



Investment Committee Agenda Item 5a

March 13, 2017

Item Name: Review of the Investment Committee Delegation

Program: Administration

Item Type: Action

Recommendation

Recommend, for consideration by the Board of Administration, that the current Investment Committee delegation remain in place with no changes.

Executive Summary

The Board of Administration (Board) Governance Policy (Governance Policy) requires an annual review of the Board's delegation of authority to the Investment Committee (Committee). The Committee Chair and senior Investment Office staff have reviewed the Committee delegation and no changes are proposed for 2017.

The current Committee delegation is provided as Attachment 1. An opinion letter from Wilshire Associates is provided as Attachment 2.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to cultivate a risk-intelligent organization. Conducting periodic reviews of CalPERS' key governance documentation supports the Board and staff in maintaining an accurate policy framework.

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.

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 offering many recommendations that were subsequently included in the Governance Policy, including a provision that Committee delegations be reviewed annually. Board committee delegations were updated and approved in December 2011.

In 2013 the Board implemented an annual review process for all Board committee delegations. Changes to the Committee delegation were approved by the Board in 2013 and 2014. Ministerial changes to remove references to a legislatively terminated defined contribution plan were approved in 2016.

Analysis

If the Committee concurs that its current delegation provides the proper investment authorities necessary to carry out its fiduciary obligations, staff will advance the delegation to the Board for consideration and action. The Board's review of committee delegations is currently scheduled for the April 2017 meeting.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

Conducting a periodic review of the Committee delegation is consistent with good governance principles and mitigates operational and reputational risks. Staff has not identified any risks associated with maintaining the current delegation with no changes for 2017.

Attachments

Attachment 1 – Board of Administration Delegation Resolution No. IC-16-01

Attachment 2 – Board Investment Consultant Opinion Letter – Wilshire Associates

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-16-01

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, 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.
- (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 the Committee is authorized to act finally with respect to all actions described herein.

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

I hereby certify that on the 18th day of May, 2016, 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

***Andrew Junkin, CFA, CAIA
President, Wilshire Consulting***

March 1, 2017

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

Re: Investment Committee Delegation Resolution

Dear Mr. Jones:

Overview and Recommendation

The CalPERS Board Governance Policy requires an annual review of the authority delegated to the Investment Committee. After review, Staff is bringing forward a review of these delegations which offers no revisions. Wilshire has reviewed the delegations 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 items and recommends it be approved.

Investment Beliefs

Wilshire believes that CalPERS' Investment Belief # 4 – Long term value creation requires effective management of three forms of capital: financial, physical and human addresses the need for clear governance structures, such as these delegations. The eighteen 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 CalPERS functions.

Discussion

As no changes are recommended, the Investment Committee's current Delegated Authority would continue intact. While we will not discuss all of the items listed in the Delegation Resolution, a few are worth highlighting. The Investment Committee is charged with setting

investment beliefs, which continues to be an area the Committee accentuates on a monthly basis and one that Wilshire works with Staff on, in terms of incorporating CalPERS' Investment Beliefs into actionable items.

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. ...'.