

# Supplemental Income Plans Investment Lineup

May 13, 2013

## Supplemental Income Plan (SIP) Investment Lineup & Analysis

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# Supplemental Income Plans (SIP) Overview

Plan/ Program	Purpose	Assets (millions as of 3/31/13)	Number of Participants (as of 3/31/13)	Number of Employers (as of 3/31/13)	Plan Growth Trend
457 Plan	Tax deferred employee savings	\$ 1,104.5	26,514	732	↑
Peace Officers and Firefighters (POFF) Plan	Employer contributions for tax deferred employee savings	\$ 495.3	36,357	1	↓*
Supplemental Contribution Plan (SCP)	After-tax employee savings with earnings tax deferred	\$ 19.7	558	1	↓**
Placer County 401 (k) Plan	Tax deferred employee savings	\$ 25.3	921	1	→

\* Plan termination likely in 2014

\*\*Research being conducted by the Center for Innovation

## SIP 457 Plan Strategic Review – Summary

RV Kuhns surveyed employers and participants about their supplemental savings preferences, while also reviewing the competitive environment for supplemental savings plans and investment offerings.

### Drafted SIP Investment Fund Lineup Guiding Principles

RV Kuhns reviewed and recommended an investment fund lineup and refresh the asset allocations for the Target Retirement Date and POFF funds.

### Collaborative effort

- Customer Support Services
- Investment Office representatives: equity, fixed income, operations, and compliance

## SIP Investment Fund Lineup Guiding Principles

- An appropriate range of investment options intended to avoid an overly complex fund lineup that might confuse the average participant
- A cash equivalent option is important
- Custom Target Date Funds (TDF) should be in the SIP fund lineup
- Self-managed account (SMA) brokerage window provides choices for participants looking for choice beyond the SIP fund lineup
- Costs matter to participants
- Passively managed funds are less costly and generally preferred by participants
- Investment management could be internal or external
  - Internal capabilities
  - Costs
  - Operational risks

## SIP 457 Plan Investment Lineup – Moving Forward

RVK conducted an investment fund lineup analysis

Evaluated State Street Global Advisors (SSgA) index funds

- Investment Office Roadmap Strategic Priority to reduce operational risks
- Selected in 2012 through Request for Proposal solicitation process
- Extensive depth and expertise in defined contribution fund management
- Utilized for other Affiliate Funds

Recommended appropriate SIP Core investment alternatives

Updated and analyzed participant demographic data for Target Retirement Date funds

## Simplified Investment Fund Lineup

Current Lineup		New Lineup	
Fund	Fund Manager	Fund	Fund Manager
Active: Target Date	CalPERS and External	Passive: Target Date Funds	CalPERS and SSgA
Active: Risk-Based	CalPERS and External		
Cash: Short-Term Investment	SSgA	Cash: Short-Term Investment	SSgA
Active: U.S. Equity Small-Mid Cap (SMID) Growth	The Boston Company	Passive: U.S. Equity Index	SSgA
Active: U.S. Equity SMID Value	The Boston Company		
Passive: U.S. Equity SMID Index	CalPERS		
Passive: U.S. Equity Large Cap Index	CalPERS		
Active: International Equity	Pyramis Global Advisors	Passive: International Equity Index	SSgA
Passive: International Equity	CalPERS		
Active: Short-Term Bond	PIMCO	Passive: Short-Term Bond	SSgA
Active: Intermediate Bond	CalPERS	Passive: Intermediate Term Bond	SSgA
Active: Treasury Inflation Protected Securities (TIPS)	CalPERS	Passive: Real Assets	SSgA
Self-Managed Account (SMA) Brokerage Window	SSgA	Self-Managed Account (SMA) Brokerage Window	SSgA

## Current and New Investment Management Fees

Current Lineup – investment management fees in basis points (bps)		New Lineup – investment management fees in basis points (bps) <sup>1</sup>	
Fund/ Manager	bps	Fund/Manager	bps
Active: Target Date/CalPERS and External	52***	Passive: Target Date Funds/CalPERS and SSgA	6***
Active: Risk-Based/CalPERS and External	52***		
Cash: Short-Term Investment /SSgA	7	Cash: Short-Term Investment/SSgA	7
Active: U.S. Equity Small-Mid Cap (SMID) Growth/ The Boston Company	75	Passive: U.S. Equity Index/SSgA	3
Active: U.S. Equity SMID Value/ The Boston Company	75		
Passive: U.S. Equity SMID Index/CalPERS	*		
Passive: U.S. Equity Large Cap Index/CalPERS	*		
Active: International Equity/Pyramis Global Advisors	52**	Passive: International Equity Index/SSgA	8
Passive: International Equity/CalPERS	*		
Active: Short-Term Bond/PIMCO	15	Passive: Short-Term Bond/SSgA	7
Active: Intermediate Bond/CalPERS	*	Passive: Intermediate Term Bond/SSgA	2
Active: Treasury Inflation Protected Securities (TIPS)/CalPERS	*	Passive: Real Assets/SSgA	17
Self-Managed Account (SWA) Brokerage Window/SSgA	N/A	Self-Managed Account (SWA) Broker Account Window/SSgA	N/A

# New Investment Fund Lineup

**Offers a diversified range of investment options while avoiding an overly complex fund lineup**

- 24 to 16 funds
- Passive only
- Broad market exposures

**Reduces operational risks**

- Leveraged SSgA index fund management
- Transitioned fund oversight and Target Retirement Date Fund management to CalPERS Global Equity
  - Trading platform and expertise
  - Deep team with cross-training support opportunities

**Lowers costs** - average external investment management costs for the Target Retirement Date Funds will be reduced from 52 bps to 6 bps

# Target Retirement Date Fund Analysis

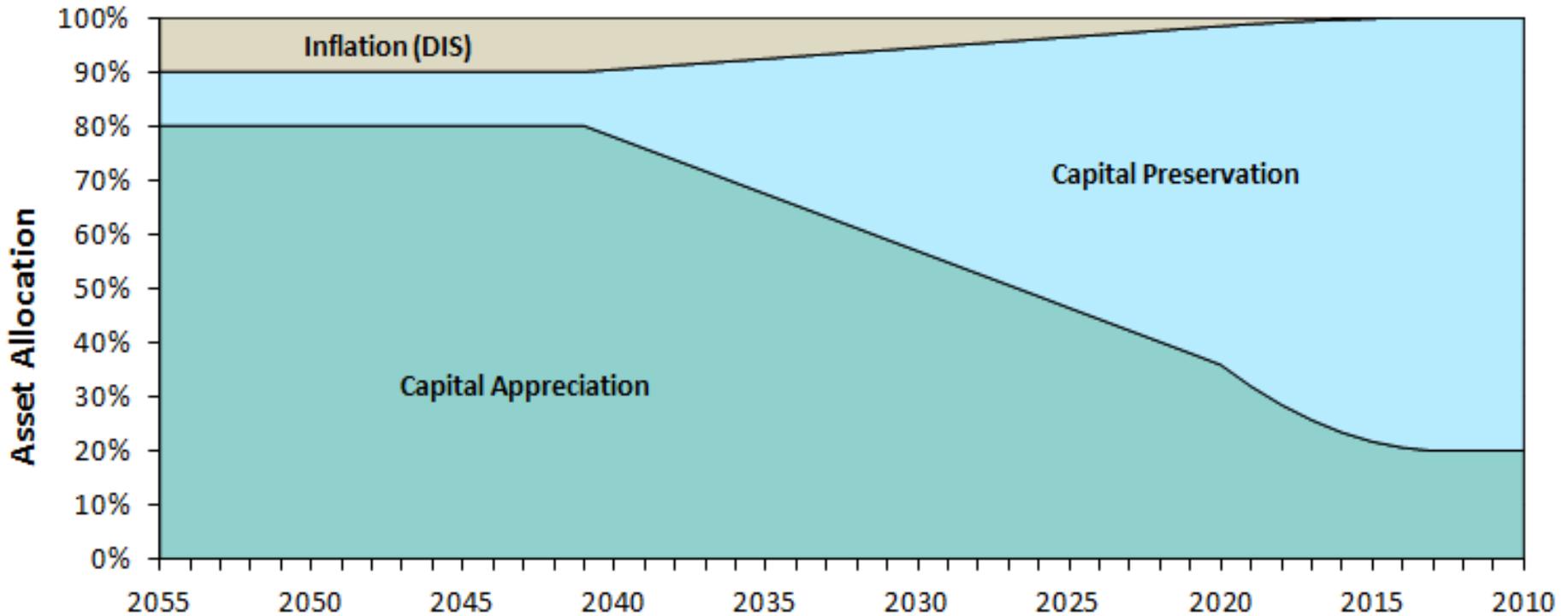
The average SIP participant generally

- Retires around age 60
- Receives approximately 78% of their retirement income from their pension and social security
- Utilizes the SIP as a supplemental savings tool rather than for monthly income replacement
- Takes a complete distribution of their account in the first year after retirement

Glidepath Focus

1. Capital preservation
2. Liquidity at retirement

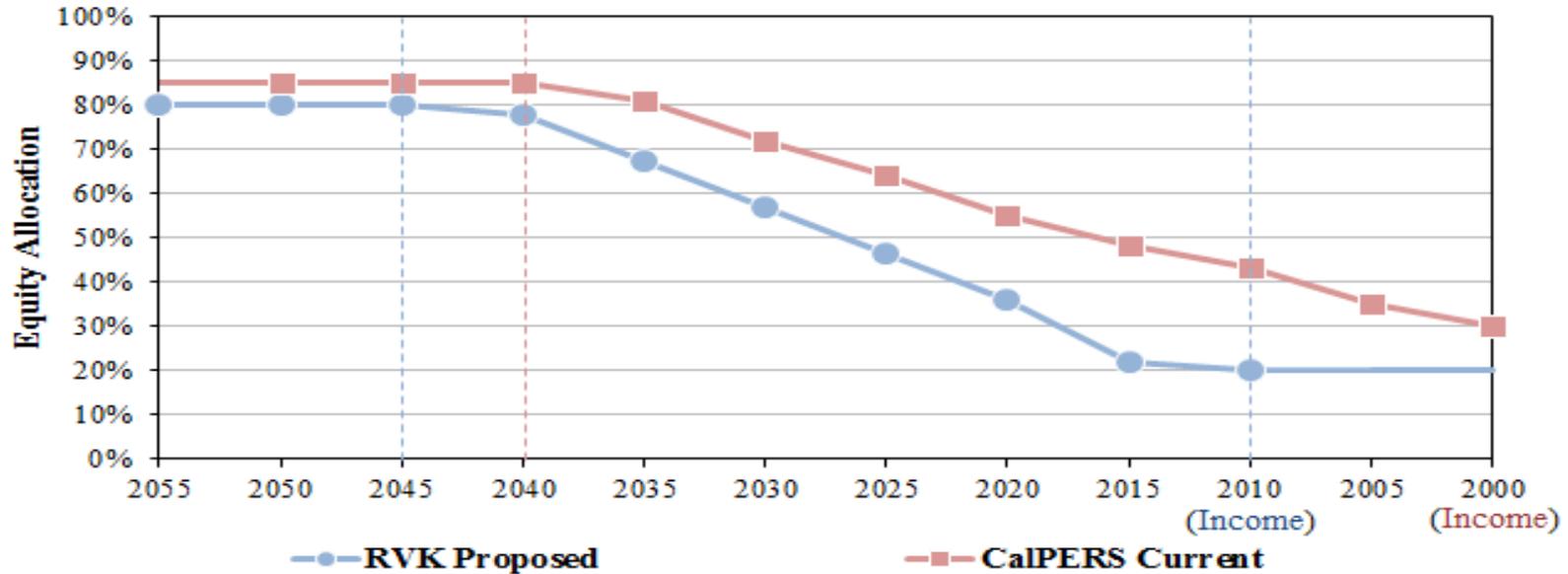
# Thematic Glidepath



Changes from current custom Glidepath

- Added the 2055 and consolidated 2005, 2010 and income funds
- In early years, focus on capital appreciation and protection against inflation
- As retirement draws closer, focus on capital preservation

# Target Retirement Date Glidepath



For all Target Retirement Date (TRD) funds, the RV Kuhns proposed glidepath is generally more conservative with less equity exposure than the current TRD funds

- As proposed, at four years pre-retirement age, equity exposure drops to approximately 20% and remains there during retirement
- For CalPERS current TRD funds, equity exposure at retirement is approximately 43% and drops to 30% post retirement

# The POFF Fund

- Employer only contributions invested in one static asset allocation fund
- Goals: Diversified multi-asset class fund intended to provide both capital appreciation and preservation
- New fund is static 2030 Target Retirement Date fund and has similar risk/return profile as POFF current fund

Asset Class	Current	New
U.S. and International Equity	60%	57%
U.S. Fixed Income	28%	25%
Cash equivalent	--	12%
Real Assets	12%	6%
Expected Return (standard deviation)	6.39%	6.22%
Expected Risk	11.84%	11.39%

# Next Steps

- May 14, 2013 Pension and Health Benefits Committee (PHBC) approval of the investment fund lineup
- Revise and request IC approval in June
  - SIP Policy (Attachment 2)
  - Target Retirement Date and POFF Funds Policy (Attachment 3)
- Plan for fund transition
  - Focus on communications and education to employers and participants about the new investment lineup and fund transition
  - Target date October 2013

# Appendix

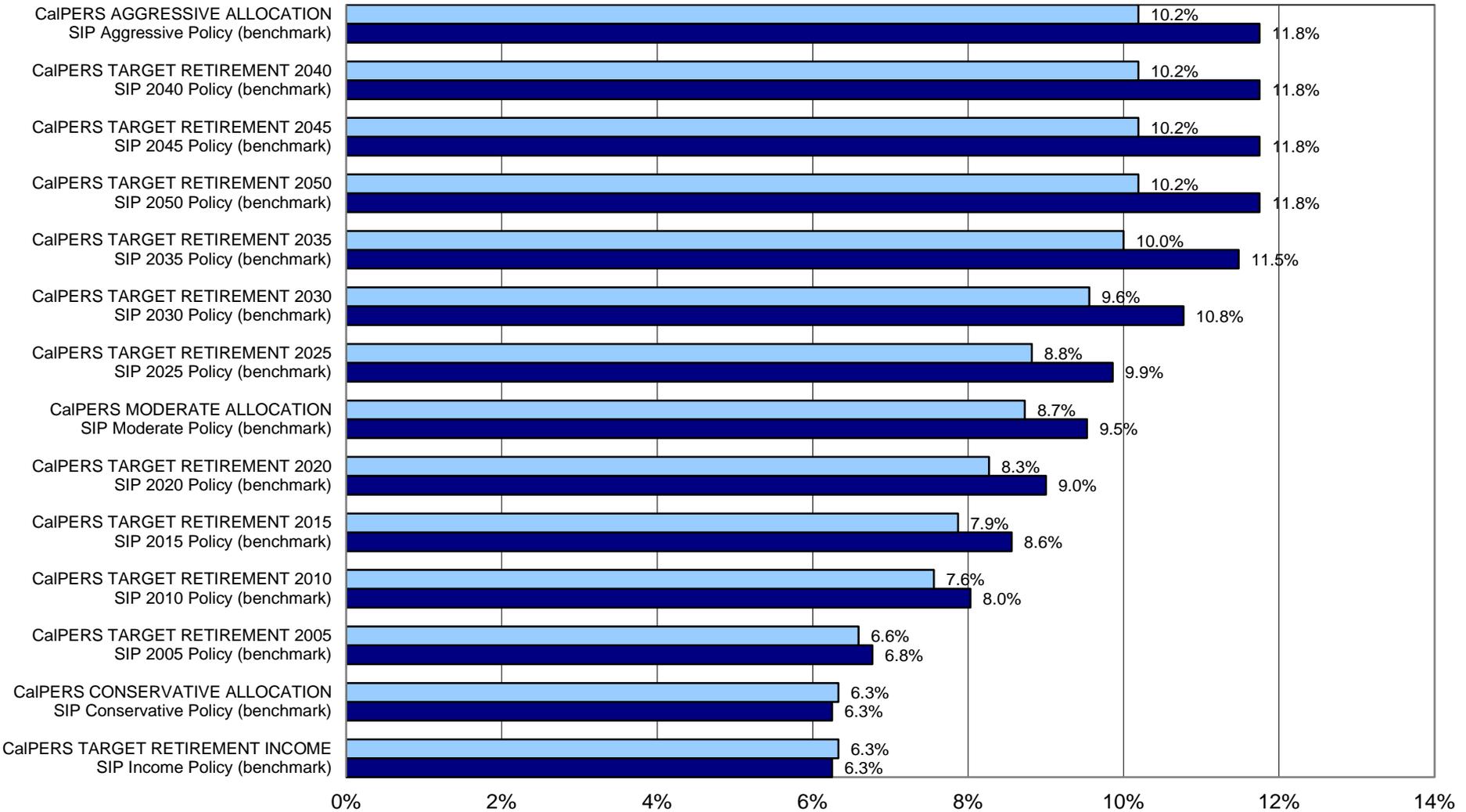
# Fund, participant & asset mapping

Current CalPERS SIP Fund	# of Participants as of 12/31/12	Proposed CalPERS SIP Fund
<b>CASH</b>		
SSgA Short-Term Investment Fund Target Retirement Date Fund	7,938	SSgA Short-Term Investment Fund
<b>FIXED INCOME</b>		
PIMCO Short-Term Bond Target Retirement Date Fund	433	SSgA U.S. Short-Term Government/Credit Bond Index Fund
CalPERS Total Return Bond Target Retirement Date Fund	5,303	SSgA U.S. Bond Index Fund
<b>REAL ASSETS</b>		
CalPERS Treasury Inflation Protected Securities (TIPS) Target Retirement Date Fund	2,078	SSgA U.S. Short-Term Government/Credit Bond Index Fund
CalPERS Commodities Target Retirement Date Fund	N/A	SSgA Real Assets Fund
CalPERS REITS Target Retirement Date Fund	N/A	
<b>DOMESTIC EQUITY</b>		
CalPERS S&P 500 Equity Index Target Retirement Date Fund	11,425	SSgA Russell All Cap Index Fund
The Boston Company Small/Mid Value Target Retirement Date Fund	437	
The Boston Company Small/Mid Growth Target Retirement Date Fund	690	
CalPERS Small/Mid Cap Equity Index	8,603	
<b>INTERNATIONAL EQUITY - Developed</b>		
Pyramis Select International Target Retirement Date Fund	4,724	SSgA Global All Cap Equity ex U.S. Index Fund
CalPERS International Index Target Retirement Date Fund	1,921	SSgA Global All Cap Equity ex U.S. Index Fund
<b>INTERNATIONAL EQUITY - Emerging</b>		
CalPERS Emerging Market Target Retirement Date Fund	N/A	SSgA Global All Cap Equity ex U.S. Index Fund
<b>ASSET ALLOCATION-RISK BASED</b>		
CalPERS Conservative Asset Allocation	2,615	CalPERS Target Retirement Date Fund
CalPERS Moderate Asset Allocation	6,601	
CalPERS Aggressive Asset Allocation	4,522	
<b>ASSET ALLOCATION-AGE BASED</b>		
CalPERS Target Retirement Date	8,165	CalPERS Target Retirement Date Fund
		<b>Core Target Retirement Date Fund</b>

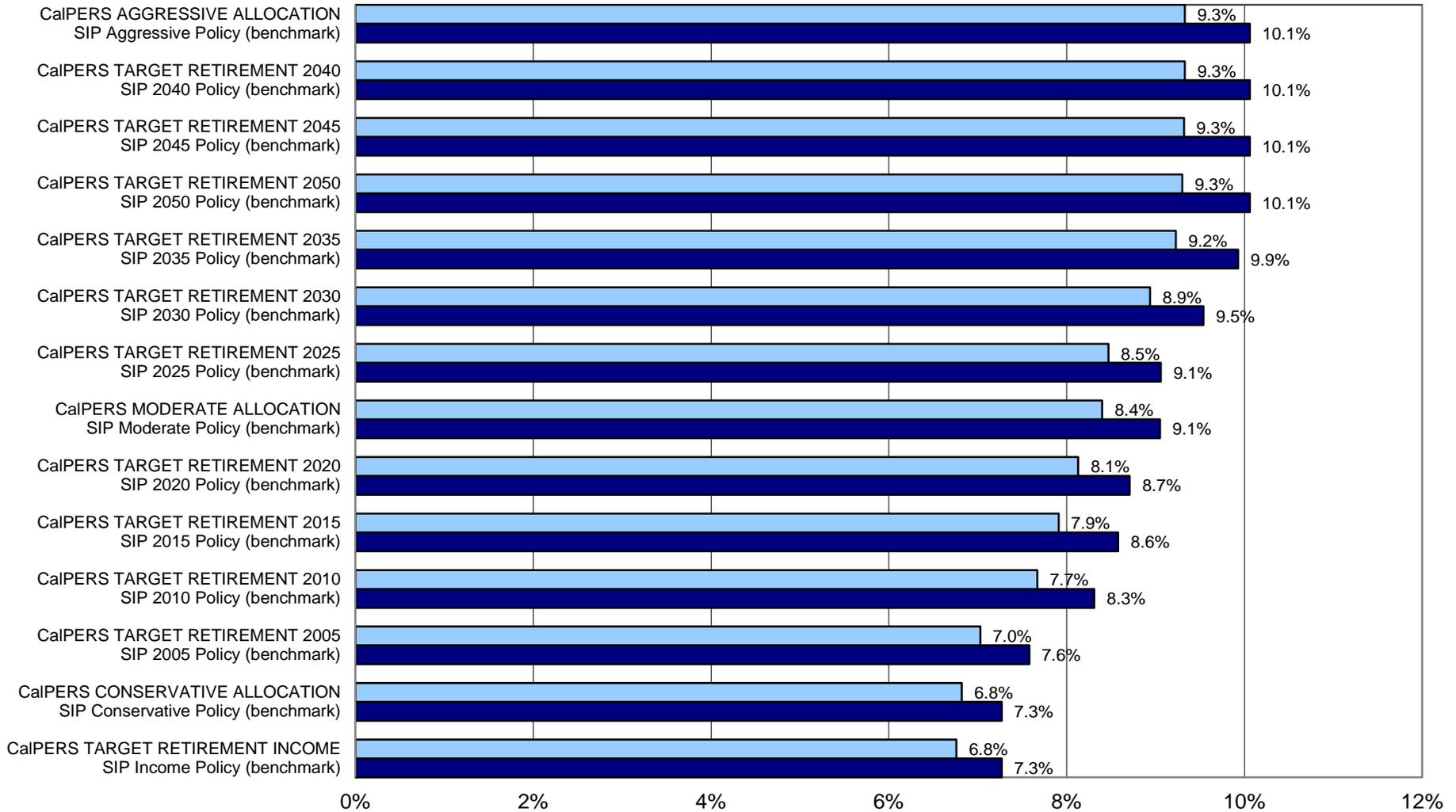
# Notable Participant Fund Usage

- 32% of monthly contributions directed into asset allocation funds
- Target Retirement Date Funds are the fastest growing funds
  - Of new contributions, 64% remained in Target Retirement Date Funds (one year period)
- Introduced Easy Enrollment November 2011
  - Participants enroll with name and contribution amount
  - Participants must call or go online to affirmatively instruct how to invest their contributions otherwise contributions will be invested in the applicable Target Retirement Date Fund
    - Based on birthdate
    - Assuming retiring at age 59 (new Policy will be 60)
- Cash Equivalent – Short-Term Investment Fund (STIF)
  - Formerly Stable Value Fund
  - 7,729 participants in the STIF as of March 31, 2013
  - 2,369 participants with 100% of their savings in STIF
  - Low yielding environment reduces principal, net of fees
  - Focus on additional communications and education during fund transition

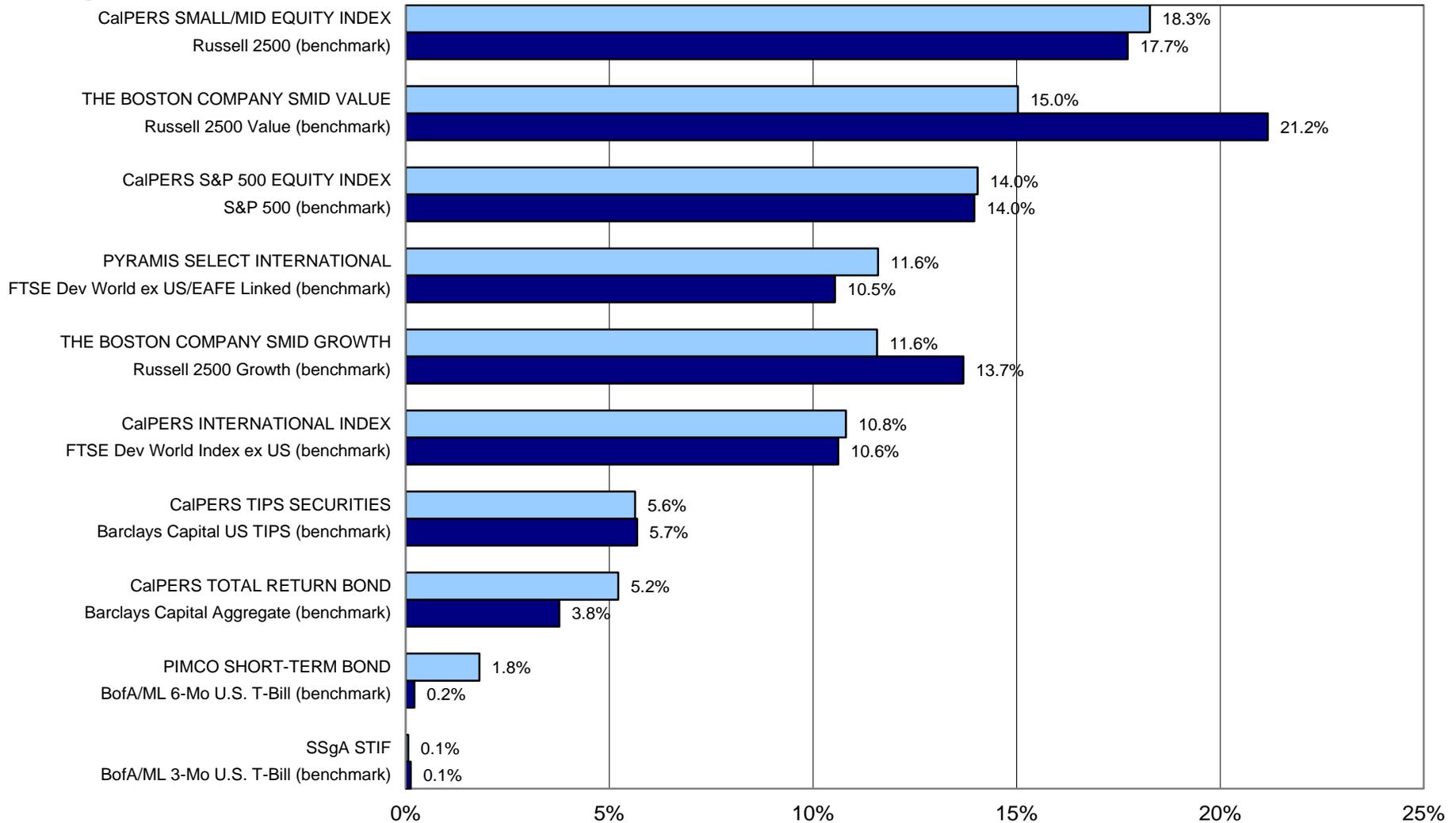
# 1-year\* Investment Performance – SIP Asset Allocation Funds



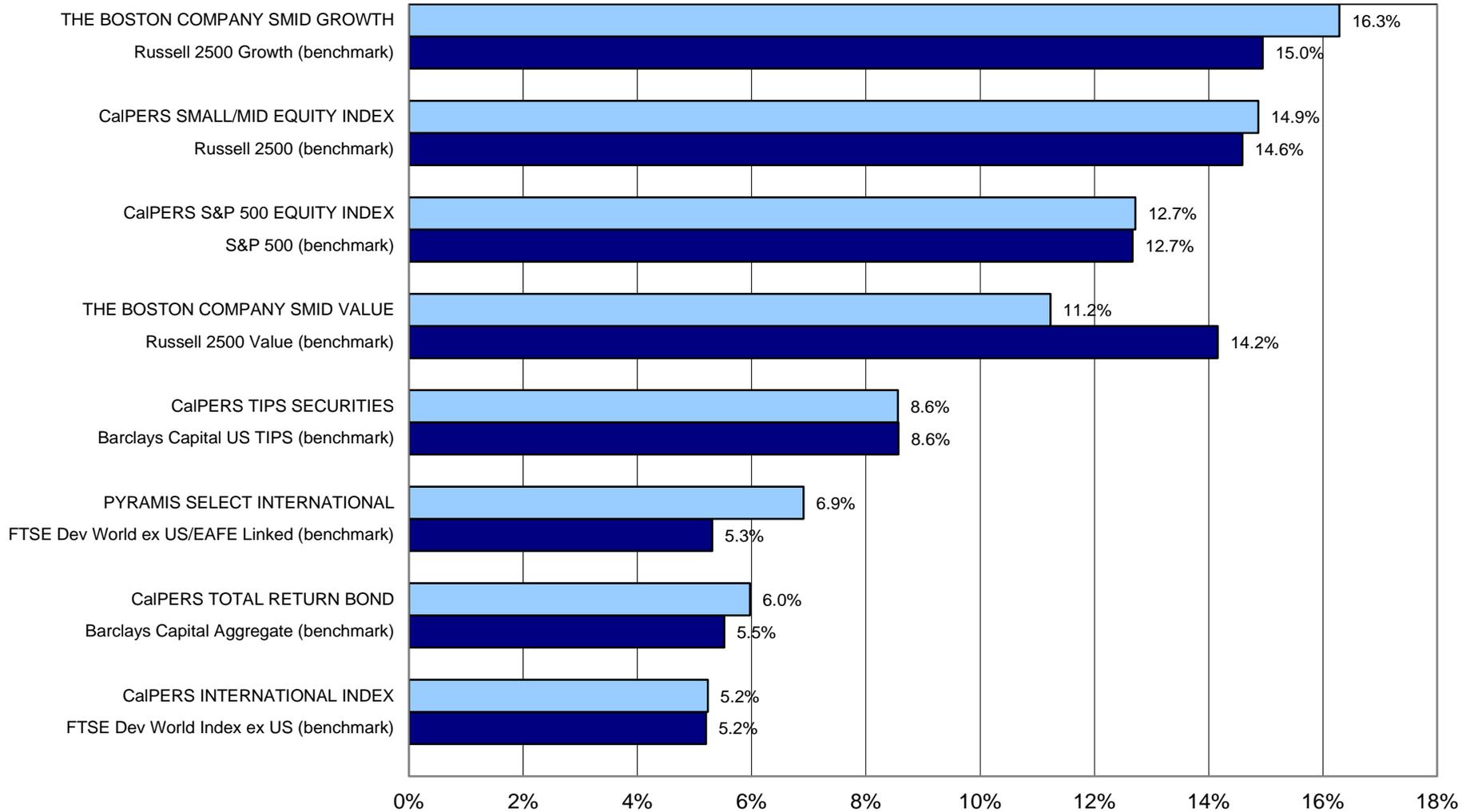
# 3-years\* Investment Performance – SIP Asset Allocation Funds



# 1-year\* Investment Performance – SIP Core Funds



# 3-years\* Investment Performance – SIP Core Funds



\*Annualized gross returns ending 3/31/13

Note: The STIF Fund performance is net of fees charged directly by SSgA. The 3-year performance for the PIMCO Short-Term Bond Fund and STIF Funds will be available on 9/1/2013.