

Treasury Management Policy

Purpose This document sets forth the financial policy (“Policy”) for the Treasury Management Program (“TMP”). The purpose of the Policy is to ensure that the treasury management practices of the enterprise recognize the fiduciary duty owed to members as stated in the CalPERS’ Pension Beliefs.

The Finance and Administration Committee (“Committee”) intends for the Policy to be a dynamic document which will be reviewed and modified periodically to reflect the changing nature of CalPERS’ assets and investment programs, benefit and structural changes, and economic conditions.

Contents

Topic	See Page
Background	2
Strategic Objective	2
Policy	2
Key Terms / Definitions	6
Roles and Responsibilities	6
Authoritative Sources	8
Related Documents	8
Revision History	8

Background The California Public Employees’ Retirement System (“CalPERS”) Pension Beliefs adopted by the CalPERS Board (“Board”) sets forth the pension fund’s views on public pension design, funding, and administration.

CalPERS’ staff are assigned responsibilities which may require activities, such as the management of cash, monitoring of liquidity, and the management of liquidity risk in order to fulfill those responsibilities. These activities, in their entirety, constitute the treasury management practices of the enterprise which enable the payment of member benefits and other CalPERS’ obligations.

Strategic Objective The TMP shall be managed to accomplish the following:

- A. Ensure the payment of member benefits and enterprise obligations without interruption regardless of financial markets and environmental conditions;
- B. Provide an integrated process for the oversight and management of enterprise cash and liquidity during normal, stressed, and crisis events;
- C. Maintain appropriate coverage levels for programs and the enterprise; and,
- D. Oversee enterprise liquidity risk.

Policy **A. Risk-Based Approach**

The TMP shall follow a risk based approach to the optimization of fund assets in the payment of CalPERS’ obligations to ensure the most cost effective method of Funding is achieved during normal, stressed, and crisis environments.

- 1. The TMP’s available options for paying member benefits and other CalPERS’ obligations shall be managed by the Enterprise Treasury Team (“ETT”).
- 2. As necessary, the TMP shall establish and oversee cash reserves for programs that serve as an option for payment of CalPERS’ obligations if a market or external environment event results in the depletion of cash. The TMP will follow a

risk based approach to determine the appropriate levels of cash reserves for each program based on the program’s purpose, strategic objectives, and the consideration of market-related risks and external environment events.

3. Options established and maintained for Funding, listed in Table 1 below, shall comply with all CalPERS’ policies which govern investment activities.

Table 1

Option	Description
Cash at Bank	CalPERS’ cash or cash equivalent investments in the custody of the State Treasurer’s Office.
Cash Reserves	Liquid assets dedicated to the payment of member benefits and other obligations during a stressed or crisis event.
Investment Cash	Cash or cash equivalent investments allocated to an investment strategy and not pledged for other purposes.
Borrowed Liquidity	Cash generated from leveraged investments on a short term basis as directed by the Investment Office.
Cash from asset sale	Cash generated from the sale of investment holdings as directed by the Investment Office.

B. Measurement and Reporting

The TMP shall utilize a structured approach to measure and report current and future enterprise liquidity based on a detailed understanding of the amount of current liquid assets, projected enterprise cash flows, the accuracy of those projections and a consideration of both market-related liquidity risks and external environment events.

1. Key performance indicators shall be maintained which measure the program’s liquidity in relation to its near term obligations and will be expressed in terms of coverage.
2. Funding coverage targets and ranges shall be maintained based on each program’s purpose, strategic objectives, and the consideration of market- related and external environmental risks.

3. Measurement and reporting of Funding coverage for the enterprise shall occur on a routine basis and shall report to the ETT where coverage levels exceed predetermined ranges. Immediate notification to the ETT shall occur when Funding coverage requires utilization of borrowed liquidity. Escalation to the Committee by the ETT shall occur in the event that Funding coverage utilizing borrowed liquidity exceeds the timeframe in the Operating Guidelines for Implementing Borrowed Liquidity.
4. The Investment Committee shall be updated on all borrowed liquidity actions through the monthly Performance and Risk report.
5. Funding coverage shall be managed to be within established ranges but may temporarily deviate from established ranges due to market volatility or other events.

C. Cash Flow Forecasting

The TMP shall be responsible for cash flow forecasting but the preparation of the cash flow forecasts may be delegated to line-of-business managers who are responsible for activities that underlie the cash flow information.

1. Cash flow forecasts shall be prepared on a regular and timely basis and subject to variance analysis and effective governance to ensure accuracy from input providers.
2. Cash flow forecasts shall be prepared for all areas of the enterprise where business activity can result in a material impact to the Funding coverage of the enterprise.

D. Funding Contingency Plan

A Funding contingency plan ("Plan") shall be maintained which describes the enterprise response and protocols to be followed during market and external environment events impacting Funding coverage.

1. The Plan shall be maintained by the ETT but its execution may be delegated to line-of-business managers who are responsible for activities that underlie the payment of obligations from program assets.

2. The Plan shall include the asset based and financial options available to the enterprise, their usage criteria, and the management protocols to be followed during a stressed or crisis event.
 3. The Plan shall be reviewed on an annual basis to ensure alignment with the market-related and external operating environment.
 4. A report on the status of the Plan shall be communicated to the Committee if changes are recommended.
-

**Key Terms /
Definitions**

For the purposes of this document, the following terms and definitions apply.

Key Term	Definition
Cash	Cash or cash equivalent instrument(s) which can be available for payment of member benefits or other CalPERS' obligations by the next business day with little or no impairment.
Coverage	A measure of the enterprise's ability to continue to pay over a fixed period of time member benefits and other near term obligations from available Funding options.
Crisis Event	A severe, unanticipated market or non-market event for which the Funding contingency plans require the options for the payment of CalPERS' obligations to be identified and evaluated based on the nature of the event.
Enterprise	The entirety of the CalPERS' organization including all divisions and offices.
Liquidity	Availability of assets that can be converted to cash quickly and efficiently in order to pay member benefits or other obligations.
Reserve	Liquid assets dedicated to the payment of member benefits and other obligations during a stressed or crisis event.
Stressed Event	A broad disruption to the marketplace that could have unfavorable effects on the fund's ability to meet liquidity needs.

**Roles and
Responsibilities**

A. Finance and Administration Committee

The Committee's responsibilities with respect to the TMP shall include, but are not limited to:

1. Oversight of senior management to manage, measure, monitor and control liquidity risk with respect to funding ("Funding") which is the payment of member benefits and all other CalPERS' obligations;
2. Review the Policy and significant strategies related to CalPERS' treasury management when Staff recommends changes.

B. Chief Financial Officer

The Chief Financial Officer (“CFO”) is responsible for the oversight of the TMP.

C. Enterprise Treasury Team

The TMP shall maintain an ETT chaired by the CFO and made up of representatives from the Financial Office, Investment Office, Health Policy & Benefits Branch, and Customer Services and Support. The ETT shall:

1. Ensure payments of CalPERS’ member benefits and other obligations are made in the most cost effective manner available;
2. Maintain Funding coverage targets and ranges that align with the strategic objectives of the TMP;
3. Monitor enterprise cash flows and ensure Funding coverage is maintained within established ranges;
4. Maintain the Plan;
5. Ensure the strategies of the TMP are coordinated with the strategies of the Asset Liability Management process.
6. Ensure appropriate operational practices and procedures are maintained across the enterprise to limit and control material sources of liquidity risk; and,
7. Report to the Board regularly on the Funding coverage of the enterprise and immediately report any material changes in Funding coverage that put the strategic objectives of the TMP at risk.

D. Treasury Management Program

The TMP responsibilities shall include, but are not limited to:

1. The TMP shall maintain appropriate processes, skilled staff, and adequate information systems required for measuring, monitoring, controlling and reporting liquidity positions with

respect to Funding.

2. The TMP shall be responsible for the measurement, analysis, and reporting of enterprise cash flows, coverage levels and key performance indicators.

Authoritative Sources CalPERS will administer this policy in compliance with the following legal, regulatory, and policy requirements:

Source	Description
California Constitution, Article XVI, Section 17	The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system.

Related Documents For additional information, please refer to:

Document	Relevance
Treasury Management Reserve Policy	Policy Section III, B.3

Revision History The following revisions have been made to this policy:

Version	Modification Date	Summary of Changes
1	04/19/2016	Original
2	03/03/2017	New Policy Format
3	03/05/2020	Policy Section D, Roles and Responsibilities Section A.