



Investment Committee

Agenda Item 7a

June 15, 2020

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

Program: Total Fund

Item Type: Information

Executive Summary

Staff is seeking input from the Investment Committee (Committee) on the proposed revisions to the Total Fund Investment Policy (Policy). The proposed changes can be grouped into two broad categories:

1. Changes reflecting the benchmark methodology update; and
2. Changes related to the Opportunistic Program.

Strategic Plan

These items further the CalPERS 2017-22 Strategic Plan by supporting strong governance and effective process to cultivate a risk-intelligent organization.

Investment Beliefs

This item supports CalPERS Investment Belief 10 – that strong governance and effective, clear processes are needed to achieve CalPERS goals and objectives.

Background

This item is being brought to the Committee as part of staff's annual review of the Policy. The annual review process provides a regular opportunity to consider changes to:

- Align the Policy with committee directives (such as strategic allocation changes, etc.).
- Ensure policy language keeps pace with changes in business processes and the organization of the Investment Office.
- Continue evaluating and refining policy language consistent with the goals of recent policy revision projects (relocate "procedural" content, remove duplicative content, clarify for ease of reading, etc.).

Analysis

Highlights of the proposed revisions to the Policy are outlined in the following sections:

1. Benchmark Methodology Update

Appendix 5 of the Policy is being updated to reflect the changes to the PERF benchmark methodology implemented January 1, 2020 calling for quarterly benchmark rebalancing together with simultaneous adjustment of private-asset-class weights to actual weights with offsetting systematic adjustments to public-asset-class weights, and with the methodology for the offsetting adjustments to be outlined in Policy-Related Procedures (PRPs) and implemented with oversight of the General Pension Consultant.

2. Changes related to the Opportunistic Program

In order to facilitate achievement of the 7% expected return, staff is proposing the below changes relative to the Opportunistic Program.

- Increase the total allowable size from 3% to 5% of the total PERF NAV.
- Replace the old program diversification parameters (market value of non-publicly-traded investments, program strategy or asset type, and country exposure outside the U.S not to exceed 1.5%, 2%, or 1%, respectively) with staff authority limits and strategy allocation ranges.
- Create a new responsibility to the General Pension Consultant section in Appendix 2 to provide oversight of the Opportunistic Program on behalf of the Committee.
- Additional changes to reflect the organizational changes within the CalPERS Investment Office.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The changes support maintenance of a strong governance framework for the management of the System's assets. 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 – Consultant Opinion Letter – Wilshire Associates

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