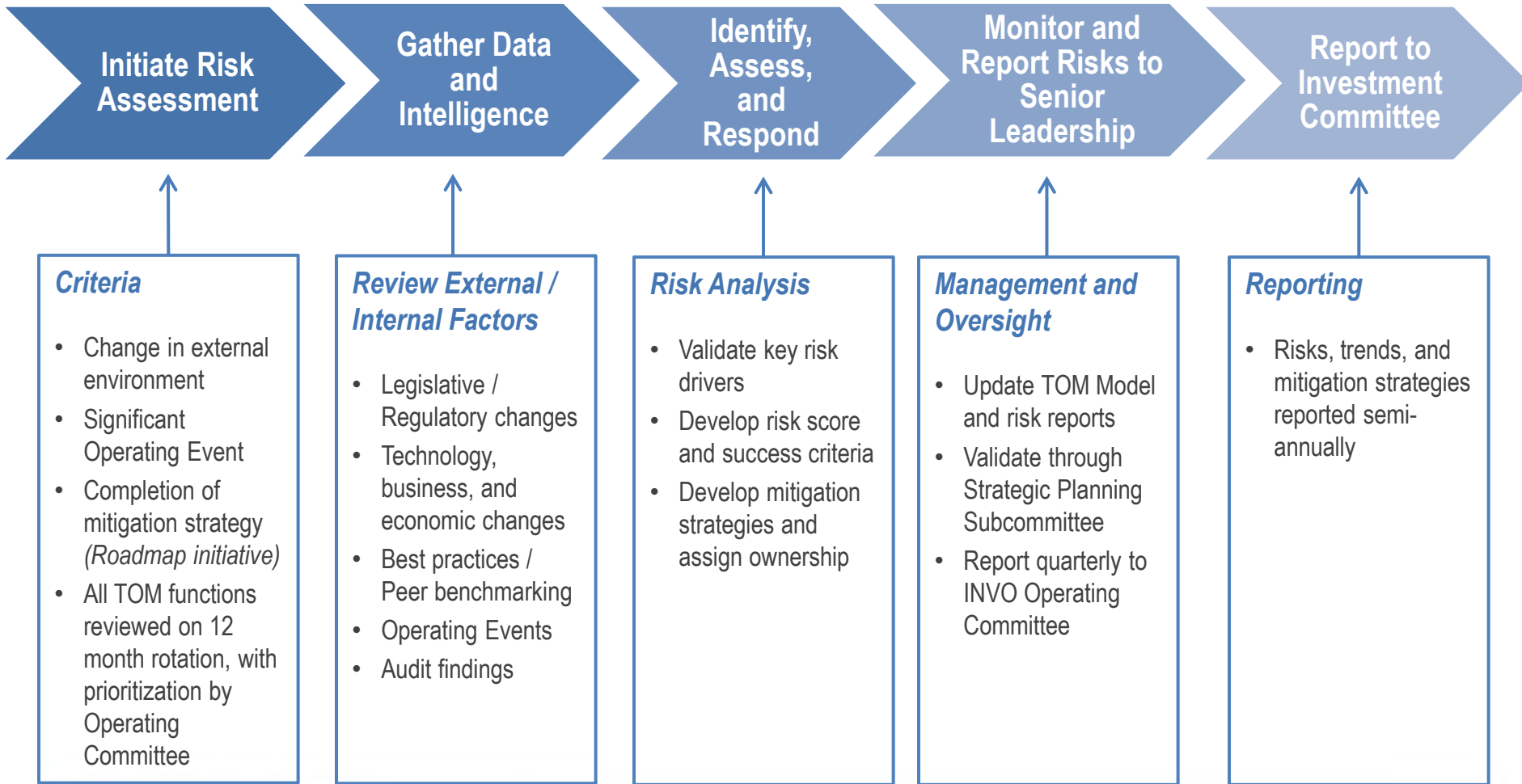
## Investment Risk Management

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

- **36 Initiatives** in progress that support the Strategic Objectives

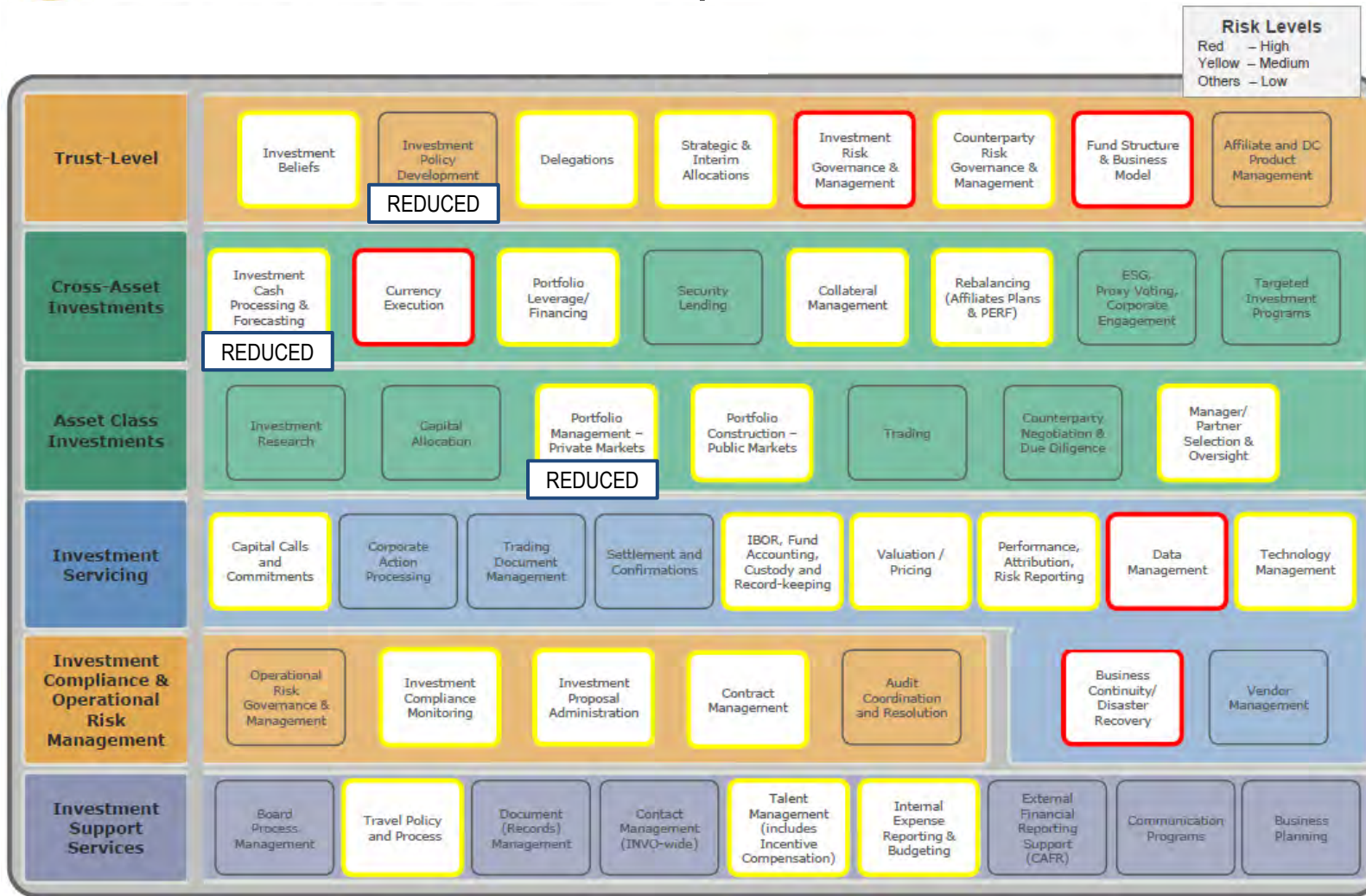


# TOM Risk Assessment Process





# Revised TOM Status: April 2016



78% (28 of 36) of 2015-17 Roadmap Initiatives relate to High and Medium risk functions.



# 2015-17 Roadmap Current Fiscal Year Accomplishments

## Capital Allocation

Strategic & Interim Allocation

### Investment Strategy Group (ISG) Restructure

- Finalized charter, membership, deliverables, and timelines for ISG Subcommittees:
  - ✓ Trust-level Risk and Attribution
  - ✓ Portfolio Allocation
  - ✓ Trust-level Investment Review
  - ✓ Governance and Sustainability
- Subcommittees are functional and supporting ISG’s understanding and ownership of Trust-level investment risk and performance

## Business Effectiveness

Fund Structure & Business Model

### Private Assets Legacy Portfolio Monitoring and Optimization

- Cross-asset class team developed and implemented management tool for legacy hedge fund, real estate and private equity assets that aids staff in the systematic monitoring and management of diverse assets
- Real Estate is in the process of liquidating nearly \$3B of Legacy Commingled Funds through a secondary sale



# 2015-17 Roadmap Current Fiscal Year Accomplishments

## Business Effectiveness



### Strategic Manager Selection and Monitoring Strategy

- 212 (as of June 2015) ➔ 159 Strategic Managers (as of April 2016)
- Developed enhanced protocols and processes in assessing and engaging external managers

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



### Investment Beliefs Integration Assessment

- 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. Key results are integrated into the ongoing Global Governance planning process.



### Diversity and Inclusion Strategy

- Formed INVO D&I Steering Committee focused on three work streams:
  - ✓ Board of Directors
  - ✓ External managers
  - ✓ Internal staff
- Hosted the CalPERS Diversity Forum in September 2015; 350 investment and business professionals gathered to discuss diversity and inclusion in the workplace





# 2015-17 Roadmap Current Fiscal Year Accomplishments

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

ESG, Proxy Voting, Corporate Engagement

### Private Markets Regulatory Compliance

- Engaged with various agencies (SEC, Treasurer’s Office, ILPA) and key General Partners and Limited Partners to gain understanding and discuss opportunities for increased collaboration and disclosure

Currency Execution

### Execution Services Strategy

- Completing transition of equity FX execution responsibilities; integrated risk oversight process through co-location of risk personnel onto the trade floor

## Investment Platform and Controls

Portfolio Management – Private Markets

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

- **Release 1 went Live in October 2015**
- Completed Release 2A scope (mgmt. fees, profit share information data capture and reporting) and schedule
- Completed Release 2B (short and long-term cash forecasting, QMR content, Fund of Fund performance, and other analytical reporting) detailed design



# 2015-17 Roadmap Current Fiscal Year Accomplishments

## Investment Risk Management

Strategic &  
Interim  
Allocation

### Liquidity – Operations (initiative COMPLETE)

- Refined PERF Total Fund Liquidity Cash Flow Forecasting data model, resulting in greater accuracy in cash forecasting and improved data file delivery from program areas
- Established an ongoing governance structure with the Financial Office for liquidity reporting
- Eliminated volatility in PERF liquidity due to centralized OTC collateral support

### Performance Measurement & Attribution

Performance,  
Attribution,  
Risk Reporting

- Completed comprehensive program reviews that measure and communicate performance, risks, and exposures from a total fund perspective, within and across asset classes, to the ISG for Fixed Income, Private Equity, Total Fund, and Affiliate Programs



## Next Steps

- ✓ Continue to manage, report, and close-out 2015-17 Roadmap initiatives
- ✓ Develop and initiate 2016-17 Roadmap initiatives
- ✓ Continue progress on 2020 Vision
- ✓ Continue design for the “INVO 2035” Strategy discussion at the July Board Offsite