

CalPERS Beliefs

Our Views Guiding Us into the Future

Mission

Provide responsible and efficient stewardship of the System to deliver promised retirement and health benefits, while promoting wellness and retirement security for members and beneficiaries.

Vision

A trusted leader respected by our members and stakeholders for our integrity, innovation and service.



We serve those who serve California.

Pension Beliefs

In May 2014, the CalPERS Board of Administration adopted a set of 11 Pension Beliefs that articulate the pension fund's views on public pension design, funding, and administration.

These beliefs offer CalPERS views on the importance of retirement security, defined benefit plans, fiduciary duty, and the need to ensure long-term pension sustainability. We hope that other pension plans and policy leaders will find the beliefs informative and beneficial.

Pension Belief 1

A retirement system must meet the needs of members and employers to be successful.

Pension Belief 2

Plan design should ensure that lifetime retirement benefits reflect each employee's years of service, age and earnings and are adequate for full-career employees.

Pension Belief 3

Inadequate financial preparation for retirement is a growing national concern; therefore, all employees should have effective means to pursue retirement security.

Pension Belief 4

A retirement plan should include a defined benefit component, have professionally managed funds with a long-term horizon, and incorporate pooled investments and pooled risks.

Pension Belief 5

Funding policies should be applied in a fair, consistent manner, accommodate investment return fluctuations and support rate stability.

Pension Belief 6

Pension benefits are deferred compensation and the responsibility for appropriate funding should be shared between employers and employees.

Pension Belief 7

Retirement system decisions must give precedence to the fiduciary duty owed to members but should also consider the interests of other stakeholders.

Pension Belief 8

Trustees, administrators and all other fiduciaries are accountable for their actions, and must transparently perform their duties to the highest ethical standards.

Pension Belief 9

Sound understanding and deployment of enterprise-wide risk management is essential to the ongoing success of a retirement system.

Pension Belief 10

A retirement system should offer innovative and flexible financial education that meets the needs of members and employers.

Pension Belief 11

As a leader, CalPERS should advocate for retirement security for America's workers and for the value of defined benefit plans.

Investment Beliefs

In September 2013, the CalPERS Board of Administration adopted a set of ten Investment Beliefs intended to provide a basis for strategic management of the investment portfolio, and to inform organizational priorities.

The Investment Beliefs are not a checklist to be applied to every decision. They are a guide for making decisions that often require balancing multiple, inter-related decision factors. They provide context for CalPERS actions, reflect CalPERS values, and acknowledge CalPERS responsibility to sustain its ability to pay benefits for generations.

Each Investment Belief also contains several sub-beliefs that are actionable statements that provide insight as to how the Investment Beliefs will be implemented.

Investment Belief 1

Liabilities must influence the asset structure

Sub-beliefs:

- Ensuring the ability to pay promised benefits by maintaining an adequate funding status is the primary measure of success for CalPERS
- CalPERS has a large and growing cash requirement and inflation-sensitive liabilities; assets that generate cash and hedge inflation should be an important part of the CalPERS investment strategy
- CalPERS cares about both the income and appreciation components of total return
- Concentrations of illiquid assets must be managed to ensure sufficient availability of cash to meet obligations to beneficiaries

Investment Belief 2

A long time investment horizon is a responsibility and an advantage

Long time horizon requires that CalPERS:

- Consider the impact of its actions on future generations of members and taxpayers
- Encourage investee companies and external managers to consider the long-term impact of their actions
- Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives
- Advocate for public policies that promote fair, orderly and effectively regulated capital markets

Long time horizon enables CalPERS to:

- Invest in illiquid assets, provided an appropriate premium is earned for illiquidity risk
- Invest in opportunistic strategies, providing liquidity when the market is short of it
- Take advantage of factors that materialize slowly such as demographic trends
- Tolerate some volatility in asset values and returns, as long as sufficient liquidity is available

Investment Belief 3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

Sub-beliefs:

- As a public agency, CalPERS has many stakeholders who express opinions on investment strategy or ask CalPERS to engage on an issue. CalPERS preferred means of responding to issues raised by stakeholders is engagement
- CalPERS primary stakeholders are members/beneficiaries, employers, and California taxpayers as these stakeholders bear the economic consequences of CalPERS investment decisions
- In considering whether to engage on issues raised by stakeholders, CalPERS will use the following prioritization framework:
 - » Principles and Policy – to what extent is the issue supported by CalPERS Investment Beliefs, Principles of Accountable Corporate Governance or other Investment Policy?
 - » Materiality – does the issue have the potential for an impact on portfolio risk or return?
 - » Definition and Likelihood of Success – is success likely, in that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
 - » Capacity – does CalPERS have the expertise, resources and standing to influence an outcome?

Investment Belief 4

Long-term value creation requires effective management of three forms of capital: financial, physical and human

Sub-beliefs:

- Governance is the primary tool to align interests between CalPERS and managers of its capital, including investee companies and external managers
- Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively
- CalPERS may engage investee companies and external managers on their governance and sustainability issues, including:
 - » Governance practices, including but not limited to alignment of interests
 - » Risk management practices
 - » Human capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity
 - » Environmental practices, including but not limited to climate change and natural resource availability

Investment Belief 5

CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution

Sub-beliefs:

- A key success measure for the CalPERS investment program is delivery of the long-term target return for the fund
- The long time horizon of the fund poses challenges in aligning interests of the fund with staff and external managers
- Staff can be measured on returns relative to an appropriate benchmark, but staff performance plans should include additional objectives or key performance indicators to align staff with the fund's long-term goals
- Each asset class should have explicit alignment of interest principles for its external managers

Investment Belief 6

Strategic asset allocation is the dominant determinant of portfolio risk and return

Sub-beliefs:

- CalPERS strategic asset allocation process transforms the fund's required rate of return to the market exposures that staff will manage
- CalPERS will aim to diversify its overall portfolio across distinct risk factors return drivers
- CalPERS will seek to add value with disciplined, dynamic asset allocation processes, such as mean reversion. The processes must reflect CalPERS characteristics, such as time horizon and size of assets
- CalPERS will consider investment strategies if they have the potential to have a material impact on portfolio risk and return

Investment Belief 7

CalPERS will take risk only where we have a strong belief we will be rewarded for it

Sub-beliefs:

- An expectation of a return premium is required to take risk; CalPERS aims to maximize return for the risk taken
- Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs
- CalPERS will use index tracking strategies where we lack conviction or demonstrable evidence that we can add value through active management
- CalPERS should measure its investment performance relative to a reference portfolio of public, passively managed assets to ensure that active risk is being compensated at the Total Fund level over the long-term

Investment Belief 8

Costs matter and need to be effectively managed

Sub-beliefs:

- CalPERS will balance risk, return and cost when choosing and evaluating investment managers and investment strategies
- Transparency of the total costs to manage the CalPERS portfolio is required of CalPERS business partners and itself
- Performance fee arrangements and incentive compensation plans should align the interests of the fund, staff and external managers
- CalPERS will seek to capture a larger share of economic returns by using our size to maximize our negotiating leverage. We will also seek to reduce cost, risk and complexity related to manager selection and oversight
- When deciding how to implement an investment strategy, CalPERS will implement in the most cost effective manner

Investment Belief 9

Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

Sub-beliefs:

- CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk
- The path of returns matters, because highly volatile returns can have unexpected impacts on contribution rates and funding status
- As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability, that emerge slowly over long time periods, but could have a material impact on company or portfolio returns

Investment Belief 10

Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Sub-beliefs:

- Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important
- CalPERS must consider the government agency constraints under which it operates (e.g., compensation, civil service rules, contracting, transparency) when choosing its strategic asset allocation and investment strategies
- CalPERS will be best positioned for success if it:
 - » Has strong governance
 - » Operates with effective, clear processes
 - » Focuses resources on highest value activities
 - » Aligns interests through well designed compensation structures
 - » Employs professionals who have intellectual rigor, deep domain knowledge, a broad range of experience and a commitment to implement CalPERS Investment Belief

CalPERS Core Values

Our Core Values guide our work and are woven into the fabric of our daily interactions with our members, our employers and each other.

Quality

- Strive to exceed customers' needs and expectations through competence, innovation and teamwork
- Proactively explore policy and product opportunities to better serve our customers
- Seek to "do it right" the first time
- Consider, understand and manage risk

Respect

- Treat every person with kindness and humility
- Value and recognize every individual for their unique skills, talents and contributions
- Stay present in the moment and actively listen to understand others
- Are courteous, responsive and professional

Accountability

- Take ownership of, and responsibility for, actions, risks, and results and use outcomes as learning opportunities
- Make sound decisions from experience, good judgment and collaboration
- Give and seek clear expectations
- Find solutions that contribute to desired results

Continues...

Core Values, continued

Integrity

- Act in all endeavors with an ethical, honest mindset and in a professional manner
- Honor commitments, keep promises and build trust
- Are truthful in all actions and communications

Openness

- Approach every situation with good intentions
- Are receptive to new and diverse ideas
- Listen, cooperate, and share across the organization
- Encourage a trusting environment by being genuine and transparent in actions and communications

Balance

- Support a healthy personal and professional balance
- Maintain focus on long-term goals while meeting short-term needs
- Embrace opportunities for personal and professional development
- Support an environment that is optimistic and enjoyable in which relationships can prosper across our organization and communities

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