

# Investment Office Roadmap and Target Operating Model Update

Theodore Eliopoulos, Chief Investment Officer  
Wylie Tollette, Chief Operating Investment Officer

Investment Committee

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# INVO 2020 Vision



## Mission

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Manage the CalPERS investment portfolio in a **cost-effective, transparent** and **risk-aware** manner in order to generate returns to pay benefits.

## Vision

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- 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**.



# Strategic Objectives





# 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

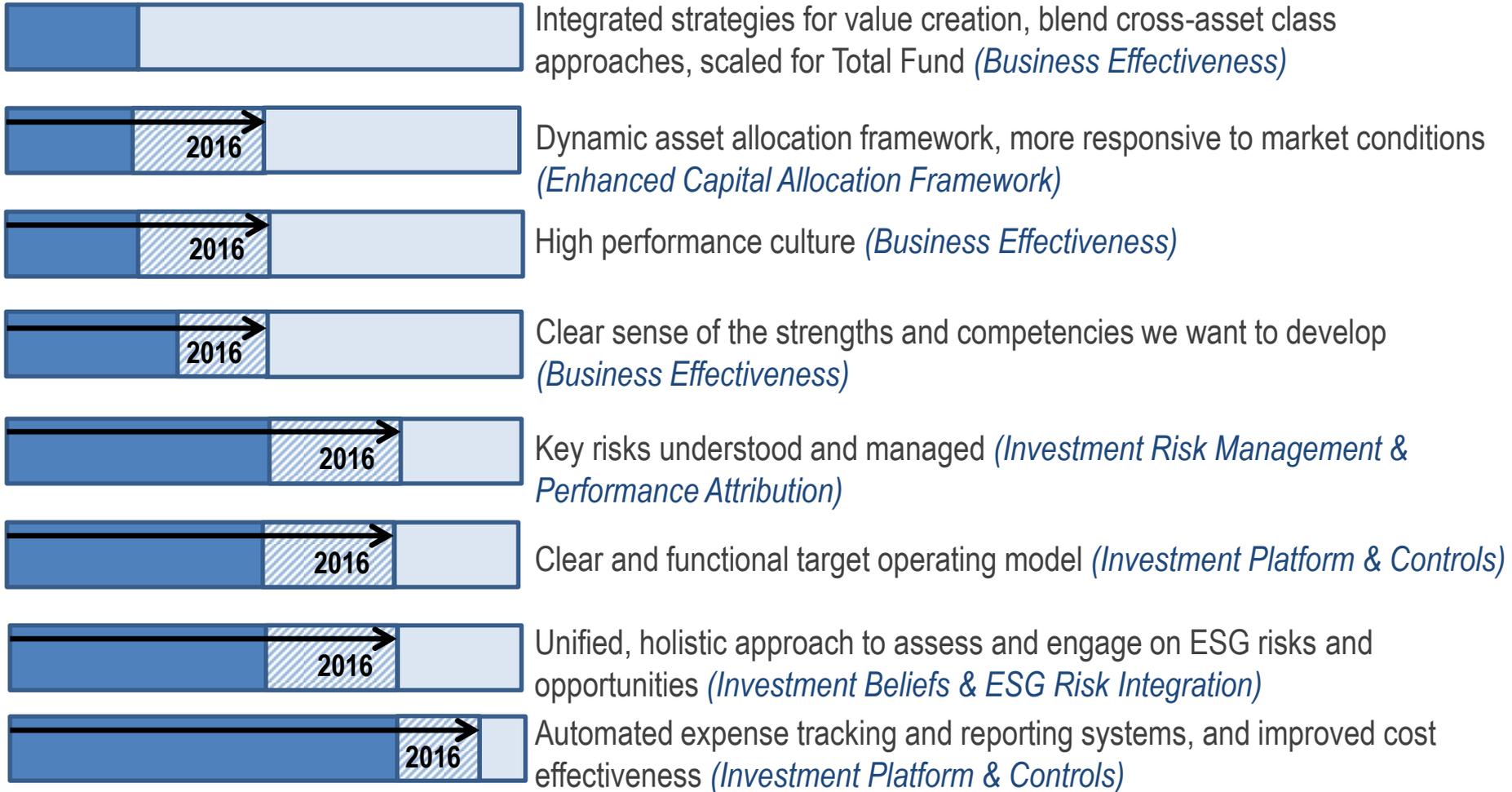
***Reduced risk** and improved sustainability*

*Active Leverage Management*

*Fewer, but more strategic, partners*



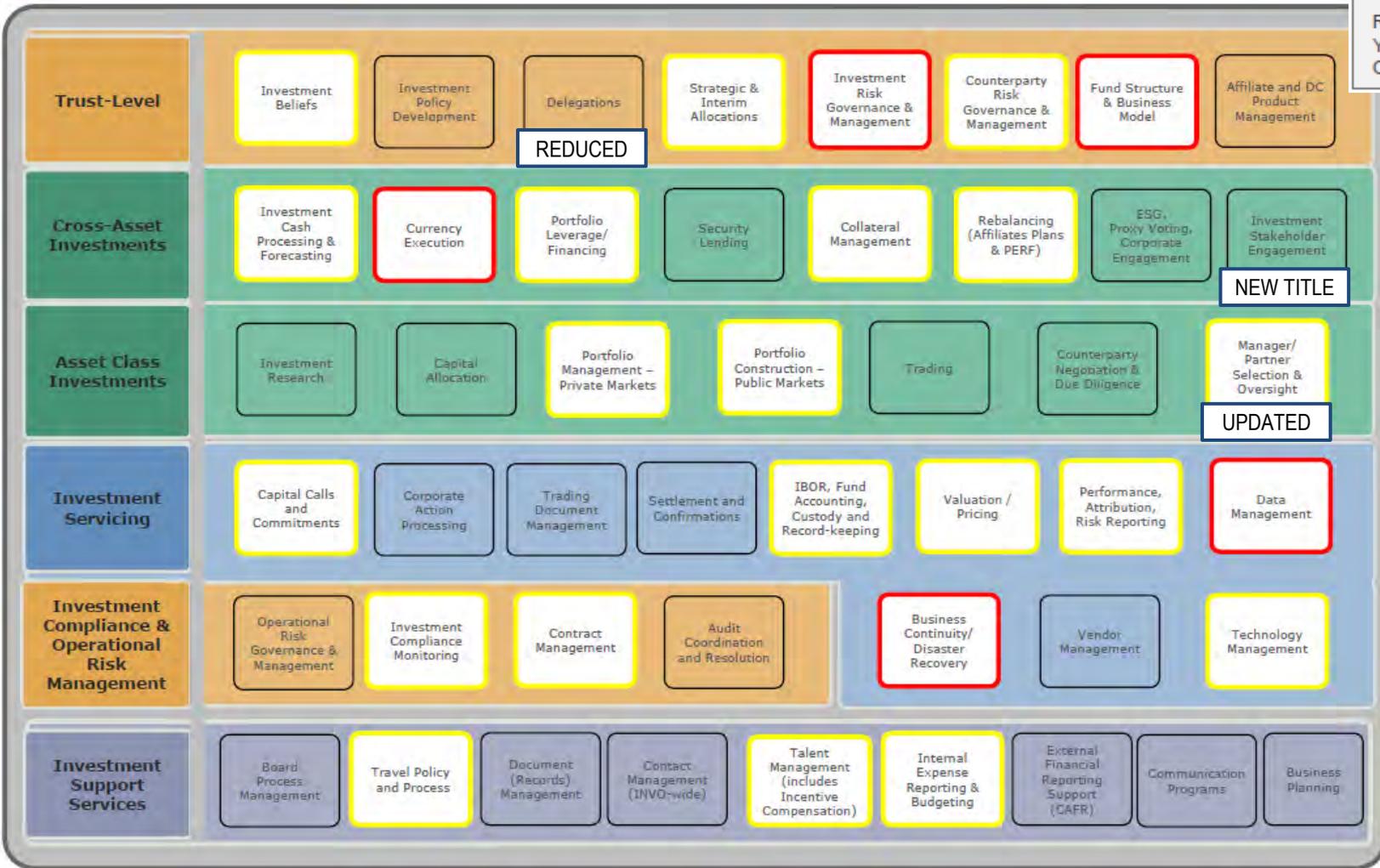
# INVO 2020 Vision: Progress to Date on “From/To” Statements





# TOM Update

**Risk Levels**  
 Red – High (11%)  
 Yellow – Medium (42%)  
 Others – Low (47%)

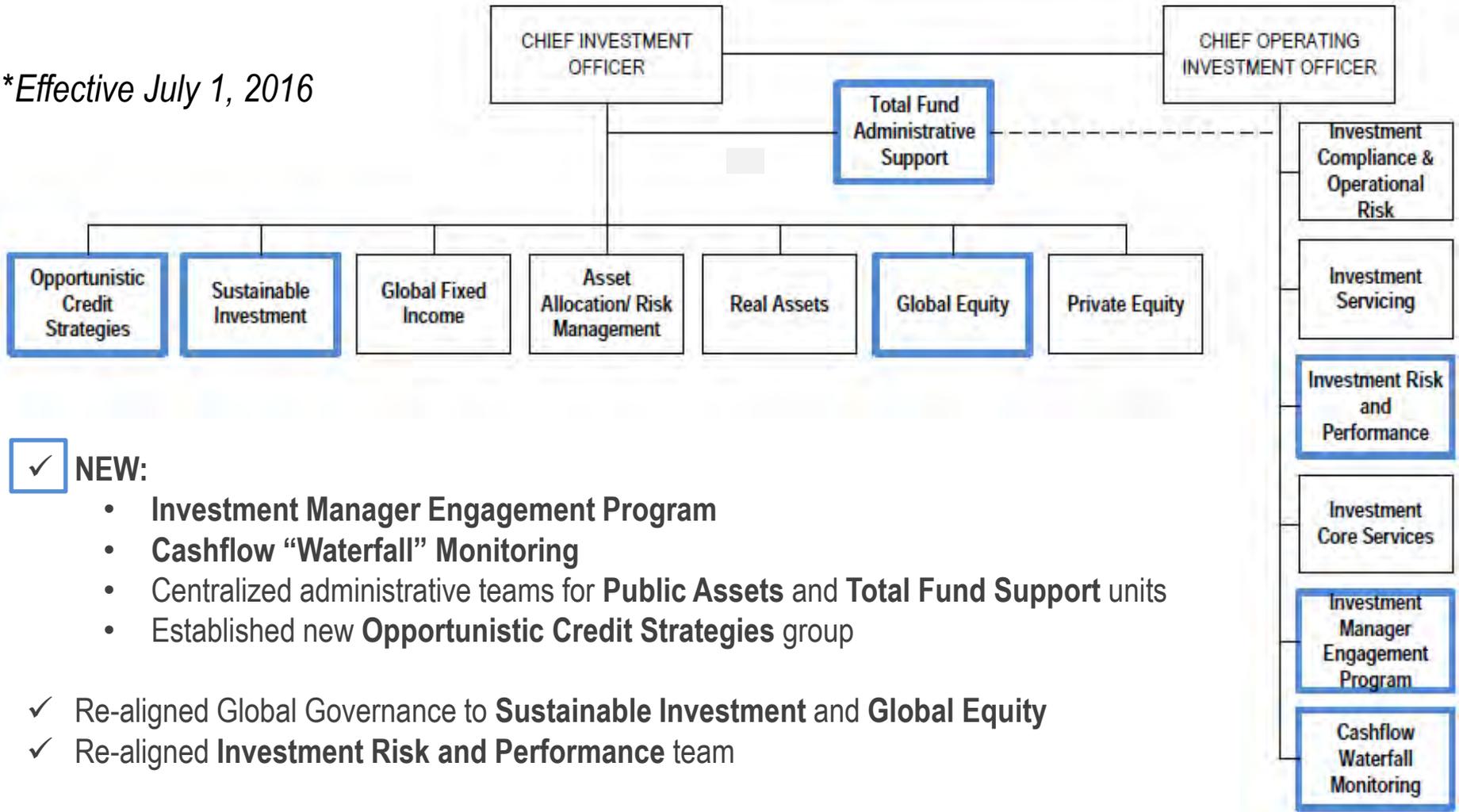


83% (15 of 18) of 2016-17 Roadmap Initiatives target High and Medium risk functions.



# Integrated Organizational Structure

*\*Effective July 1, 2016*



**NEW:**

- Investment Manager Engagement Program
- Cashflow “Waterfall” Monitoring
- Centralized administrative teams for **Public Assets** and **Total Fund Support** units
- Established new **Opportunistic Credit Strategies** group

- ✓ Re-aligned Global Governance to **Sustainable Investment** and **Global Equity**
- ✓ Re-aligned **Investment Risk and Performance** team



# 2016-17 Roadmap Goals and Highlights to-Date

| Strategic Objective   | Goals  | 16-17 Highlights  |
|---|--|---|
| <b>Enhanced Capital Allocation Framework</b>                    | <ul style="list-style-type: none"> <li>Continue focus on liquidity and income</li> <li>Improve understanding and ownership of Trust-level investment risk and performance decisions</li> <li>Expand active management</li> </ul>   | <ul style="list-style-type: none"> <li>✓ Functionalized ISG Subcommittees and standardized administrative protocols</li> </ul>  |
| <b>Business Effectiveness</b>                                   | <ul style="list-style-type: none"> <li>Integrate organizational structure</li> <li>Continue progress in reducing complexity</li> <li>Meaningful expense management reporting</li> </ul>  | <ul style="list-style-type: none"> <li>✓ Reduced Strategic Managers to <b>160</b></li> </ul>  |
| <b>Investment Beliefs &amp; ESG Risk Integration</b>            | <ul style="list-style-type: none"> <li>Incorporate ESG risk considerations into the investment decision-making process</li> <li>Improve diversity of corporate boards, External Managers and INVO investment decision makers</li> </ul>  | <ul style="list-style-type: none"> <li>✓ Drafted the Emerging and Transition Manager 2020 Plan</li> <li>✓ Initiated the ESG Strategic Plan</li> <li>✓ Finalized and approved 2020 Diversity Plan and INVO Diversity &amp; Inclusion Steering Committee</li> </ul>                           |
| <b>Investment Platform &amp; Controls</b>                       | <ul style="list-style-type: none"> <li>Expand Operational Due Diligence capabilities</li> <li>Enhance data management</li> <li>Centralize execution services</li> </ul>  | <ul style="list-style-type: none"> <li>✓ Agreed to scope of work for the final release of PEARS</li> </ul>  |
| <b>Investment Risk Management &amp; Performance Attribution</b> | <ul style="list-style-type: none"> <li>Strengthen the risk and attribution review process</li> <li>Enhance risk governance processes</li> <li>Independent perspective on risks and exposures</li> <li>Greater understanding and ability to measure relevant risks</li> <li>Claim compliance with Global Investment Performance Standards (GIPS)</li> </ul> | <ul style="list-style-type: none"> <li>✓ Developed enhanced framework, analysis, and presentation of Global Equity and Global Fixed Income program risk and attribution reviews</li> <li>✓ GIPS feasibility study completed successfully - targeting July 1, 2017 implementation</li> </ul> |



## Next Steps

- ✓ Continue to manage and report on 2016-17 Roadmap initiatives
- ✓ Collaborate on the development of the 2017-22 Enterprise Strategic Plan as it relates to the Investment Office
- ✓ Continue progress on 2020 Vision
  - Begin to identify 2017-18 Initiatives

# Appendix



# Strategic Vision

| FROM   | TO – 2020 Vision   |
|--|--|
| Long-term, static asset allocation framework   | Dynamic asset allocation framework, more responsive to market conditions   |
| Risks not transparent & understood   | Key risks understood and managed   |
| Tactical, asset class-based approaches to building strengths & competencies                | Clear sense of the strengths and competencies we want to develop   |
| Bottom up approach to value creation, sizing of investment strategies at asset class level | Integrated strategies for value creation that blend cross-asset class approaches, scaled for the total fund                |
| Inadequate reporting systems & data for effective cost management                          | Automated expense tracking and reporting systems, and improved cost effectiveness  |
| Lack of common systems, processes and analytics  | Clear and functional target operating model – strong operational data, governance, systems and controls                    |
| Inconsistent culture and employee experience, diversity is valued but unmeasured           | High performance culture and quality employee experience, includes diverse perspectives, views, skill sets and backgrounds |
| Uneven approach to ESG, ever expanding requests, reactive, and focused on new commitments  | Unified, holistic approach to assess and engage on ESG risks and opportunities   |