



California Secure Choice
Statement of Investment Beliefs Introduction
January 22, 2018

Introduction

Investment beliefs are a newer area of plan governance, and are most widely utilized among defined benefit plans.

There are several reasons why investment beliefs are a relatively new addition to the list of controlling policy documents for any retirement savings plan, but increasing complexity and enhanced decision making are primary reasons, along with a desire by Boards to articulate their consensus views to their stakeholders. It is worth noting that while most of the industry conversation on the topic of Investment Beliefs has been focused on Pension Plans (Defined Benefit plans), although this is evolving to allow for other retirement-type vehicles such as defined contribution vehicles such as CA Secure Choice.

Investment Beliefs are often included in the Appendix to an Investment Policy Statement (“IPS”), or within the preamble of the IPS.

Rationale for Adopting Investment Beliefs

- **Industry Best Practice Oversight:** They enable the Board, in both its current and future form, to better understand why the plan is structured the way it is.
- **Analytical Consistency:** A practical framework that ensures consistency in how investment ideas, strategies, and products are analyzed and vetted.
- **Decision-making Consistency:** They lead to enhanced consistency and clarity on how final investment decisions are made.
- **Communicating with the Community at Large:** They provide current and future participants insight into the Board's philosophy, framework, and process for selecting investments.

Best Practices for the Development of Investment Beliefs

- No exact route to take when formulating.
- Should be developed in alignment with the mission, vision, and purpose of the organization.
- Should be debated amongst Board Members and other stakeholders.
- Should be broad enough to allow flexibility but specific enough to facilitate effective decision making.
- Should be clearly communicated to all stakeholders.
- Should be revisited regularly.

Industry Definitions of Investment Beliefs

At Meketa Investment Group, we use the term “investment beliefs” in the traditional sense, and recognize that stated beliefs make *implicit* assumptions *explicit*.

Industry experts have provided the following definitions:

“Articulate the fundamental perceptions of trustees and their institutions on the nature of financial markets and the role they play within these markets.”

Initiative for Responsible Investment, Harvard University

“A clear view on how they perceive the way capital markets function, and how their organization can add value with these views to their clients.”

Kees Koedijk & Alfred Slager in Investment Beliefs: The Importance of Focus for an Institutional Investor (paper)

“Conjectures and working assumptions about the investment world, including the economy, the financial system, social environment, and other risks that inform the underlying investment decision-making.”

Pensions & Investments/Oxford University Study

Investment Belief Statements- Recommended Statement Topics

Suggested statements address:

- Impact of Savings
- Impact of Markets
- Breadth of Participant Options
- Active vs. Passive Investments
- Investment Costs
- Investment Education
- Plan Design
- Responsible Investments/ESG

Sample Investment Belief Statements

Investment Belief Statements for Consideration

The core belief statements below can range from one end of the spectrum to the other. We have organized these statements by providing sample beliefs for discussion, and included some context from Meketa Investment Group.

Belief Area	Sample Statement 1	Sample Statement 2	Sample Statement 3	Meketa Comments
Impact of Savings	California residents should have access to a simple way to save for retirement through investments.	Providing a vehicle for saving and investing for retirement is critical to the future financial security of retirees.	We believe that saving money is more important than investing it.	Setting aside money today, in a diversified investment portfolio, should help the average investor prepare for retirement. The Program may need to consider that the “saving” aspect is more dominant than the “investment” aspect, at least in the early days.
Impact of Markets	Markets are inherently risky; therefore participants should invest in capital preservation strategies only.	Given the inherent risk in markets, a prudent investor may consider both a low- risk savings options and higher risk investment options for their retirement portfolio.	While markets are inherently risky, they have the potential to offer a higher rate of return than a capital preservation strategy. Therefore, options should be limited to those that offer the greatest return potential.	There should always be at least one “safe haven” investment option for participants. But, ultimately market outcomes are out of the Board’s control- what you can control is how you structure the plan.
Breadth of Participant Options	Participants should be offered a wide variety of investment options. Each participant is unique in their preferences.	We believe simplicity is the key to success for the participants of a first time retirement savings vehicle, and the investment lineup should reflect that goal.	Participants should be offered one single option in a “one size fits all” vehicle.	It is difficult to balance the conflicting needs of simplicity and optionality. However, in the early days at least, a very simple program lineup may best meet the needs of new investors.
Active vs. Passive Investments	Passive management should be the primary tool offered to participants.	Passive investments should be the primary investment tool for our participants. As the Program matures, there may be opportunities for actively managed funds to play a secondary role.	Active management adds value, and primarily active investment options should be offered to participants.	There are some asset classes that warrant active management but for new investors, a simplistic approach may be most effective.

Investment Belief Statements for Consideration (continued)

Belief Area	Sample Statement 1	Sample Statement 2	Sample Statement 3	Meketa Comments
Investment Costs	Low cost should be the first and only consideration when selecting investment options.	Costs directly affect retirement outcomes, and keeping them reasonable should be integral to our program structure.	Costs should be a secondary consideration after performance results.	In a participant directed program for first time savers, passive options may be the most prudent and cost-effective solution.
Plan Design	We believe a well-structured plan design can help control for behavior biases and mitigate risks.	Plan Design, such as auto enrollment, will influence the success of savers and its structure will be a primary decision for the Board.	Plan Design does not influence participant behavior and outcomes over time.	Meketa believes that while the average investor may be entirely committed to saving for retirement, certain behaviors such as inertia, or limited investor knowledge, can impede efforts. A thoughtful plan design can mitigate these obstacles.
Investment Education	Investment education is critical to the success of the Plan.	Participants should be offered access to high quality investment education and resources.	Investment education is not critical to the success of the Plan.	Meketa believes the more investment education that can be provided, via website, in person, or by phone, the more comfortable the average saver will be.
Responsible Investments/ESG	It is imperative that ESG be considered, and Participants should have the ability to select from a variety of responsible investment strategies for their retirement.	Socially responsible investing is a broad term, and we believe the Board should spend time being educated about options for investment and its viability in the offerings at this time.	Participants should only be offered investment options that are focused exclusively on risk and return, without consideration for ESG factors.	Not widely used in DC plans due to lack of “clear” definition in industry and participant knowledge, but important to discuss.