



Investment Committee

Agenda Item 9c

August 19, 2019

Item Name: Revision of the Total Fund Policy – First Reading

Program: Total Fund

Item Type: Information

Executive Summary

This item seeks the Investment Committee's (Committee's) review and direction regarding the proposed updates and revisions to the Total Fund Investment Policy (Total Fund Policy) resulting from this year's annual review process. Following feedback from the Committee, staff will return at a subsequent meeting for a second reading of the Total Fund Policy.

Strategic Plan

Supports the Fund Sustainability element of the CalPERS 2017-22 Strategic Plan by contributing to the effective management and oversight of investment activities.

Investment Beliefs

This item supports CalPERS Investment Belief 10, particularly sub-belief C.

Background

The focus of this year's annual review was on four key areas:

1. Changes reflecting the transition to the new strategic asset allocation;
2. Changes reflecting CalPERS' shift to a centralized leverage governance framework;
3. Changes arising from the 2019 annual review of CalPERS' Governance and Sustainability Principles
4. General *ad hoc* changes identified in the course of staff's routine annual review.

Analysis

1. Strategic Asset Allocation Changes

The most recent 4-year ALM review cycle resulted in a new strategic asset allocation for the Public Employees' Retirement Fund (PERF) that included the use of asset segments. With the transition to the new asset allocation now complete, Appendix 4 and Appendix 5 of the Total Fund Policy are being updated to reflect the use of asset segments.

2. Total Fund Leverage-Management Changes

Staff is proposing to centralize management of CalPERS leverage limits at the Total Fund level. The proposed new aggregate leverage limit of 20% represents a tightening of controls vis-à-vis the aggregate amount of leverage currently permitted. The existing sub-limits by asset class are being preserved in Investment-Policy Procedures & Guideline (IPPG).

3. Sustainable Investment (SI) Program and Principles Changes

The Total Fund Policy requires annual review and adoption of the CalPERS Governance and Sustainability Principles (Principles). The proposed updates to the Principles (new Appendix 7) reflect prior feedback from this Committee and incorporate additional content updates proposed by staff.

4. General Review Changes

These changes fall into 4 main categories:

- a. *Prudent Person Opinion*: Establishing and/or revising appropriate thresholds below which Prudent Person Opinions (PPOs) will not automatically be required, providing the flexibility required to support CalPERS' continued investment in private equity co-investments and real assets while retaining appropriate oversight.
- b. *Benchmark Oversight*: Making language improvements to better delineate what decisions are reserved for the Committee, and what benchmark maintenance activities may be addressed by staff with independent oversight by the Board's Investment Consultants.
- c. *Organizational changes*: Reflecting recent organizational changes.
- d. *Non-substantive, clean-up changes*.

For a more detailed summary of the proposed changes, refer to Attachment 3.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

The changes support appropriate maintenance of the Total Fund Policy. There are no anticipated risks.

Attachments

Attachment 1 – Proposed Total Fund Policy (clean view)

Attachment 2 – Proposed Total Fund Policy (mark-up view)

Attachment 3 – Total Fund Policy – Summary of Key Changes

Attachment 4 – Consultant Opinion Letter – Wilshire Associates (General Pension Consultant and Forestland)

Attachment 5 – Consultant Opinion Letter – Meketa Investment Group (Private Equity)

Attachment 6 – Consultant Opinion Letter – Meketa Investment Group (Real Estate and Infrastructure)

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