Investment Committee

California Public Employees' Retirement System

Consent

Agenda Item 3c

May 14, 2012

ITEM NAME: Long-Term Care Fund Asset Allocation Policy Revision

PROGRAM: Affiliate Investment Programs

ITEM TYPE: Policy & Delegation – Consent Action

RECOMMENDATION

Approve the revised Statement of Investment Policy for the Long-Term Care (LTC) Fund to reflect changes in asset allocation approved by the Investment Committee on April 16, 2012. See Attachment 1, LTC Policy and Attachment 2, Wilshire Associates opinion letter.

EXECUTIVE SUMMARY

The Investment Committee considered and agreed to move the LTC asset allocation toward a more conservative portfolio that has a lower allocation to equities and a higher allocation to fixed income in line with insurance industry standards. This agenda item incorporates that decision into the investment policy for the LTC Fund and makes minor revisions to the Policy to improve clarity.

BACKGROUND

On April 16, 2012, Wilshire Associates, United Health Care Actuarial Services and CalPERS staff presented six asset allocation alternatives to the Investment Committee for consideration with various equity allocations and timelines for implementation. Alternatives considered included a one-time move to the new policy asset allocation versus moving over seven years. On April 15, 2012, the Investment Committee approved a strategy reducing equities to 15% with a one-time move to the new asset allocation.

Staff anticipates transitioning to the new policy allocation by October 1, 2012, allowing time for the appointment of an external manager. The following table indicates the approved allocations for each asset class:

Long-Term Care Fund	
Asset Class	**Policy Allocation**
U.S. Inflation-Linked Bonds	6%
U.S. Nominal Bonds	61%

Global Equity	15%
Global Public Real Estate	12%
Commodities	6%

Approved by the Investment Committee April 16, 2012

BENEFITS/RISKS

This revised policy documents the asset allocation approved by the Investment Committee on April 16, 2012 and will result in a more conservative investment portfolio for the LTC Fund which is prudent given the nature of the LTC Fund's liabilities.

ATTACHMENTS

Attachment 1 – Statement of Investment Policy for the Long-Term Care Fund
Attachment 2 – Wilshire Associates Letter

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