



Investment Committee

Agenda Item 6f

June 20, 2023

Item Name: Introduction to Risk Budgeting Strategy

Program: Total Fund Portfolio Management

Item Type: Information

Executive Summary

This item introduces the concept of Active Risk Budgeting, a staff-level activity to manage active risk across the PERF from a total portfolio perspective, with the goal of generating value add commensurate to the risks being taken. The presentation discusses the theoretical foundation of investment return drivers and how that relates to portfolio construction before addressing the practical governance and management aspects of Risk Budgeting.

Strategic Plan

This agenda item supports the CalPERS 2022-2027 Strategic Plan goal to strengthen the long term pension sustainability by supporting the Committee in its oversight role for CalPERS' investment strategy.

Investment Beliefs

This agenda item supports the following CalPERS Investment Beliefs:

- Investment belief #7: "CalPERS will take risk only where we have a strong belief we will be rewarded for it"
- Investment belief #9: "Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error"

Analysis

Not applicable

Budget and Fiscal Impacts

Not applicable

Benefits and Risks

Not applicable

Attachments

Attachment 1 – Active Risk Budgeting

Michael Krimm
Investment Director
Total Fund Portfolio Management

James Sterling Gunn
Managing Investment Director
Total Fund Portfolio Management

Dan Bienvenue
Deputy Chief Investment Officer
Capital Markets

Nicole Musicco
Chief Investment Officer