



Investment Committee

Agenda Item 5b

June 13, 2022

Item Name: Revisions to the Total Fund and Global Fixed Income Policies – Second Reading

Program: Total Fund

Item Type: Action

Executive Summary

This item is seeking approval from the Investment Committee (Committee) regarding the proposed revisions to the Total Fund and Global Fixed Income Investment Policies resulting from the Asset Liability Management (ALM) adoption at the 2021 November Committee meeting. Staff has incorporated the feedback received from the March 2022 Committee meeting, which included consolidating the standalone program policies into the Total Fund Policy and reviewing the targets and ranges of the Private Debt program.

Strategic Plan

Supports the Fund Sustainability element of the CalPERS 2017-22 Strategic Plan by supporting strong governance and effective process to cultivate a risk-intelligent organization.

Investment Beliefs

This item supports the following Investment Beliefs:

- Investment Belief 5 – CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution
- Investment Belief 6 – Strategic asset allocation is the dominant determinant of portfolio risk and return
- Investment Belief 7 – CalPERS will take risk only where we have a strong belief we will be rewarded for it
- Investment Belief 10 – Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Background

This item is being brought to the Committee in relation to the ALM adopted at the November Committee meeting and as part of staff's annual policy review. The proposed revisions will align with the Committee's adopted return rate, policy portfolio and strategic asset allocation (SAA), as well as strengthen and facilitate the Fund's governance and accountability to achieve the CalPERS goals and objectives.

Analysis

This year's policy review is centered on the implementation of the Strategic Asset Allocation adopted at the November 2021 Committee meeting. Additionally, as directed by the Committee during the 1st Reading of the policy changes, staff consolidated standalone program area policies into the Total Fund Policy and adjusted the ranges of the Private Debt program.

1. Total Fund (unchanged from 1st Reading)
 - a. Asset Allocation:
 - i. Add Private Debt, Emerging Markets Sovereign Debt, and Strategic Leverage
 - ii. Update target weights and ranges
 - iii. Update the Board approved benchmarks for new segments
 - b. Investment Leverage:
 - i. Reduce active leverage from 20% to 15% and introduce 5% strategic leverage (keeping effective limit at 20%)
 - ii. Clarify use and parameters of strategic and active leverage
 - iii. Move measurement details to policy related procedures (consistent with the level of detail throughout Policy)
2. Program Areas
 - a. Private Debt: Incorporate new section into Total Fund Policy with content based on core elements of the existing Opportunistic section of policy that has been built over last two years **(For 2nd Reading, the strategy ranges were adjusted based on discussions with the General Pension Consultant)**
 - b. Global Fixed Income: Update CalPERS Investment Policy for Global Fixed Income Program to reflect a more granular Income segment structure and incorporate the new EM Sovereign segment **(unchanged from 1st Reading)**
 - c. Opportunistic: Update Opportunistic section of the Total Fund Policy to remove Private Debt related content, define Opportunistic investments, and add language requiring CIO approval for new strategies **(unchanged from 1st Reading)**
3. Program Area Consolidation into the Total Fund Policy (New for 2nd Reading)
 - a. As directed by the Committee, the Global Equity, Global Fixed Income, Real Assets, and Private Equity standalone program policies have been incorporated into the Total Fund Policy. The core content in these policies was not changed, however, duplicative content was removed (e.g., Table of contents, Introduction paragraph, reference to appendices, etc.). See Attachment 7 (redline of standalone policies) and Attachment 3 (clean view post-incorporation).

Additional ministerial changes were made to reflect recent organizational changes, readability, clean-up, and formatting. For a more detailed summary of the proposed changes, refer to Attachment 2. **(unchanged from 1st Reading)**

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The changes support maintenance of a strong governance framework for the management of the System's assets. There are no anticipated risks.

Attachments

Attachment 1 – Policy Revisions Review – Second Read Presentation

Attachment 2 – Inventory of Policy Revisions

Attachment 3 – Proposed Total Fund Policy (clean view)

Attachment 4 – Proposed Total Fund Policy (mark-up view)

Attachment 5 – Proposed Global Fixed Income Policy (clean view)

Attachment 6 – Proposed Global Fixed Income Policy (mark-up view)

Attachment 7 – Program Policies Consolidated into the Total Fund (mark-up view)

Attachment 8 – Consultant Opinion Letter – Wilshire Associates (General Pension Consultant)

Amy Deming
Investment Director
Investment Controls & Operational Risk

Dan Bienvenue
Deputy Chief Investment Officer

Nicole Musicco
Chief Investment Officer