



Investment Committee

Agenda Item 6a

September 13, 2021

Item Name: Total Fund and Affiliate Fund Policy Updates

Program: Total Fund, Judges' Retirement System II Fund and Legislators' Retirement System Fund

Item Type: Action

Recommendation

Approve the revised Total Fund Investment Policy (Total Fund or Policy) and related conforming changes to the Judges' Retirement System II Fund and Legislators' Retirement System Fund Policies (Affiliate Policies) as presented by staff.

Executive Summary

Staff is seeking consideration and action from the Investment Committee (Committee) on the proposed revisions to the Policy that pertains to tracking error and related changes to the Affiliate Policies. Subsequent to the first reading of the Total Fund and Affiliate Fund Policy Updates, one additional conforming change was made to the Total Fund Policy and, as requested by the Board, staff has included some additional peer information in Attachment 4.

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 5 – that CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution.

Background

The proposed changes to the Policy and Affiliate Policies, consistent with the direction provided by the Committee at the November 2020 meeting, were presented for a first reading at the June 14, 2021 Committee meeting. The proposed revisions and staff's annual review of Policies strengthen the Funds' governance and facilitate the alignment with the Committee's approved investment strategy and policies.

Analysis

The proposed changes to the policy were part of Agenda Item 7b, as presented at the June 14, 2021 meeting of the Committee. These changes center on the tracking error methodology, monitoring activities and related conforming changes (Attachment 3). These changes are shown in the mark-up version of the policies (Attachment 1).

References to the changes in Attachment 1 are listed below:

- Appendix 6 – Asset Allocation Strategy section (pg. 50 of 110),
 - Establishment of Total Fund Actionable Tracking Error Limit
 - Additional conforming change referencing new Total Fund Actionable Tracking Error Limit
- Asset Allocation Strategy section (pg. 8 of 110),
- Investment Risk Management section (pg. 11 of 110), and
- Affiliate Policies (pgs. 103 and 109 of 110).

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 – Redlines of the Proposed Policies

Attachment 2 – Proposed Policies

Attachment 3 – Tracking Error Limit – Proposed Policy Changes presented at June Investment Committee

Attachment 4 – Peer Information on Active Risk Limits and Targets

Attachment 5 – Consultant Opinion Letter – Wilshire Associates

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