CalPERS

Investment Committee
Agenda Item 8a

March 15, 2021

Item Name: Asset Liability Management: Risk Concepts and Examples

Program: Trust Level Portfolio Management & Implementation

Item Type: Information

Executive Summary

This agenda item contributes to the CalPERS 2021 Asset Liability Management program and provides an overview of key risk concepts, and examples. The item illustrates how discount rate, expected returns and realized returns influence the funding ratio and contribution rate. The important influence of uncertainty is illustrated with an example where the expected return assumption differs from actual (but unknowable) expected returns.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. It provides information regarding the Asset Liability Management program and supports the CalPERS Investment Committee in their oversight capacity.

Investment Beliefs

This agenda item supports the following CalPERS' Investment Beliefs:

- Belief 2: A long term investment horizon is a responsibility and an advantage.
- Belief 6: Strategic asset allocation is the dominant determinant of portfolio risk and return.
- Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it.
- Belief 8: Costs matter and need to be effectively managed.
- Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Background

Aligned with the Asset Liability Management Policy, this item presents a review of key Asset Liability Management concepts as they relate to the subject of risk and illustrates the variability and relationship of the associated elements through three components: liabilities, contributions, and returns.

Analysis

Not Applicable.

Attachments

Attachment 1 – Asset Liability Management: Risk Concepts and Examples

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