

Discussion of Benchmarks

December 15, 2014

Policy Benchmarks| Why now?

Why discuss this topic now?

- Identified as a priority for follow up in 2013-14 Asset Liability Management (ALM) process
- Investment Beliefs and Pension Beliefs recently adopted
- Lay a foundation for 2017-18 ALM process

These Engagements| Our Focus

- Benchmark selection should be top-down (vs. bottom-up based on what is available and customary at each asset class), and driven by CalPERS' Beliefs
- *Portfolio priorities* will transmit beliefs into portfolio construction
- Benchmarks should be tailored to the purpose at hand

Benchmark Selection| Where We've Been

Should we consider a lower duration benchmark for **fixed income**?

Should we consider a minimum volatility benchmark for **public equities**?

Should we use a public equity benchmark plus 3% for **private equity**?

Benchmark Selection| Reframing the Question

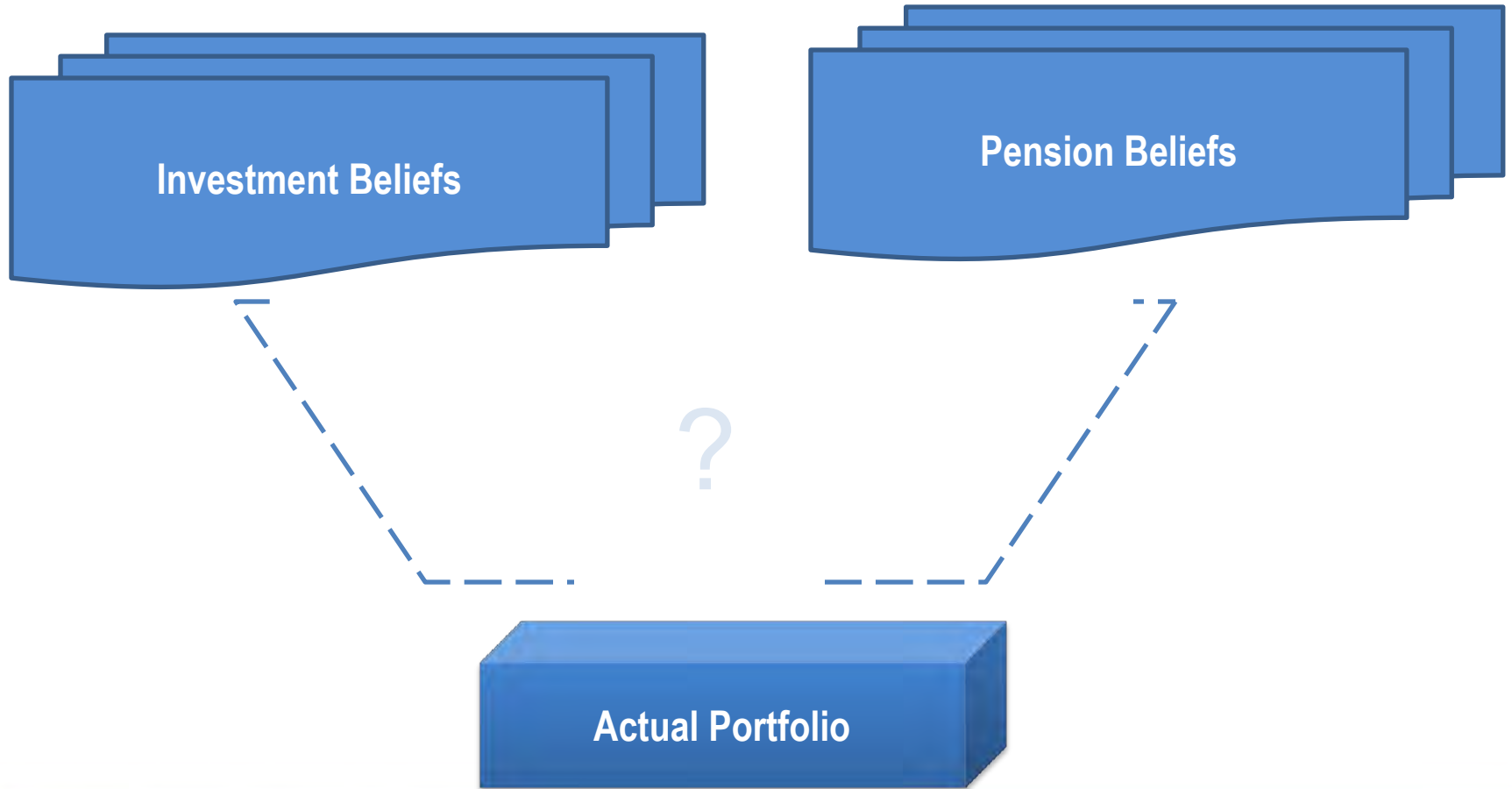
Let's consider the objectives of the Total Fund first

Should we consider a lower duration benchmark for **fixed income**?

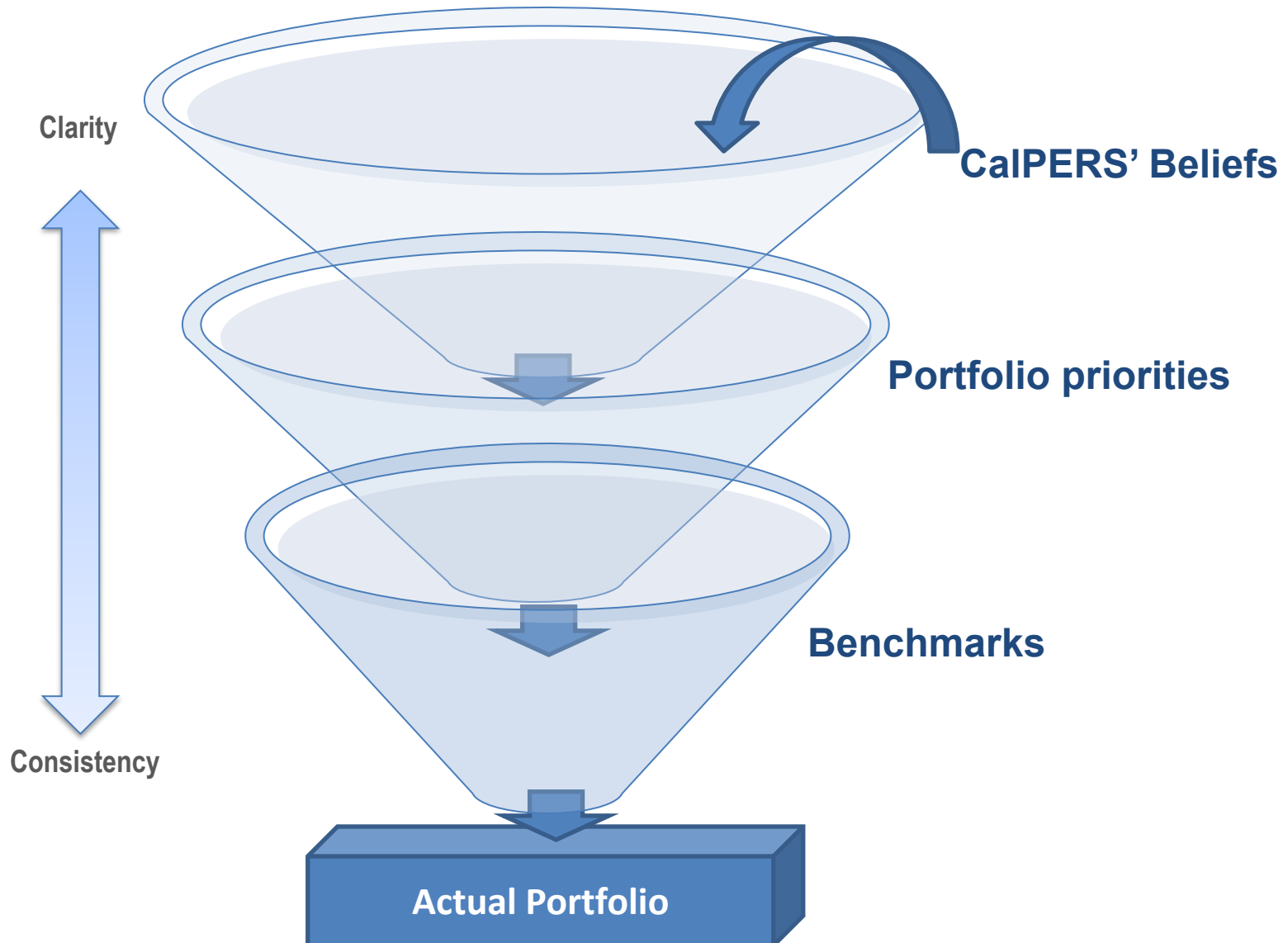
Should we consider a minimum volatility benchmark for **public equities**?

Should we use a public equity benchmark plus 3% for **private equity**?

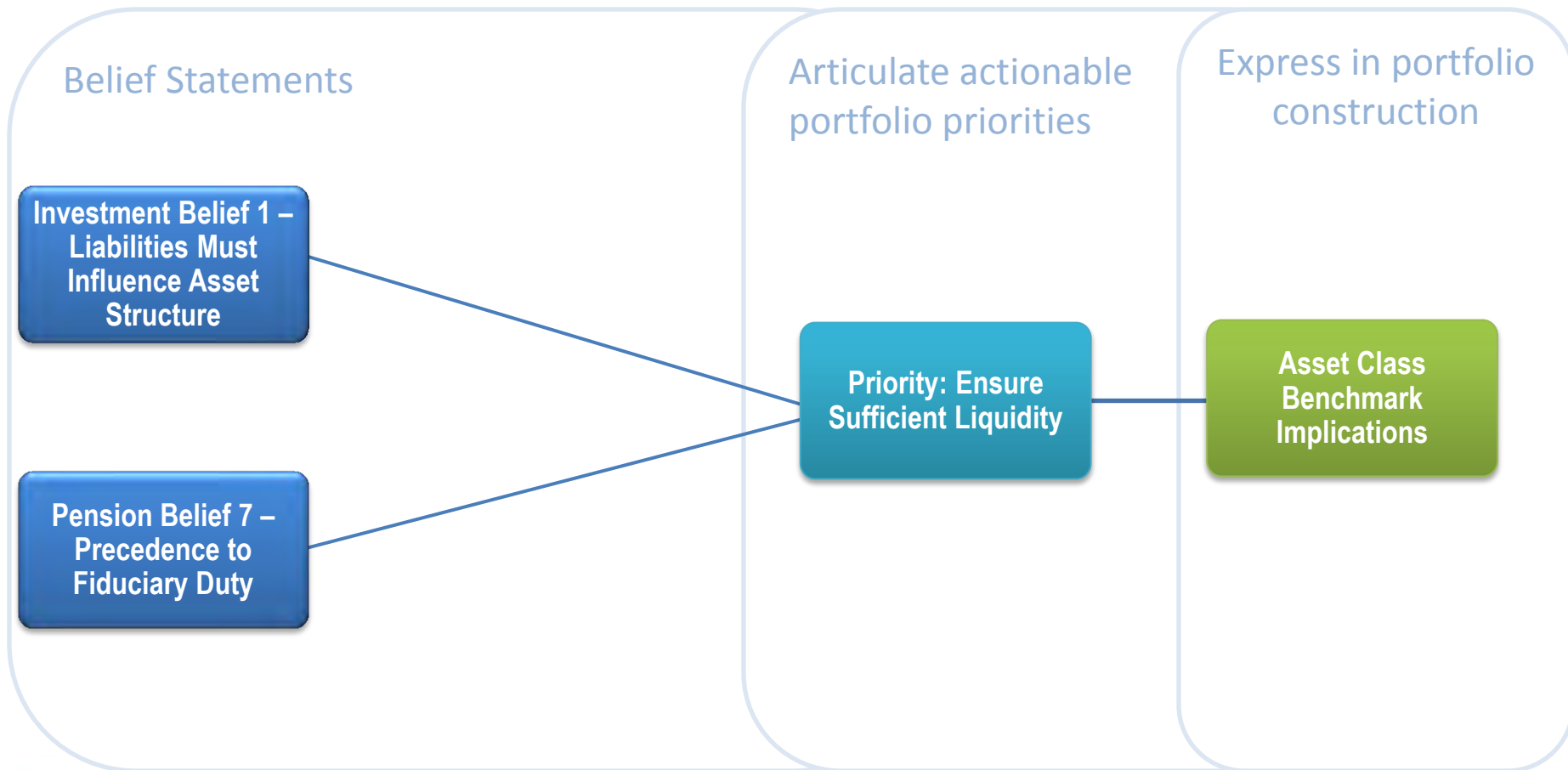
Benchmarks| How do we connect Portfolios and Beliefs?



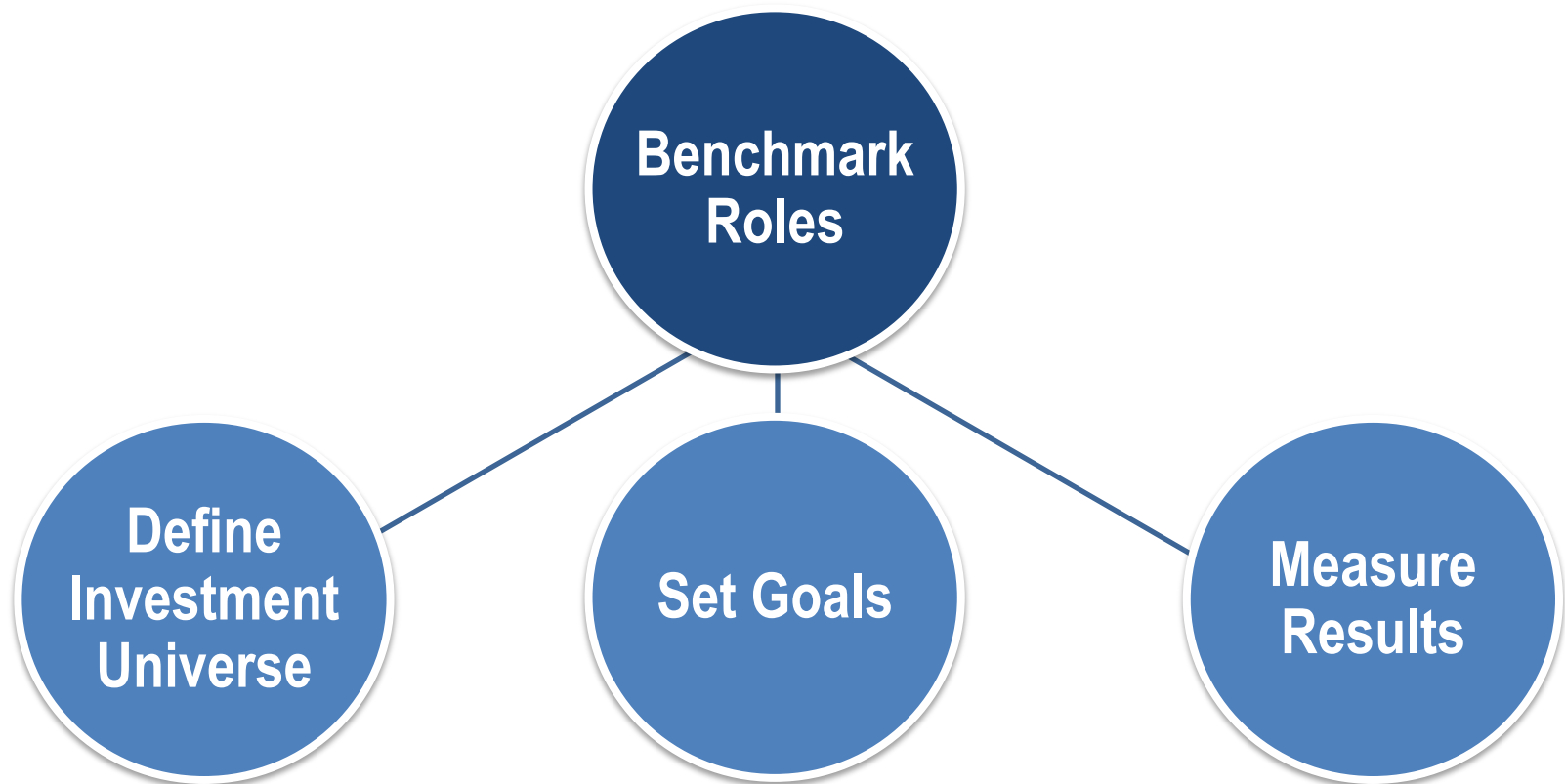
Benchmarks | Reflect Our Portfolio Priorities



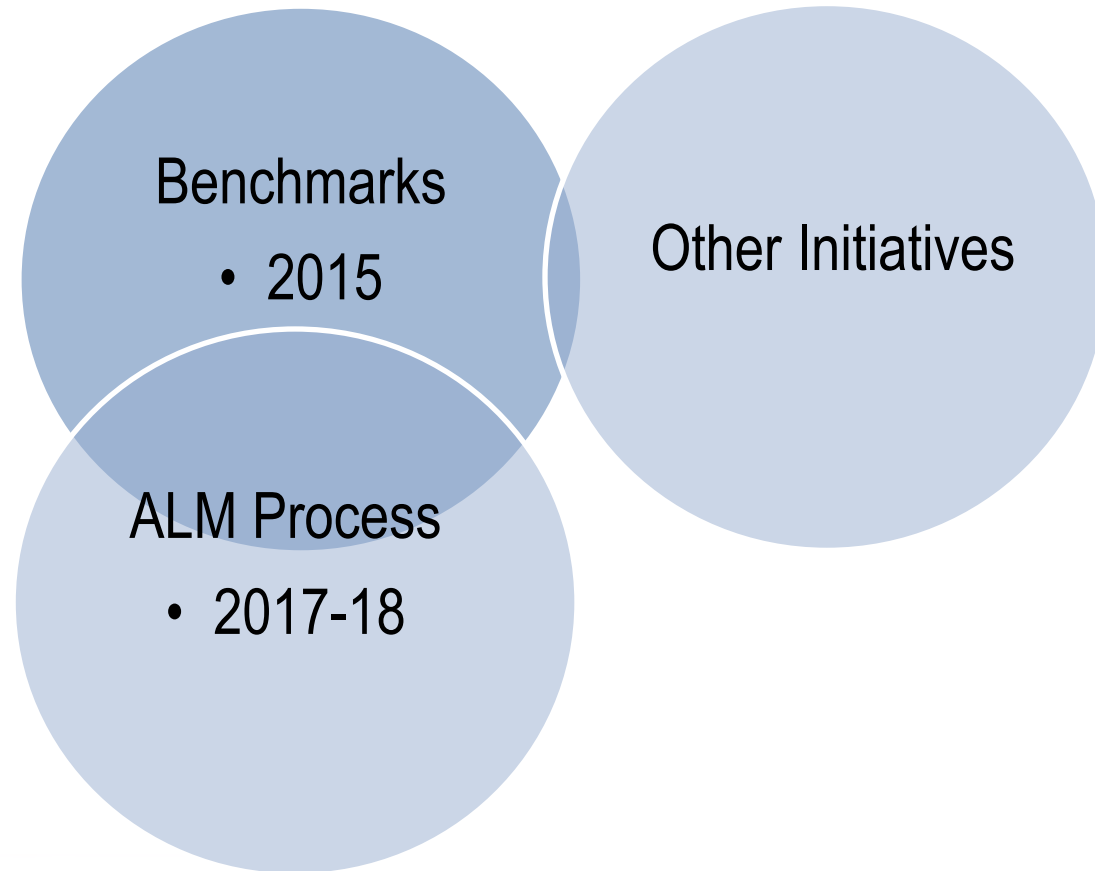
Example| Beliefs and Portfolio Priorities



Policy Benchmarks| Multiple Roles



These Engagements| Scope



Timeline

