



Agenda Item 9b

November 13, 2012

ITEM NAME: Affiliate Investment Programs Annual Review

PROGRAM: Affiliate Investment Programs

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

The Affiliate Investment Programs Annual Review presents the performance of the affiliate funds and provides an update on key program initiatives.

STRATEGIC PLAN

The agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. The reports on investment performance and initiatives within this agenda item facilitate the monitoring and oversight of program performance by the Investment Committee.

BACKGROUND

The last Affiliate Investment Programs update was on February 13, 2012. The agenda item was originally scheduled for October 15, 2012, however, due to time constraints; the presentation was rescheduled for November 13, 2012. The performance data in Attachment 1 was revised to reflect quarter ending September 30, 2012, to ensure current performance. Below is an overview of the affiliate fund plan types and purposes.

Supplemental Income Plans (SIP)

- 457 Plan – Tax-deferred employee savings
- Peace Officers and Firefighters' (POFF) Plan – Employer contributions for tax-deferred employee savings
- Supplemental Contributions Plan (SCP) – After-tax employee savings with earnings tax deferred

Defined Benefit Plans

- Legislators' Retirement System (LRS) – Retirement pension plan
- Judges' Retirement System (JRS) II – Retirement pension plan

Health-Related Plans

- California Employers' Retirement Benefit Trust (CERBT) – Employer savings for other post-employment benefits
- Long-Term Care Program (LTC) – Long-term care insurance

- Health Care Reserves (HCR) – Reserves for CalPERS self-funded health plans

Loan Programs

- Member Home Loan Program (MHLP) – Home loans (Program suspended to new loans as of December 2010)

ANALYSIS

The following sections provide highlights of key initiatives and accomplishments for the various affiliate funds:

Supplemental Income Plans

Accomplishments

- On July 2, 2012, SIP Program administration was moved to the CalPERS Customer Services & Support branch to better align employer and member customer service. The investment management remains in the Investment Office.

Initiatives

- Staff began a strategic review of the SIP Program design and fund lineup in early 2012. RV Kuhns surveyed employers and members about their supplemental savings preferences as well as reviewed competitors. RV Kuhns summarized plan strengths and weaknesses. From this review, staff is implementing fund lineup changes.

Defined Benefit and Health-Related Plans

Accomplishments

- CERBT investment strategy 1 was introduced in June 2007 for employer savings. In October 2011 and January 2012, respectively, CERBT investment strategies 2 and 3 were launched to provide employer additional investment options to better match their liabilities and risk tolerances.
- Staff selected State Street Global Advisors (SSgA) through a Request for Proposal process to provide index fund management services for certain LTC, CERBT, HCR and SIP assets.

Initiatives

- The assets will be transitioned to SSgA beginning in December 2012.
- The LTC Fund will be moved to its new policy allocation, as approved by the Investment Committee in May 2012, starting November 2012.

Member Home Loan Program

Accomplishments

- Due to new loan suspensions in 2010 and loans continuing to be paid in full, CalPERS assets in this program continues to decline.

Performance Overview – Quarter ending September 30, 2012

The LTC and CERBT 1 & 2 funds underperformed their benchmarks for the 1-year period, while JRS II and LRS outperformed their benchmark. For the 3-year period, LRS, JRS II, LTC, and CERBT 1 funds outperformed their benchmark, with the primary performance driven by domestic fixed income managed by CalPERS staff.

The SIP funds experienced underperformance in three of the five active equity external managers for both the 1-year and 3-year periods, affecting both the core funds and the asset allocation (Target Retirement Date and Risk-based) funds. The other core funds performed close to their benchmarks, or outperformed their benchmarks, similar to the domestic fixed income funds.

ATTACHMENTS

Attachment 1 – Affiliate Investment Programs Annual Review

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