CalPERS

Performance, Compensation & Talent Management Committee

Agenda Item 8a

September 16, 2020

Item Name: Financial Interest Separation Requirements for Chief Investment Officer Position

Program: Administration

Item Type: Information

Executive Summary

This item is for the Performance, Compensation, and Talent Management (PCTM) Committee to present additional financial separation requirements to be mandated for the Chief Investment Officer (CIO) position. CalPERS is in the process of recruiting for a CIO and will require the selected incumbent to sell any securities that could potentially give rise to a conflict under the Political Reform Act prior to assuming the position, or to dispose of those securities and place the resulting assets into a blind trust.

Strategic Plan

This agenda item supports CalPERS' Strategic Goals to cultivate a risk-intelligent organization and promote a high-performing and diverse workforce as outlined in the 2017-22 Strategic Plan.

Background

The CalPERS investment office has a diversified and far reaching portfolio; it is possible that the CIO may have investments that could potentially conflict with job duties. Requiring an incumbent to sell securities that could potentially give rise to a conflict under the Political Reform Act, or to do so and place their assets into a blind trust, removes perceived or real conflicts originating from the assets.

Government code 87100 clearly prohibits all public officials at any level of state or local government from making, participating in making, or in any way attempting to use their official position to influence a governmental decision in which they have a financial interest.

Additionally, the Political Reform Act and regulations adopted by the Fair Political Practices Commission (FPPC) contain various requirements designed to ensure that employees act impartially. These regulations include the option for a public official to maintain a qualified blind trust, subject to certain requirements.

With a qualified blind trust, control over the trust and its assets is given to an independent trustee, who has complete discretion to buy and sell assets without the knowledge or consent of the beneficiary. A public official with a qualified blind trust is further detached from potential conflicts originating from the assets held in trust because the beneficiary would have no knowledge of the impact of official actions on the personal financial interests. Properly structured, a blind trust severs any link between a person and control over his or her assets in order to avoid potential conflicts of interest

Analysis

Requiring the incumbent Chief Investment Officer to sell any securities that could potentially give rise to a conflict under the Political Reform Act, or to do so and place the resulting assets in a blind trust, will significantly diminish any perceived or real conflicts of interests originating from such assets. Since the position is currently vacant, this is an ideal opportunity to add such a requirement to the position. CalPERS may explore the addition of such provisions to other positions in the future.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

Benefits include increased public trust, increased transparency, and reduced sanctions. This item also seeks to reduce risk by enhancing compliance.

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