



Finance and Administration Committee Agenda Item 8b

March 15, 2016

Item Name: Treasury Analysis and Liquidity Status Report

Program: Financial Office

Item Type: Information

Executive Summary

The Treasury Management Policy requires the Finance and Administration Committee (FAC) to oversee senior management as they take steps to manage, measure, monitor and control liquidity risk with respect to the payment of member benefits and all other CalPERS' obligations. The Semi-Annual Treasury Analysis and Liquidity Status Report is the first report to the FAC on the funding coverage of the enterprise for the first two quarters of Fiscal Year 2015-2016. The report contains liquidity and forecast information for the Public Employee's Retirement Fund (PERF). The report contains a summary of information tracked by the Treasury Management Program ("TMP"), which was established to ensure the payment of member benefits and organizational expenses without interruption regardless of financial markets and environmental conditions.

Strategic Plan

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk-intelligent, and innovative organization.

Background

The semi-annual Treasury Analysis and Liquidity Status Report (Attachment 2) is the first report to the FAC of ongoing funding coverage analysis performed by the TMP. The report provides liquidity ratio analysis and cash flow forecasting analysis for the past two quarters.

The liquidity ratio analysis indicates whether the PERF liquidity level(s) can cover obligations in normal, stressed and crisis environments. A normal environment is a 30-day period with no interruptions to financial markets or environmental conditions. As defined in the TMP policy, a stressed event is a severe market or non-market event for which funding contingency plans have been made and options are identified and available to meet CalPERS' obligations. The TMP has selected two historical stressed events out of seventeen actual past stressed occurrences to report on; the 1987 Market Crash and the 2008 Liquidity Crisis. These two events were selected because they were generally the most severe, had the broadest impact on markets, happened rapidly and had an impact over a relatively short timeframe. A crisis event is defined by the TMP policy as a severe, unanticipated market or non-market event for which the Funding contingency plans require the option for the payment of CalPERS' obligations to be identified and evaluated based on the nature of the event. The crisis scenario used by TMP is a market seize up for 5 business days with only cash available during the last ten days of the month.

Analysis

Per the report, the PERF's liquidity exceeded the target threshold in the normal environment, which means all payment of member benefits and organizational expenses were made with no interruptions from financial market or environmental conditions. In addition, the PERF had adequate liquidity should either stressed or crisis events had occurred.

The cash flow forecasting analysis in Attachment 2 shows high accuracy for estimating non-investment cash flows while investment cash flow estimates continue to be improved due to volatility in private asset classes.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Not Applicable

Attachments

Attachment 1 – Semi-Annual Treasury Analysis and Liquidity Status Presentation

Attachment 2 – Semi-Annual Treasury Analysis and Liquidity Status Report

Kristin Montgomery

Controller
Financial Office

Cheryl Eason

Chief Financial Officer