
December 19, 2016

Item Name: Investment Office Roadmap and Target Operating Model Update

Program: Total Fund

Item Type: Information

Executive Summary

This agenda item provides an update on the Investment Office (INVO) business plan and related initiatives, including progress on the INVO Roadmap and Target Operating Model (TOM), key components of the CalPERS overall Business Plan.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan Goal A: Improve long-term pension and health benefit sustainability. Specifically, the INVO Roadmap supports delivering target risk-adjusted investment returns by implementing programs and initiatives that improve investment performance and ensure effective systems, operations, and controls.

Background

In alignment with the five-year CalPERS Strategic Plan and the two-year CalPERS business plan, INVO's Roadmap communicates strategic objectives and initiatives supporting key priorities and the CalPERS mission.

The "INVO 2020 Vision", a five-year business plan driving strategic direction was first introduced in 2014. The key objectives of the INVO 2020 Vision are to reduce risk, cost and complexity in the Investment Office and in the portfolio. Foundational to the INVO 2020 Vision is the CalPERS Strategic Plan and the Pension and Investment Beliefs. These helped shape new INVO Mission and Vision statements, first communicated to INVO staff and the Investment Committee in December 2014. These statements articulate INVO's mission of managing the CalPERS investment portfolio in a cost effective, transparent, and risk-aware manner in order to generate returns to pay benefits.

The INVO 2016-17 Roadmap (Roadmap) is a 2-year business plan, executed through five strategic objectives with underlying projects and initiatives designed to create forward progress on long-term INVO 2020 Vision objectives.

Integrated into the Roadmap is the Target Operating Model (TOM), which defines the people, process, technology, and data needed to effectively manage the CalPERS Investment portfolio. Through periodic risk assessment and comparison to industry benchmarks each TOM function is evaluated to determine the current level of operational risk. The level of operational risk informs the development of Roadmap initiatives and allocation of resources.

Analysis

In June 2016, using the INVO 2020 Vision as a driving force, staff developed the Roadmap with 18 underlying initiatives focused on building repeatable, predictable, and scalable portfolios and investing practices. Five Strategic Objectives were slightly refined from the prior year:

- Enhanced Capital Allocation Framework
- Business Effectiveness
- Investment Beliefs and ESG Risk Integration
- Investment Platform and Controls
- Investment Risk Management and Performance Attribution

Since July 2016, INVO staff have built new Roadmap initiative project teams; developed scope, timeline and milestones for the active initiatives; and have started to produce project deliverables. Progress has been made on the 18 new Roadmap initiatives, all of which are currently reporting as on-track.

In addition to the reported progress on the Roadmap, staff is presenting an updated TOM Dashboard. Indicated changes are the result of an internal Risk Assessment including analysis of completed 2015-17 INVO Roadmap initiatives, changes in external and internal operating environments, significant operating events, and completion of risk mitigation strategies. As reported in May 2016, each TOM function will be reviewed on a 12-month rotation, with prioritization and oversight by the INVO Operating Committee. As a result of this continuous, rolling review cycle, the Investment Committee can continue to anticipate viewing updated TOM Dashboards at each semi-annual Roadmap update.

For the October 2016 Risk Assessment, the INVO Operating Committee approved updates to the following TOM functions:

- Delegations – reduced estimated risk level
- Investment Stakeholder Engagement – updated title and scope
- Investment Proposal Administration – incorporated as a sub-function

Current Roadmap accomplishments and related TOM Functions and Risk ratings are highlighted in Attachment 1.

Budget and Fiscal Impacts

Funding for Roadmap activities is included in the approved and existing INVO budget.

Benefits and Risks

The progress and completion of the 2016-17 Roadmap initiatives are an integral part of managing INVO's operational risks. As initiatives are completed, the following benefits are expected:

- Decrease in severity of critical operational risks
- Increased understanding of investment risk and performance attribution
- Enhanced governance and oversight
- Ability to attract highly skilled, diverse, and high performance workforce

Conversely, risks of not completing the Roadmap initiatives include:

- Weak performance attribution capabilities
- Unnecessary complexities and increased costs
- Inefficient infrastructure and technology platforms



Attachments

Attachment 1 – Investment Office Roadmap and Target Operating Model Update

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