Agenda Item 7b

February 18, 2014

ITEM NAME: Revision of the Global Fixed Income Delegation Resolution for Professional Staff

PROGRAM: Global Fixed Income

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Global Fixed Income (GFI) Delegation Resolution for Professional Staff, Delegation No: 11-02-INV,as provided in Attachment 1. The consultant opinion letter from Wilshire Associates is provided as Attachment 2.

EXECUTIVE SUMMARY

GFI is seeking to update and clarify changes to the Delegation Resolution which would provide an updated and consistent delegation. The changes are:

- Include the ability for the Chief Investment Officer (CIO) and the Senior Investment Officer (SIO) to select externally managed portfolios to be in alignment with the Board Governance Policy and the powers delegated to the Investment Committee(IC).
- Provide clarity that the CIO/SIO have the ability to invest in and dispose of not just commodities derivatives but all derivative instruments consistent with Board approved Investment Policies.
- Remove references to the Barclays Aggregate Program (BA) Policy as this policy was repealed by the IC on December 16, 2013.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. The revised GFI Delegation Resolution provides the CIO/SIO an updated and more explicit delegation to better determine his or her authority to make investment decisions.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 2: A long time investment horizon is a responsibility and an advantage. The long time horizon requires that CalPERS consider the impact of its actions on future generations of members and taxpayers.

BACKGROUND
The first proposed change is related to external managers. The current delegation is not consistent with the Board Governance Policy and the powers delegated to the IC. Appendix A of the Board Governance Policy permits the CIO/SIO the ability to select and terminate externally managed portfolios. Staff failed to update the GFI Delegation Resolution which currently includes language to terminate but not to select externally managed portfolios.

The second proposed change to the GFI Delegation Resolution is in regards to derivatives. As the Delegation Resolution is currently written, the CIO/SIO can only invest in and dispose of commodity derivative instruments. However, many of the GFI investment policies allow for derivatives outside of commodities such as Credit Default Swaps, financial futures and options on financial futures.

Lastly, on December 16, 2013, the IC approved the repeal of the BA Policy. The BA was originally adopted as the fixed income investment allocation vehicle for the Health Care Fund (HCF) and was later incorporated into the Supplemental Income Plans (SIP) fund lineup in 2007. Assets were transferred from BA to the State Street Global Advisors (SSgA) passive index funds beginning in October 2013 with the last of the assets transferred on October 17, 2013. As a result of the transition, the BA no longer holds any assets and no assets are intended to be held in the foreseeable future.

ANALYSIS
The suggested changes to the GFI Delegation Resolution are administrative in nature and will provide an up-to-date and consistent delegation for the CIO/SIO. Changes will provide consistency with the Board Governance Policy and the powers delegated to the IC, the investment policies of GFI, and reflect the repeal of the BA Policy.

BUDGET AND FISCAL IMPACTS
Not Applicable

BENEFITS/RISKS
Revision of the GFI Delegated Resolution is not anticipated to have any associated risk. Adopting the proposed changes will provide additional clarity around the investment decisions that have been delegated to the SIO of GFI and the CIO. Failure to revise the GFI Delegation Resolution would result in continued ambiguity and potential disagreement over the intent in the future, which could present operational and reputational risks to CalPERS.

ATTACHMENTS
Attachment 1 – Revised Global Fixed Income Delegation Resolution for Professional Staff
Attachment 2 – Wilshire Associates Opinion Letter

CURTIS D. ISHII
Senior Investment Officer
Global Fixed Income

THEODORE ELIOPOULOS
Acting Chief Investment Officer

STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE

DELEGATION RESOLUTION

Subject: Professional Staff
Global Fixed Income

Delegation No: 11-02-INV

WHEREAS,

1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the Board) is charged with the administration and management of the California Public Employees' Retirement System (CalPERS), and

2. In accordance with Government Code section 20170, the Board is also charged with the exclusive control of the administration and investment of the Public Employees' Retirement Fund (the Fund), and

3. In accordance with Article XVI, section 17 of the California Constitution, the Board has plenary authority and fiduciary responsibility for the investment of CalPERS assets, and

4. In accordance with Government Code section 20099, the Board is authorized to appoint a committee of one or more of its members to perform any act within the power of the Board itself to perform, and may through express delegation authorize any such committee to act finally, and

5. In accordance with Government Code section 20099, the Board may authorize its Chief Executive Officer (CEO) to perform any act within the power of the Board itself to perform, and may through express delegation authorize the CEO to act finally, and

6. The Board has adopted a Board of Administration Governance Policy relevant to the granting of delegations, and

7. Through Board Delegation Resolution No. IC-11-01 and pursuant to Government Code section 20191, the Board delegated to its Investment Committee the authority to make, through final action and by the affirmative vote of at least seven members, any investment authorized by law, and to re-delegate its authority to others, and

8. Through Board Delegation No. EXEC-11-01, the Board has delegated to the CEO principal authority and responsibility to direct and manage staff to execute the policies adopted by the Board and administer the various programs consistent with the policies, and to re-delegate to others, and

9. The Board and its committees retain the implied authority, pursuant to Government Code Section 20099, to re-delegate their authority directly to the Chief Investment Officer (CIO) and Senior Investment Officers and such re-delegations are deemed to have been made through the CEO and the CIO.

RESOLVED,

(A) Recognizing the respective roles of the CEO as the internal leader of the organization and the CIO as the principal investment expert, and yet also wishing to gain the full benefit of the unique global fixed income expertise of the Senior Investment Officer (SIO)-Global Fixed Income, the Investment Committee hereby delegates to the CIO and SIO-Global Fixed Income, the authority described in the attached Global Fixed Income delegations (the “Delegations”).

(B) Where such Delegations do not prohibit sub delegation, the CIO and the SIO-Global Fixed Income are authorized to re-delegate to his or her responsible subordinates any portion or all of the responsibility delegated to the CIO and SIO-Global Fixed Income.

(C) Where such Delegations do not specifically require the Investment Committee’s review or ratification prior to action, the CIO or the SIO-Global Fixed Income has the authority to act finally, and to re-delegate, and will be responsible and accountable for his or her actions.

(D) The exercise of authority under the Delegations shall be reported to the Investment Committee in sufficient detail to keep the Investment Committee appropriately informed and in order for the Investment Committee to monitor the performance of the CIO and the SIO-Global Fixed Income.

(E) Upon adoption by the Investment Committee all Delegations will expressly supersede all prior delegations regarding Global Fixed Income.

(F) It is understood that the Global Fixed Income delegation, and the grant of authority are created with the intent to fully comply with, in letter and in spirit, all federal and state laws and regulations, as well as CalPERS Policies and procedures as approved by the Investment Committee or full Board of Administration.

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HENRY JONES
CHAIR, INVESTMENT COMMITTEE
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

I accept this delegation.

Dated: ______________ ________________________________
JOSEPH A. DEAR
CHIEF INVESTMENT OFFICER
INVESTMENT OFFICE
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

I accept this delegation.

Dated: ______________ ________________________________
CURTIS D. ISHII
SENIOR INVESTMENT OFFICER – GLOBAL FIXED INCOME
INVESTMENT OFFICE
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Global Fixed Income Delegations

Within each of the following subject areas (as shown in italics), the Investment Committee delegates (as shown in bold) the following authority to the CIO and SIO-Global Fixed Income:

I. *Authority to Allocate Assets*

A. *Authority to Establish Asset Classes and Asset Allocation (Targets and Ranges) for the Total Fund* (*No delegation*)

B. *Authority to Establish Programs/Sectors Within an Existing Asset Class*

1. **To establish new sub-asset classes for the CalPERS Dollar-Denominated ~~and Barclays Aggregate~~ portfolios as set forth in policy approved by the Investment Committee, subject to approval from the CIO.**
~~Barclays Aggregate Program Policy, Section VII~~
Global Fixed Income Program Policy, Attachment A, Section IV

2. **To establish guidelines for externally managed fixed income assets as set forth in policy approved by the Investment Committee.**
~~Barclays Aggregate Program Policy, Section III, A~~
Global Fixed Income Program Policy, Section III, A
Currency Overlay Program Policy, Section III, A

C. *Authority to Make Allocation Decisions Within the Asset Class and Among Programs/Sectors*

1. **To manage the sector allocations within approved ranges as set forth in policy approved by the Investment Committee.**
~~Barclays Aggregate Program Policy, Section V, B, 4~~
Global Fixed Income Program Policy, Attachment A, Section II, B, 5 and Attachment B, Section II, B, 9
Low Duration Fixed Income Program Policy, Attachment A1, Section II, B, 5; Attachment A2, Section II, B, 5; and Attachment A3, Section II, B, 5
Securities Lending Policy, Attachment B, Section I, D
Credit Enhancement Program Policy, Section V, F, 3b
Liquidity Program Policy, Section V; and Attachment A, Section II, A, 5
Treasury Inflation Protected Securities Program Policy, Section V, B, 5
Currency Overlay Program Policy, Attachment D, Section II, B, 3

Effective July 1, 2011
Revised August 15, 2011
Revised May 14, 2012
Revised October 15, 2012
Revised March 18, 2013
Revised February 18, 2014

2. **To manage the duration of the fixed income portfolio within approved range as set forth in policy approved by the Investment Committee.**
   ~~Barclays Aggregate Program Policy, Section V, B, 1~~
   Global Fixed Income Program Policy, Attachment A, Section II, B, 2 and Attachment B, Section II, B, 2
   Low Duration Fixed Income Program Policy, Attachment A1, Section II, B, 2; Attachment A2, Section II, B, 2; and Attachment A3, Section II, B, 2
   Securities Lending Policy Credit Enhancement Program Policy, Section V, E
   Liquidity Program Policy, Section II, A, 2
   Treasury Inflation Protected Securities Program Policy, Section V, B, 2
   Inflation Assets Policy, Attachment B, Section V, B

3. **To manage the currency overlay hedge ratio and country weights as set forth in policy approved by the Investment Committee.**
   Currency Overlay Program Policy, Attachment A, Section II, B; Attachment C, Section II, B, 2; and Attachment D, Section II, B, 3
   Inflation Assets Policy, Attachment B, Section V, D
   Global Fixed Income Program Policy, Attachment B, Section II, B, 8

4. **To implement the Currency Overlay Program using either internal or external management.**

5. **To implement currency hedges requested by Senior Investment Officers of other asset classes for international investments.**
   Currency Overlay Program Policy, Section I

6. **To implement interest rate hedges requested by Senior Investment Officers of other asset classes.**

7. **To manage the securities lending portfolio which includes the selection of securities lending agents, collateral managers, and administrative agents as set forth in policy approved by the Investment Committee.**
   Securities Lending Policy, Section III

8. **To manage the asset and sector allocations to the Inflation Assets Component Programs within the ranges set forth in policy approved by the Investment Committee.**
   Inflation Assets Policy, Section V

9. **To manage the geographic exposures as set forth in policy approved by the Investment Committee.**
   Credit Enhancement Program Policy, Section V, F
   Global Fixed Income Program Policy, Attachment B, Section II, B, 10; Section II, C, 1; and Attachment C
   Inflation Assets Policy, Attachment B, Section V, C

II. Authority to Make Investment Decisions

A. Authority to Directly Invest In and Dispose of Public Securities

1. **To select, commit funds to, and exit investments in public securities for the Global Fixed Income Program, ~~Barclays Aggregate Fixed Income Portfolios,~~ Terminated Agency Pool Program, and Inflation Assets Component Programs as set forth in policy approved by the Investment Committee.**
   ~~Barclays Aggregate Program Policy, Section III, A~~
   Global Fixed Income Program Policy, Section III, A; Attachment A, Section II, A and Attachment B, Section II, A
   Low Duration Fixed Income Program Policy, Section III, A
   Inflation Assets Policy, Section III, A
   Terminated Agency Pool Policy, Section III, C

B. Authority to Select, Commit Funds to, and Dispose of/Exit Investments in Private Investment Vehicles

1. **To select, commit funds to, manage and dispose of Investment and Disposition Amounts in Private Investment Vehicles in Commodities within approved ranges as set forth in policy approved by the Investment Committee.**
   Inflation Assets Policy, Attachment A, Section V, A

C. Authority to Directly Invest In and Dispose Of Private Securities

1. **To directly invest in and dispose of private securities for the CalPERS Dollar Denominated~~, Barclays Aggregate,~~ and Limited Duration Fixed Income Portfolios as set forth in policy approved by the Investment Committee**
   ~~Barclays Aggregate Program Policy, Section V, D, 3, 5 and 12~~
   Global Fixed Income Program Policy, Attachment A, Section II, D, 3, 5 and 12

D. Authority to Fund Investment Managers Retained through a Contractual Arrangement (pursuant to public contracting process)

1. **To increase funding or decrease funding of externally managed portfolios.**

Effective July 1, 2011
Revised August 15, 2011
Revised May 14, 2012
Revised October 15, 2012
Revised March 18, 2013
Revised February 18, 2014

E. *Authority Relating to Shareowner Resolutions and Proxy Execution*

1. **To vote proxy issues as related to fixed income securities**

2. **To manage investor interests in Commodities, including exercising investor rights under shareholder, partnership or other investment agreements, as set forth in policy approved by the Investment Committee.**
Inflation Assets Policy, Attachment A, Commodities Program

F. *Authority to Directly Invest in and Dispose of Derivative Instruments.*

1. **To invest in and dispose of ~~commodities~~ derivative instruments within ranges as set forth in policiesy approved by the Investment Committee.**

III. *Authority to Make Contracting Decisions*

A. *Authority to Select and Terminate Investment Managers (obtained through public contracting process)*

1. **To select and terminate externally managed portfolios.**

2. **To manage the administrative custody management for the Security Lending Portfolios as set forth in policy approved by the Investment Committee.**

3. **To negotiate contract terms, fees, and compensation subject to applicable law and CalPERS Policies and procedures.**

B. *Authority to Select and Terminate Investment Consultants Other than Board's Investment Consultants*

1. **To select and terminate agents pertaining to securities lending.**

Andrew Junkin, CFA, CAIA
Managing Director & Principal

January 30, 2014

Mr. Henry Jones
Chair of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Fixed Income – Proposed Changes to Delegated Authority

Dear Mr. Jones:

You requested Wilshire's opinion with respect to Staff's proposed changes to the Delegated Authority for Global Fixed Income. These changes are being proposed to align the Delegated Authority with changes in policies, to provide clarity, and to permit Staff to select external managers.

Opinion

Wilshire believes that the three changes proposed are appropriate and should be adopted by the Investment Committee.

Background

Staff is proposing three changes: 1) eliminating references to the Barclays Aggregate Program and its policy; 2) to clarify that Staff may make use of derivatives beyond commodities derivatives; and 3) to allow Staff to hire external managers. We will address each of these items separately.

First, the Investment Committee recently approved the repeal of the Barclays Aggregate policy as there are no longer any assets managed internally within the Barclays Aggregate Program. As a result, it is appropriate to eliminate the references to this defunct Program and repealed Policy from the Delegated Authority Resolution.

Second, Global Fixed Income Staff makes use of derivatives beyond commodity derivatives within the Global Fixed Income Program (e.g., treasury futures to manage the duration of the overall portfolio). Thus, this proposed change aligns the Delegated Authority with the investment management practices of Staff. Therefore, Wilshire supports this change.

Last, Staff is proposing to add the ability to “select” external managers for the program, pursuant to public contracting procedures. As this is in alignment with the Board Governance Policy and with the activities of other asset classes, Wilshire believes this an appropriate change.

Conclusion

Wilshire recommends that the Investment Committee adopt the proposed changes to the Delegated Authority for Global Fixed Income. The changes are appropriate and supportive of Staff’s ongoing management of the Global Fixed Income Program.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

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