



Investment Committee

Agenda Item 6a

November 13, 2018

Item Name: Review of Investment Policy Updates – Second Reading

Program: Total Fund

Item Type: Action

Recommendation

Adopt the revised Total Fund Investment Policy (Total Fund Policy) and Real Assets Program Policy as provided in Attachment 1 and Attachment 3, respectively.

Executive Summary

This item follows a first reading of the proposed policy revisions at the September 24, 2018 meeting of the Investment Committee (Committee). No additional changes have been proposed for the Total Fund Policy. In addition to a handful of ministerial changes the proposed Real Assets Program Policy, shown in Attachment 4, has been updated as follows:

- Page 7 of 8 – For the last sentence of item 5, Leverage, replacement of “limits” with “parameters” as requested by Ms. Mathur and directed by Chair Jones at the first reading.

Copies of each policy in both “clean” (all proposed changes accepted) and mark-up (proposed revisions shown in blackline) are provided as Attachments 1 through 4. Opinion letters from the Board’s Investment Consultants are provided as follows:

- For the proposed changes affecting the Total Fund Policy and the Forestland portfolio component of the Real Assets Program Policy, an opinion letter from Wilshire Associates, the Committee’s General Pension Consultant, is provided as Attachment 5.
- For the proposed changes to the Real Assets Program Policy that address the Real Estate component of the program, an opinion letter from Pension Consulting Alliance, the Committee’s Real Estate Consultant, is provided as Attachment 6.
- For the proposed changes to the Real Assets Program Policy that address the Infrastructure component of the program, an opinion letter from Meketa Investment Group, the Committee’s Infrastructure Consultant, is provided as Attachment 7. Note, because no material changes are being proposed for the second reading, Meketa

Investment Group has reissued the opinion letter from the September 24, 2018 meeting of the Committee with no change.

Strategic Plan

This item does not directly support the CalPERS 2017-22 Strategic Plan. The proposed revisions, as part of a clear and actionable policy framework, will contribute to the effective management and oversight of investment activities.

Investment Beliefs

This item supports CalPERS Investment Belief 10, particularly sub-belief C, which states, “CalPERS will be best positioned for success if it 1) has strong governance, [and] 2) operates with effective, clear processes...” Conducting an annual review ensures that the Policy is aligned with the ongoing refinements of the Investment Office’s organization and business processes.

Background

General Annual Review Process

As part of the annual program review cycle, the individual programs within the Investment Office also review their respective statements of investment policy, delegations, and related governance documents. This annual review process helps to ensure the governing documents for the CalPERS Investment Program remain current and accurately reflect business processes, requirements, and guidelines.

Ongoing Policy Refinement

In addition to the focused “program-specific” review of policy content, these items also provide another opportunity to continue the refinement of our policy framework consistent with the goals of the 2014-16 Policy Revision Project, specifically, to:

- Focus policy content on the key strategic elements required to support the Committee in its oversight capacity, as well as guide staff in the management of the investment program
- Remove language identified as duplicative in nature
- Revise language to increase clarity and ease of reading, as well as improve consistency throughout CalPERS’ investment policies

Our statements of investment policy are living documents. As such, they can be expected to evolve over time as our policy and governance frameworks continue to evolve.

Analysis

In the interest of making the highest use of the Committee’s time this item will not reiterate the analysis and rationale previously provided at the first reading ¹. As previously noted in the Executive Summary section, a handful of new changes have been proposed for the Real Assets Program Policy:

¹ [Agenda Item 8a, Review of Investment Policy Updates – First Reading, available in the CalPERS Board of Administration – Investment Committee meeting archives.](#)

1. Page 7 of 8 – For the last sentence of item 5 (Leverage), replacement of “limits” with “parameters” as requested by Ms. Mathur and directed by Chair Jones at the first reading.
2. A handful of minor adjustments, primarily regarding capitalization of “portfolio” and “program.”

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Staff does not anticipate any risks associated with the proposed policy revisions. Anticipated benefits are outlined below.

- Ensuring that policies are updated to reflect organizational and business process changes is a good general “maintenance” practice and helps ensure lines of responsibility remain clear.
- Staff’s proposals for the deletion of duplicative and/or “business as usual” content supports the principle that our policy documentation should be clear, focused at the strategic level, and meaningful for the management of the investment program. Policy documentation is not intended to be operational, procedural, or a restatement of professional staff’s duty statements.

Attachments

Attachment 1 – Total Fund Policy (clean view)

Attachment 2 – Total Fund Policy (mark-up)

Attachment 3 – Real Assets Program Policy (clean view)

Attachment 4 – Real Assets Program Policy (mark-up)

Attachment 5 – Board Investment Consultant Opinion Letter – Wilshire Associates

Attachment 6 – Board Real Estate Investment Consultant Opinion Letter – Pension Consulting Alliance

Attachment 7 – Board Infrastructure Investment Consultant Opinion Letter – Meketa Investment Group

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