



Investment Committee

Agenda Item 5a

June 13, 2022

Item Name: Asset Liability Management: Affiliate Funds - Supplemental Income Plans

Program: Trust Level Portfolio Management and Implementation

Item Type: Action

Recommendation

Adopt the recommended strategic asset allocation for the Supplemental Income Plans' (SIP) Target Date Fund Glide Path.

Executive Summary

This agenda item presents an evaluation and recommendation to update the SIP Target Date Fund Glide Path asset allocation, based on participant demographic data and capital market assumptions. The SIP includes the Public Employees' Deferred Compensation Fund and the Supplemental Contributions Program Fund. The glide path has been evaluated in collaboration with CalPERS Investment, Actuarial, and Financial Office teams and in partnership with RVK, an investment consultant with expertise in defined contribution glide path analysis and design. The review objectives are to minimize retirement income shortfall, maximize income replacement in retirement, and minimize costs. The conclusions below guided the glide path construction:

- The current glide path closely matches the intended objectives.
- Most participant outcomes are incrementally improved with the updated glide path.
- No asset class or benchmark changes are required at this time.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the Affiliate Funds. The periodic review of the glide path asset allocation is intended to improve the retirement outcomes for SIP plan participants.

Investment Beliefs

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 2: A long term investment horizon is a responsibility and an advantage;
- 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; and
- Investment Belief 8: Costs matter and need to be effectively managed.

Background

Governed by CalPERS Asset Liability Management (ALM) Policy, the ALM process is a collaborative effort between the Actuarial Office (ACTO), the Financial Office (FINO), and the Investment Office (INVO) and currently occurs every four years with a mid-point review. This ALM cycle is the primary process by which investment portfolios and actuarial assumptions evolve to reflect the market opportunity set and demographic assumptions and experience.

The review and updating of the SIP Target Date Fund Glide Path is the culmination of a significant body of work undertaken by the ALM team during the past year and is a progression in the ALM process from the following presentations made earlier to the Investment Committee:

- February 2021 – Asset Liability Management: Timeline, Concepts, and Framework
- March 2021 - Asset Liability Management: Risk Concepts and Examples
- June 2021 – Current Market Environment
- July 2021- Capital Market Assumption Education, Capital Market Assumptions: Survey & Methodology, and Creating and Assessing Candidate Portfolios
- November 2021 – Asset Liability Management: Adoption of Affiliate Funds' Capital Market Assumptions
- March 2022 – Asset Liability Management: Affiliate Funds – Health, Defined Benefit, and Pre-Funding Trusts.

This agenda item, Asset Liability Management: Affiliate Funds – Supplemental Income Plans, is intended to provide comprehensive information and analysis to support the Investment Committee in reviewing the SIP Target Date Fund Glide Path recommended for adoption.

Analysis

Not applicable.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of reviewing and updating the SIP Glide Path are:

1. Reviewing the current glide path provides support for adopting a refreshed glide path with an appropriate risk/return profile, based on current participant demographics and capital market assumptions.
2. The updated glide path may improve participant retirement outcomes.

The risks of reviewing and updating the glide path include:

1. Reviewing the current and updated glide path requires evaluating and balancing a variety of assumptions and risks.
2. Updating the glide path requires reliance on demographic and investment assumptions, which are uncertain.
3. Improvements to retirement outcomes may not be realized.

Attachments

Attachment 1 – Asset Liability Management: Affiliate Funds - Supplemental Income Plans

Attachment 2 – Wilshire Opinion Letter

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