

Insight - Conversations with CalPERS Leaders

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Insight Host: Bob Burton

Guest: Joe Dear, CalPERS CIO

Bob Burton:

Hello, and welcome to Insight. You'll gain some Insight here about issues of the day, from conversations with CalPERS leaders. I'm Bob Burton, it's my privilege to serve you as your host. How do you confidently navigate a safe, yet productive path through an investment landscape created by unprecedented market conditions? For large pension fund like CalPERS, that is a multibillion dollar question, and it's vital to have an experienced and confident hand on the steering wheel. Here at CalPERS, that person in the driver seat is Joe Dear, the Chief Investment Officer, who came aboard in March after a successful performance as head of the Washington State Investment Board. Joe, welcome to Insight. You've taken over the nation's largest pension portfolio at a very challenging time.

Joe Dear:

It's interesting to be here to say the least. The two things that struck me about coming into CalPERS. one is the quality of the organization, the people, the commitment, the legacy. And the second is enormity of the portfolio. You think you understand how big, big is but when your in a meeting and you ask a question, well that worked in Limpia, but scale makes it much more difficult here. So those adjustments are one of the things that made this coming into CalPERS so interesting for me.

Bob Burton:

So how do you move the fund forward in this environment?

Joe Dear:

Well I think it's really important to remember what we're about and what we're about is the retirement security of our one-point-six million active retired beneficiaries. That's who we are here to serve. We have the luxury if you want to call it that of having a long time horizon for our investments. As difficult, as challenging, as tough as this investment environment has been and the impact that our portfolio suffered as the consequence of the crash in 2008, we can take comfort from knowing that this long horizon allows us to think long term and to hold on through difficult periods like the one we've experienced.

Bob Burton:

You've made some recent adjustments in asset allocation, in laymen's terms, why is that important?

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Joe Dear:

Well, asset allocation is where you're going to put your money, how much in stocks, how much in bonds, how much real estate, how much private equity, and then constructing a portfolio mix it gets you the optimal trade off between return and risk. And we think about risk in these terms in the sense of volatility, how much portfolio volatility. The board thought after the events of 2008 that it only made sense to examine the assumptions we made that underlie the strategic asset allocation and to make adjustments if necessary. The decision the board made in June was to make relatively minor tweaks in the portfolio. We upped the allocation to aim - alternative investment management - private equity. We reduced slightly the allocation to fixed income, maintain the allocation to inflation link to assets and to real estate, and then created a cash allocation because of the experience we had with liquidity needs in late 2008. This is not a huge change and I think in that is a real message. That after the events of 2008 an extraordinary reduction in values for equities, we looked at the long term return assumption and basically said we don't see a significant reason to change. That is we didn't reduce the expected returns significantly, some minor adjustments. That's a very powerful statement about our belief in the future.

Bob Burton:

What other tools do you have available to help position the fund for recovery?

Joe Dear:

Well, we are always looking for managers with skill and particularly those who have an idea about how to take advantage of current opportunities. We have over twenty one billion dollars invested in private equity today and another twenty billion dollars of committed, uncalled capital: that is capital that is available to managers we've always identified who, if they spot an opportunity, can call that capital and put it to work. I feel pretty good about the opportunities that are out there today, true also in real estate.

Bob Burton:

The investment community at large, is it actually getting some traction in gear estimation at this point in trying to recover?

Joe Dear:

Well, investment community at large, the drivers of our current situation, the amount of debt that is in this system, and the need to reduce that debt, to de-leverage the system. That will have a long term implication as consumers, and financial services systems, think investments banks and regular banks, reduce the amount of debt in their portfolios. That's going to make the earning environment very difficult. At the same time, we need to see stabilization in the housing market. This all started with housing, when we see stabilization in housing, then we will know were on the upturn. Right now, things are better, but things are very fragile.

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Bob Burton:

Well, are you seeing any significant change at the national level that would indicate that things are moving forward?

Joe Dear:

Yes, we're seeing progress in terms of reform of financial service regulation, with the administration announcement, and work that CalPERS is involved in is going to be announced shortly to support the reform of financial services regulation. And the stress test on the big banks, the nineteen big banks, well although the stress test criticizes not being stressful enough, they did appear to create a sense of confidence in those banks that allowed them to raise a lot of equity in the past month. That's a very hopeful and encouraging sign.

Bob Burton:

A moment on the personal side, if you will, tell us a little bit about Joe Dear, gives us a little insight there.

Joe Dear:

Well, everyone is going to turn off right now. You know I like the outdoors, that's one of the reasons why it's fun to be in California. And Bob, this is going to sound terrible, one of my favorite activities is reading and thinking. I love reading about politics, economics, investment history...

Bob Burton:

I think everyone ought to be delighted about that.

Joe Dear:

And thinking how does that affect what we do. How does it apply to our portfolio. And I can be quiet happy in a nice chair with a book and some music playing.

Bob Burton:

Excellent. Any last minute thoughts you would like to share with our viewers?

Joe Dear:

The main thing I want to say to CalPERS folks who are listening, is how much I appreciate and how grateful I am for the warm welcome I've received. And I'm extremely optimistic about our ability to accomplish great things for our beneficiaries.

Bob Burton:

So in summary, it sounds like a proactive agenda with managed strategies.

Joe Dear:

There is work to do.

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Bob Burton:

There is work to do. Joe, everybody out there I know is rooting for you and we certainly wish you good luck in the days ahead and we want to thank you for being here, and we look forward in having you back soon for an update.

Joe Dear:

Thanks Bob.

Bob Burton:

Alright. You've been watching Insight Conversations with CalPERS Leaders. Today's guest was CalPERS Chief Investment Officer Joe Dear. Please join us again soon, for more Insight.