Low Volatility Strategy

Asset Allocation/Risk Management

November 12, 2013

CalPERS | Investment Office
Asset Allocation/Risk Management

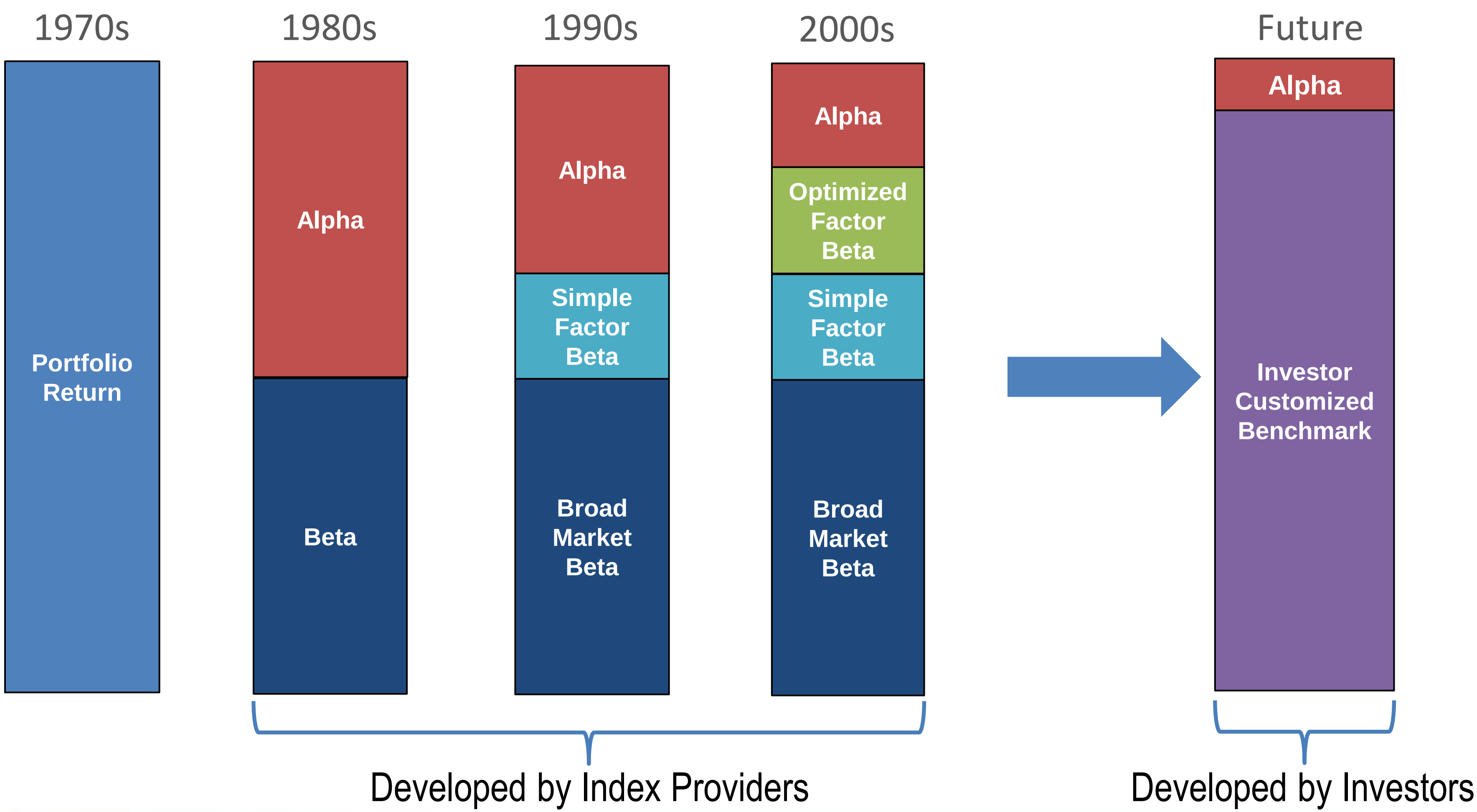
Recommendation

- Do not include the Low Volatility Strategy as a separate asset class in the optimization process
- Allow the Global Equity team to continue developing a Low Volatility capability and other alternative beta strategies
- Develop a framework for implementing changes to the benchmarks

Why?

- Lack of consensus on appropriate process of defining and managing benchmarks
- Complexity of defining and managing benchmarks
- Greater ability and need to better manage benchmarks

Benchmark Evolution in Alpha versus Beta



Benchmarks Should Reflect Investment Beliefs

Investment Belief 1: Liabilities must influence the asset structure

- Traditional benchmarks are not optimized to meet our needs
- Future customized benchmarks should reflect the specific needs of funding CalPERS liabilities
- CalPERS cares about both the income and appreciation components of total return, given our cash flow needs

Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it

- CalPERS will use index tracking strategies where we lack conviction or demonstrable evidence that we can add value through active management

Complexity of Issues

- Strategic vs. Tactical
- Benchmark vs. Active Risk
  - Variety of Opinions
  - Accountability
- Performance Attribution
  - Alignment of Interests

Next Steps

- Create a Plan for Benchmark Specification Framework (Spring 2014)