CalPERS

Investment Committee

California Public Employees' Retirement System

Agenda Item 6a

March 17, 2014

ITEM NAME: Review of Investment Committee Delegation

PROGRAM: Administration

ITEM TYPE: Committee Governance – Action

RECOMMENDATION

Recommend proposed changes to the Investment Committee (IC) Delegation for Board consideration and approval at the April Board meeting.

EXECUTIVE SUMMARY

The Board of Administration Governance Policy requires an annual review of the Board delegation to the IC. The Chair and senior Investment staff conducted a review of the delegation. Recommended changes are set forth in Attachment 1.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. Conducting periodic reviews of delegation documentation supports the IC in maintaining current and accurate governance documents.

INVESTMENT BELIEFS

This agenda item supports CalPERS Investment Belief 10: Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives. Conducting periodic reviews of delegation documentation improves governance and clarifies authority and process between the IC and staff.

BACKGROUND

In 2011, Funston Advisory Services was commissioned by the Board to examine significant areas of Board oversight, governance practices, accountability and decision-making. The purpose of the review was to enhance the effectiveness of the CalPERS Board of Administration.

In September 2011, a final report was presented to the Board which offered many recommendations that were subsequently included in the Board of Administration Governance Policy (Governance Policy), including a provision that committee delegations be reviewed annually.

The Governance Policy also established the following terminology to define the level of authority retained in Powers Reserved and authority delegated to the IC:

- **Conduct** – The Board performs the tasks described.
- **Set** – The Board is actively engaged in developing the strategies and plans for the delegated activities and has final approval authority.
- **Approve** – The Board has final decision authority on delegated activities.
- **Oversee** – The Board requires adequate information to monitor and provide direction and support, as appropriate, on delegated activities.

In December 2011, Board of Administration committee delegation resolutions were updated and approved.

In April 2013, an annual review of the IC delegation was completed and the Board approved one change – that the IC is authorized to ~~approve~~ conduct strategic asset allocation including expected rate of return and risk tolerances for each fund for which the Board has responsibility; and approve the total fund policy benchmark for each fund.

ANALYSIS
Staff has reviewed the current IC delegation and proposes that changes be made to eliminate conflicting language in specific authorities in order to create clarity of direction and interpretation. Included is the use of:

- Standardized straight forward language as prescribed in the Governance Policy to reduce confusion and operational risk
- Simple and concise statements to ensure understanding of intent

After review by the IC Chair and senior Investment staff, a number of proposed IC delegation changes have been identified.

Attachment 1 is the complete delegation with track changes.

The following table lists the proposed changes with accompanying rationale:

Proposed Changes	Rationale
(2) Approve investment policies and oversee compliance with investment policies.	Clarifies which items IC approves and which it oversees.
(3) Conduct strategic asset allocation, ~~including expected~~ set the target rate of return and select the asset allocation mix ~~risk tolerances~~ for each fund. ~~for which the Board has responsibility; and approve the total fund policy benchmark for each fund.~~	Divide delegation (3) into two separate authorities (3 and 4) to clarify each authority and eliminate conflicts and redundancy with (6), set risks and appetite.
(4) Approve total fund and asset class policy benchmarks.	Clarifies in one delegation that the Board approves total fund and asset class strategic benchmarks as prescribed by the Benchmarks Policy.
~~(4)~~(5) Approve and oversee asset class strategic plans~~,~~ and portfolio construction guidelines~~, target rate of return, and benchmarks~~.	Reinforces that the IC approves and oversees asset class strategic plans and portfolio construction guidelines via annual program reviews. Reference to target rate of return and benchmarks was removed as it is covered in authorities (3) and (4).
~~(14)~~(15) Set the ~~benchmarks~~ criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee	Replaces "benchmark" with "criteria" to avoid confusion with financial benchmark terminology as this is a reporting related rather than return related concept.
~~(16)~~(17) ~~Adopt~~ Approve investment-related regulations.	Replaces "adopt" with "approve" to align with the four defined levels of authority provided in the Governance Policy.

If the IC approves these changes, staff will bring an amended Delegation to the Board for review and approval at the April meeting.

BUDGET AND FISCAL IMPACTS

Not applicable.

BENEFITS/RISKS

Conducting a periodic review of the IC Delegation is consistent with good governance principles and mitigates operational and reputational risks. These changes will reduce the risk of staff not properly managing the portfolio within the appropriate delegated authority.

ATTACHMENTS

Attachment 1 – Board of Administration Delegation Resolution No. IC-11-01
Attachment 2 – Consultant Opinion Letter

CAROL MOODY
Interim Chief Operating Investment Officer

THEODORE ELIOPOULOS
Acting Chief Investment Officer

STATE OF CALIFORNIA BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DELEGATION RESOLUTION

Subject: Investment Committee Delegation No: IC-11-01

WHEREAS, (1) In accordance with Government Code sections 20120, 9353, 75005, 75505, 21661, 21670, 21759, 22200, 22201, 22794, 22940, 22960.35 and 22970.30, the Board of Administration of the California Public Employees' Retirement System (the "Board") is charged with the administration and management of the Public Employees' Retirement System, the Legislators' Retirement System, the Judges' Retirement System, the Judges' Retirement System II, the Public Employees' Long-term Care Act, the Public Employees' Deferred Compensation Program, the Replacement Benefit Plan, the Old Age and Survivors' Insurance Program, the Public Employees' Medical and Hospital Care Act, the Annuitants' Health Care Coverage Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan and the Supplemental Contributions Program (collectively, the "System").

WHEREAS, (2) In accordance with Government Code sections 20171, 9354.1, 75105, 75607, 21664, 21677, 21759, 22601, 22910, 22911, 22940, 22960.46 and 22970.41, the Board is also charged with the exclusive control of the administration and investment of the Public Employees' Retirement Fund, the Legislators' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement System II Fund, the Public Employees' Long-term Care Fund, the Public Employees' Deferred Compensation Fund, the Replacement Benefit Custodial Fund, the Old Age and Survivors' Insurance Revolving Fund, the Public Employees' Contingency Reserve Fund, the Public Employees' Health Care Fund, the Annuitants' Health Care Coverage Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, and the Supplemental Contribution Program Fund (collectively, "the Fund").

WHEREAS, (3) In furtherance of the authority granted in Article XVI, section 17 of the California Constitution, the Board may make any investment consistent with the duties therein described, except where such investments have been prohibited by legislation which itself complies with the standards of care and loyalty that are imposed upon the Board.

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WHEREAS, (4) In accordance with Government Code section 20191, the Board is authorized, by affirmative vote of at least seven members of the Board, to make any investment authorized by law or to adopt an investment resolution that contains detailed investment guidelines.

WHEREAS, (5) 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.

RESOLVED, (A) That, pursuant to the foregoing, the Board hereby authorizes and ratifies the appointment of the Investment Committee (the "Committee") to be comprised of the entire membership of the Board.

RESOLVED, (B) Except as otherwise provided within this Resolution, the ~~Investment~~ Committee is authorized to:

(1) Set investment beliefs to guide investment strategies.

(2) Approve investment policies and oversee compliance with investment policies.

(3) Conduct strategic asset allocation. ~~including expected~~ set the target rate of return and select the asset allocation mix ~~risk tolerances~~ for each fund. ~~for which the Board has responsibility; and approve the total fund policy benchmark for each fund.~~

~~(3)~~(4) Approve total fund and asset class policy benchmarks.

~~(4)~~(5) Approve and Oversee asset class strategic plans~~,~~ and portfolio construction guidelines~~, target rate of return, and benchmarks.~~

~~(5)~~(6) Set investment risk appetite and tolerances.

~~(6)~~(7) Oversee investment performance.

~~(7)~~(8) Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet investment obligations (e.g. capital calls, collateral calls).

~~(8)~~(9) Conduct selection and oversee performance of Board consultants who provide investment-related expertise to the Board.

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~~(9)~~(10) Oversee selection process and performance of investment partners, managers and consultants.

~~(10)~~(11) Approve the initiation or settlement of investment-related litigation (including corporate governance) involving material sums or having a substantial impact on investment goals or investment operations.

~~(11)~~(12) Oversee cost effectiveness of the investment program.

~~(12)~~(13) Oversee investment office risk assessment and control environment.

~~(13)~~(14) Oversee environmental, social and governance (ESG) program.

~~(14)~~(15) Set the ~~benchmarks~~ criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee.

~~(15)~~(16) Approve positions on investment-related legislation.

~~(16)~~(17) ~~Adopt~~ Approve investment-related regulations.

(18) Oversee management of risks related to the duties delegated to the Committee.

RESOLVED, (C) That the authority granted under this Resolution is subject to the following conditions:

(1) The Committee must discharge its duties "solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system." In exercising this responsibility, the Committee shall place the interests of system members and beneficiaries above all other interests. (Cal. Canst. art. XVI sec. 17(b).)

(2) The Committee must discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. (Cal. Canst. art. XVI, sec. 17(c).)

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(3) The Committee must diversify the investments so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. (Cal. Const. art. XVI, sec. 17(d).)

RESOLVED, (D) That the ~~Investment~~ Committee is authorized to act finally with respect to all actions described herein.

RESOLVED, (E) That this Resolution shall be effective immediately upon adoption and supersedes all previous delegations of authority to this Committee.

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I hereby certify that on the ____ day of _______, 2014, the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

ROB FECKNER
President, Board of Administration
California Public Employees' Retirement System

Michael C. Schlachter, CFA
Managing Director & Principal

March 10, 2014

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

Re: Investment Committee Delegation

Dear Mr. Jones,

You requested our comments regarding the changes to the Investment Committee Delegation.

Recommendation

Wilshire has had several conversations about this item with members of Staff and the Investment Committee. As the latest version of this item reflects the input of both the Investment Committee and Wilshire, we recommend approving the proposed changes.

Discussion

Several changes to the Investment Committee delegation have been made as part of the annual review and approval of these delegations. Some of these changes are fairly minor in nature and require no comment.

One significant change, made at our recommendation, in the most recent version of this delegation was an expansion of authorization 3 to more fully describe the scope of the role that the Investment Committee plays in the asset allocation process.

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

Best regards,

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