CalPERS

Investment Committee

Agenda Item 7b

November 16, 2020

Item Name: Review of the Investment Committee Delegation

Program: Investment Committee

Item Type: Action Consent

Recommendation

Approve the Investment Committee delegation in the form included as Attachment 1.

Executive Summary

Management's proposed updates to the Committee's delegation are in furtherance of prior board direction that the composition of the Investment Committee to be comprised of the entire membership of the Board and that the Investment Committee is authorized to act finally with respect to all actions described within the delegation.

Strategic Plan

This item supports the "Reduce Complexity and Risk Management" Strategic Goal from the CalPERS 2017-2022 Strategic Plan.

Investment Beliefs

This agenda item supports CalPERS Investment Belief 10, that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives, acknowledging the need for strong governance and effective, clear processes.

Background

As required by the Board Governance Policy, each Committee's delegation is reviewed annually and updated as needed to ensure continued alignment with board policy and the CalPERS Strategic Plan.

Analysis

Based on feedback provided during the September 2020 Board Governance Committee meeting, the Delegation Resolution for the Investment Committee reflects the following updates:

- The Investment Committee will comprise the entire membership of the Board
- The Investment Committee is authorized to act finally with respect to all actions described within its delegation
- In order to be consistent with other committee delegation structures, non-substantive revisions have been made that reflect the Board's direction to revise Board policies and documents into plain English

Any revisions to the Delegation Resolution that the Committee wishes to make will be incorporated and brought to the full Board for consideration and approval at the November 18th, 2020 Board of Administration meeting.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefit of reviewing and updating the delegation of authority for the Investment Committee is to continually align the Committee's authority with the needs of our members while keeping CalPERS' commitment to its strategic goals and objectives. Management does not perceive any risks.

Attachments

Attachment 1 – Investment Committee Delegation Resolution

Attachment 2 – Investment Committee Delegation Resolution – Track Changes

Attachment 3 – Board Investment Consultant Opinion Letter – Wilshire Associates

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Anne Simpson
Interim Managing Investment Director
Board Governance & Sustainability

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Dan Bienvenue
Interim Chief Investment Officer

STATE OF CALIFORNIA BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DELEGATION RESOLUTION

Subject: Investment Committee Delegation No: IC-20-01

Pursuant to California Government Code section 20099, the Board of Administration of the California Public Employees' Retirement System (Board) hereby authorizes the appointment of the Investment Committee to be comprised of the entire membership of the Board.

Except as otherwise provided within this Resolution, the Investment Committee (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.

(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.

Delegation No: IC-20-01

(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.

Notwithstanding any other provision within this Resolution, the Committee is authorized to act finally with respect to all actions described herein.

This Resolution shall be effective immediately upon adoption and supersedes all previous delegations of authority to this, or any predecessor, committee.

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I hereby certify that on the 18th day of November, 2020, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

HENRY JONES
President, Board of Administration
California Publie Employees' Retirement System

STATE OF CALIFORNIA BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DELEGATION RESOLUTION

Subject: Investment Committee Delegation No: IC-~~19~~20-01

~~WHEREAS, (1) In accordance with Government Code sections 20120, 9353, 75005, 75505, 21661, 21670, 21759, 22200, 22201, 22794, 22940 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 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 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 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.~~

~~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.~~

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~~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, p~~Pursuant to ~~the foregoing,~~ California Government Code section 20099, the Board of Administration of the California Public Employees' Retirement System (Board) hereby authorizes ~~and ratifies~~ the appointment of the Investment Committee ~~(the "Committee")~~ to be comprised of ~~not less than nine (9) members~~the entire membership of the Board.

~~RESOLVED, (B)~~ Except as otherwise provided within this Resolution, the Investment Committee (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.

(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.

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(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).)~~

~~RESOLVED, (D) That, n~~Notwithstanding any other provision within this Resolution, ~~all acts of the Investment Committee shall be reported to the Board, at its next regular meeting, and shall be subject to review and ratification or reversal by the Board~~the Committee is authorized to act finally with respect to all actions described herein.

~~RESOLVED, (E) That t~~This Resolution shall be effective immediately upon adoption

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and supersedes all previous delegations of authority to this, or any predecessor, ~~Committee~~committee.

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I hereby certify that on the 18th day of ~~September~~November, ~~2019~~2020, the Board of Administration of the California Public Employees' Retirement System made and adopted the foregoing Resolution.

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HENRY JONES
President, Board of Administration
California Publie Employees' Retirement System

Wilshire

Thomas Toth, CFA
Managing Director

October 29, 2020

Ms. Theresa Taylor
Chair of the Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Agenda Item 7b: Review of the Investment Committee Delegation

Dear Ms. Taylor:

You requested Wilshire's opinion regarding the annual review requirement mandated by the CalPERS Board Governance Policy as it relates to authority delegated to the Investment Committee. Most importantly, there are no changes to the listed delegations on which to opine. The revisions are limited in scope to those designed to provide clarity and to align with previous direction from the Governance Committee.

In reviewing the redlined delegation resolution, most of the revisions relate to Government Codes and the California Constitution that are being struck to further the Board's stated goal of improving the clarity of the Board policy. The referenced Government Codes and the California Constitution remain in force from a governance standpoint. Wilshire supports the move to enhance the ability of all stakeholders to understand the delegations provided by the Board.

The revised delegation expressly references California Government Code section 20099, which provides the Board of Administration with the statutory authority to delegate to a committee of Board members. This reference also enhances the ability of stakeholders to understand upon what authority this delegation resides.

The revision that structures the Investment Committee as a committee of the whole Board aligns with the recommendation from the Governance Committee earlier this year. The Governance Committee had healthy discussion and debate around this issue; hence, Wilshire is comfortable with this revision. We look forward to continuing to advise all Board members as CalPERS embarks upon the Asset Liability Management process within a very challenging investment environment.

Wilshire

Conclusion

Wilshire believes that these delegations support the full set of CalPERS' Investment Beliefs, underlining the importance of their regular review and discussion. Wilshire is comfortable that the revisions proposed to the Investment Committee delegation promote effective governance. Please do not hesitate to contact us should you require anything further or have any questions.

Sincerely,