



Agenda Item 5a

March 16, 2015

ITEM NAME: Review of Investment Committee Delegation

PROGRAM: Administration

ITEM TYPE: Committee Governance – Action

RECOMMENDATION

Staff recommends that the Investment Committee (Committee) delegation remain in place unaltered for Board consideration and approval at the April Board meeting.

EXECUTIVE SUMMARY

The Board of Administration Governance Policy (Governance Policy) requires an annual review of the Board delegation to the Committee. The Chair and senior investment staff reviewed the Committee delegation to determine if any modifications were needed and no recommended changes are proposed.

Staff has initiated an investment delegation revision project in order to align all staff investment delegations with the current reporting structure to the Chief Executive Officer. This is not anticipated to impact the authorities contained within the current Committee delegation.

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 Committee 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 Committee 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 Board.

In September 2011, a final report was presented to the Board which offered many recommendations that were subsequently included in the Governance Policy, including a provision that Committee delegations be reviewed annually. Board committee delegations were subsequently updated and approved in December 2011.

In April 2014, an annual review of the Committee Delegation was completed and the Board approved six changes.

	Language added to delegation in 2014 to clarify Committee authorities:
1	Approve investment policies and oversee compliance with investment policies
2	Conduct strategic asset allocation, set the target rate of return, and select the asset allocation mix for each fund
3	Approve total fund and asset class policy benchmarks
4	Approve and oversee asset class strategic plans and portfolio construction guidelines
5	Set the criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee
6	Approve investment related regulations

ANALYSIS

During the recent Policy Revision Project and development of the new Total Fund Investment Policy (Policy) staff aligned the language within the proposed Policy to correspond with Committee authorities. In reviewing the current 18 elements included in the Committee's delegation, staff did not identify any gaps that would require modification of any authorities.

If the Committee concurs that its current delegation provides the proper investment authorities necessary to carry out its fiduciary obligations, staff will bring the delegation to the Board for review and approval at the April 2015 meeting.

BUDGET AND FISCAL IMPACTS

Not applicable.

BENEFITS/RISKS

Conducting a periodic review of the Committee delegation is consistent with good governance principles and mitigates operational and reputational risks. While no changes are proposed at this time, this continued annual review and alignment of delegation and Investment Policy documents will reduce the risk of improper management of the portfolio within the appropriate delegated authority.

ATTACHMENTS

Attachment 1 – Board of Administration Delegation Resolution No. IC-14-01

Attachment 2 – Consultant Opinion Letter

WYLIE TOLLETTE
Chief Operating Investment Officer

THEODORE ELIOPOULOS
Chief Investment Officer

**STATE OF CALIFORNIA BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

DELEGATION RESOLUTION

Subject: Investment Committee **Delegation No:** IC-14-01

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.

Delegation No: IC-14-01

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 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 set the target rate of return, and select the asset allocation mix including interim allocation targets for each fund.
- (4) Set total fund and asset class policy benchmarks.
- (5) Approve and Oversee asset class strategic plans and portfolio construction guidelines.
- (6) Set investment risk appetite and tolerances.
- (7) Oversee investment performance.
- (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).
- (9) Conduct selection and oversee performance of Board consultants who provide investment-related expertise to the Board.
- (10) Oversee selection process and performance of investment partners, managers and consultants.

Delegation No: IC-14-01

Agenda Item 5a, Attachment 1, Page 3 of 5

- (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.
- (12) Oversee cost effectiveness of the investment program.
- (13) Oversee investment office risk assessment and control environment.
- (14) Oversee environmental, social and governance (ESG) program.
- (15) Set the criteria and triggers for information that comes to the Committee for review, as well as approve performance metrics to be reported to the Committee.
- (16) Approve positions on investment-related legislation.
- (17) 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. Const. 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. Const. art. XVI, sec. 17(c).)
- (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).)

Delegation No: IC-14-01

RESOLVED, (D) That the 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.

Delegation No: IC-14-01

I hereby certify that on the 16th day of April, 2014, the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

A handwritten signature in black ink, appearing to read "Rob Feckner", written over a horizontal line.

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

***Andrew Junkin, CFA, CAIA
Managing Director & Principal***

March 2, 2015

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

Re: Preliminary Review of the Investment Committee Delegation Resolution

Dear Mr. Jones:

Overview and Recommendation

Staff is recommending that the Investment Committee Delegation Resolution, which lists activities that the Investment Committee may undertake with respect to governing the investment activities of CalPERS, remain unaltered after review. This item is intended to be review-only with action to be taken at the April Board meeting.

Wilshire has reviewed the item and believes that the existing delegation is appropriate and permits the Investment Committee appropriate authority to effectively govern over the investment activities of CalPERS. Therefore, Wilshire recommends no changes to the item.

Investment Beliefs

Wilshire believes that CalPERS' Investment Belief #9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error; and Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human. This capital directly influences the delegation of authority within CalPERS.

The 18 delegations listed in the Resolution help CalPERS manage certain risks by placing decision-making authority with the Investment Committee. Maintaining these delegations will continue to support the strong risk-controlled environment in which the organization operates.

Discussion

As no changes are recommended, the Investment Committee's current Delegated Authority would continue intact. While we will not discuss all 18 items listed in the Delegation Resolution, a few are worth highlighting. First, the Investment Committee is charged with setting investment beliefs, which is an area the Committee continues to emphasize on a monthly basis and one that Wilshire works with Staff on, in terms of incorporating CalPERS' Investment Beliefs into actionable items. Wilshire believes that the ongoing Portfolio Priority work falls under this delegation.

Other noteworthy delegations include setting the asset allocation, approving investment policies, approving and overseeing asset class strategic plans, overseeing the ESG program, and effectively setting the agenda of the Investment Committee meetings, which gives the Committee broad latitude in how it functions. Overall, Wilshire believes that the delegated authority is significant in terms of the level of power the Investment Committee can appropriately exert on the investment matters of CalPERS and provides proper governance tools for the Committee.

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

Best regards,

A handwritten signature in black ink, appearing to read 'Ann J. ...'.