



Finance and Administration Committee Agenda Item 4f

August 16, 2016

Item Name: Treasury Analysis and Liquidity Status Report

Program: Financial Office

Item Type: Information Consent

Executive Summary

For the period ending June 30, 2016, CalPERS maintained adequate liquidity coverage levels for all funds in normal environments. In May 2016, the Public Employees' Retirement Fund ("PERF") Level I liquidity fell below the threshold in both stressed scenarios, which indicated CalPERS may have had to use Level II assets in order to meet monthly obligations. Staff are conducting analysis to determine whether a Treasury Management ("TM") Reserve should be established for the Legislators' Retirement Fund ("LRF") and Long Term Care Fund ("LTCF") in order to manage potential liquidity risk due to low liquidity levels in stressed scenarios.

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 Treasury Management Policy ("Policy") requires the Treasury Management Program ("Program") to provide the Finance and Administration Committee ("Committee") with an update on fund liquidity status. The Semi-Annual Treasury Analysis and Liquidity Status Report (Attachment 1) fulfills this obligation by providing liquidity coverage ratio analysis and cash flow forecasting analysis for the PERF, LRF, Judges' Retirement Fund I ("JRF I"), Judges' Retirement Fund II ("JRF II"), Health Care Fund ("HCF"), Contingency Reserve Fund ("CRF") and LTCF to be known as ("All Funds"). The last report was presented to the Committee in March 2016 and contained information only for the PERF. This report does not contain information on the California Employers' Retiree Benefit Trust ("CERBT"), Supplemental Contributions Program Fund ("SCPF"), Deferred Compensation Fund ("DCF") and Replacement Benefit Fund ("RBF") due to the self-funding nature of these programs where distribution requirements will never exceed participant contributions net of investment returns.

The Policy also requires the Program to provide a status on the Plan. In November 2015, the ETT established and approved the Plan, which describes the enterprise response and protocols to be followed during market and external environment events impacting funding coverage. The Plan includes an overview of liquidity risk parameters for all of the funds. The Plan calls for the Enterprise Treasury Management Office ("ETMO") to notify the ETT when a fund's liquidity coverage falls below its liquidity parameter. When known, the ETMO provides information on the underlying causes and anticipated timing as to when funding coverage returns to a level within the parameter.

Analysis

Liquidity Coverage Analysis

The report confirms the liquidity coverage for All Funds remained above the threshold in the normal environment. In May, the PERF's Level I liquidity coverage ratio increased as a result of \$2.9 billion generated from an equity sale and held through June to execute a pending real estate investment purchase. The PERF remained within the interim strategic asset allocation target for the Liquidity Program at 1% (+/- 3%).

With the exception of the PERF, LRF and LTCF, All Funds maintained adequate Level I liquidity had a stressed or crisis event occurred. In May, the PERF may have had to use Level II assets had a stressed event occurred to meet monthly obligations because Level I fell below the threshold. The \$2.9 billion raised in May was excluded in the stressed liquidity coverage ratio because the model assumes that asset class sources were reduced to zero and uses were doubled. Both the LRF and LTCF's Level I liquidity coverage ratio fell below the threshold and would have used Level III assets if a stressed event occurred. Staff is conducting analysis to determine if a TM Reserve should be established for the LRF and LTCF in order to manage potential liquidity risk for these funds if an actual stressed event occurs.

Cash Flow Forecasting Accuracy Analysis

The cash flow forecasting analysis for All Funds show high accuracy for estimating non-investment cash flows. In January and April, the PERF's inflows were higher than normal due to quarterly State employer contributions. Both the LRF and the LTCF's non-investment cash flow forecasts show that distributions continually are expected to exceed contributions.

Investment cash flow estimates for the PERF continues to be improving although challenges remain due to the volatility in private asset classes. The \$2.9 billion raised in May was excluded from the PERF's forecasted investment inflows. Besides the PERF, cash flow forecasting for All Funds show high accuracy for estimating investment cash flows.

Status of the Funding Contingency Plan

The ETT successfully implemented the Plan. ETT members are notified on a monthly basis of liquidity risk parameter information. In May, Staff successfully followed the Plan and notified the ETT when the PERF Level I liquidity fell below the threshold in both stressed scenarios. Staff continues to utilize the Plan to manage, measure, monitor and control funding coverage with respect to the payment of member benefits and all other CalPERS' obligations.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Not Applicable



Attachments

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

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