



Investment Committee

Agenda Item 5e

September 24, 2018

Item Name: Supplemental Income Plan Strategic Asset Allocation Implementation Update

Program: Trust Level Portfolio Management

Item Type: Information Consent

Executive Summary

The CalPERS' Supplemental Income Plans' target retirement date funds advance through an asset allocation glide path which gradually reduces the expected volatility of each fund as it matures.

Subsequent to the Committee's April 16, 2018 approval of the full glide path, which was anchored on 2017 data and analysis, staff is preparing to advance the funds to the upcoming 2019 targets on October 1, 2018. Prior to implementation, staff felt it is prudent to inform the Committee of the glide path advancement, as reflected in Table 1, SIP Asset Allocation Glidepath, 2019-2023.

Strategic Plan

This item supports CalPERS' strategic plan goal to strengthen the long-term sustainability of the pension fund. Regularly reviewing CalPERS' funds' asset allocation mixes, and ensuring implementation is undertaken in a cost-effective manner is an integral part of CalPERS' stewardship of the funds entrusted to us by our members and beneficiaries.

Investment Beliefs

This agenda item, as an update on the implementation of a decision by the Committee, is consistent with the CalPERS Investment Belief 10, particularly the sub-belief that CalPERS will be best positioned for success if it has strong governance and operates with effective, clear processes.

Background

At its April 16, 2018 meeting, the Committee approved an updated glide path construct for the SIP target retirement date funds, and it was noted that staff would make corresponding changes to the affected investment policy statements via the administrative policy change process. Additional information can be found in agenda item 5a, "Affiliate Trust Asset Allocation Review: Supplemental Income Plans" available online in CalPERS Board meeting archives.

Analysis

As noted in the Executive Summary section, the SIP target retirement date funds are always "moving forward" into more conservative asset allocations as time elapses. Tables 1 and 2

summarize the 2017 asset allocation as previously presented and the advanced glide path for 2019. Table 3 represents the allocation shift from Global Equity to US Fixed Income and Real Assets for the 2035-2015 funds. Table 4 below presents the full asset allocation glide path for 2019-2023. For each year shown in the table, the targets are advanced on October 1 of the prior year.

Table 1 – Asset Allocation based on 2017 Glidepath, as presented

	2060	2055	2050	2045	2040	2035	2030	2025	2020	2015	Income
Global Equity	92%	92%	92%	92%	92%	92%	80%	67%	55%	42%	30%
Real Assets	3%	3%	3%	3%	3%	3%	3%	4%	4%	5%	5%
Core Fixed Income	5%	5%	5%	5%	5%	5%	16%	27%	38%	49%	60%
Cash	0%	0%	0%	0%	0%	0%	1%	2%	3%	4%	5%

Table 2 – Asset Allocation advanced for 2019

	2060	2055	2050	2045	2040	2035	2030	2025	2020	2015	Income
Global Equity	92%	92%	92%	92%	92%	87%	75%	62%	50%	37%	30%
Real Assets	3%	3%	3%	3%	3%	3%	4%	4%	4%	5%	5%
Core Fixed Income	5%	5%	5%	5%	5%	10%	20%	32%	43%	54%	60%
Cash	0%	0%	0%	0%	0%	0%	1%	2%	3%	4%	5%

Table 3 – Summary of Allocation shift

	2060	2055	2050	2045	2040	2035	2030	2025	2020	2015	Income
Global Equity	-	-	-	-	-	-5%	-5%	-5%	-5%	-5%	-
Real Assets	-	-	-	-	-	-	+1%	-	-	-	-
Core Fixed Income	-	-	-	-	-	5%	+4%	+5%	+5%	+5%	-
Cash	-	-	-	-	-	-	-	-	-	-	-

Table 4 - SIP Asset Allocation Glide Path, 2019-2023

Year	Target Retirement Date Fund	Global Equity		U.S. Fixed Income		Real Assets		Cash	
		Target	Range	Target	Range	Target	Range	Target	Range
2019	2060	92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2020		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2021		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2022		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2023		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2019	2055	92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2020		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2021		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2022		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2023		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2019	2050	92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2020		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2021		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2022		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2023		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2019	2045	92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2020		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2021		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2022		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2023		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2019	2040	92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2020		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2021		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2022		92%	+/- 4.00	5%	+/- 1.00	3%	+/- 1.00	0%	+ 0.25
2023		90%	+/- 4.00	7%	+/- 2.00	3%	+/- 1.00	0%	+ 0.25
2019	2035	87%	+/- 4.00	10%	+/- 2.00	3%	+/- 1.00	0%	+ 0.25
2020		84%	+/- 4.00	12%	+/- 2.00	3%	+/- 1.00	1%	+/- 1.00
2021		82%	+/- 4.00	14%	+/- 2.00	3%	+/- 1.00	1%	+/- 1.00
2022		80%	+/- 4.00	16%	+/- 2.00	3%	+/- 1.00	1%	+/- 1.00
2023		77%	+/- 4.00	19%	+/- 2.00	3%	+/- 1.00	1%	+/- 1.00
2019	2030	75%	+/- 4.00	20%	+/- 2.00	4%	+/- 1.00	1%	+/- 1.00
2020		71%	+/- 4.00	23%	+/- 4.00	4%	+/- 1.00	2%	+/- 1.00
2021		69%	+/- 4.00	25%	+/- 4.00	4%	+/- 1.00	2%	+/- 1.00
2022		67%	+/- 4.00	27%	+/- 4.00	4%	+/- 1.00	2%	+/- 1.00
2023		65%	+/- 4.00	29%	+/- 4.00	4%	+/- 1.00	2%	+/- 1.00
2019	2025	62%	+/- 4.00	32%	+/- 4.00	4%	+/- 1.00	2%	+/- 1.00
2020		59%	+/- 4.00	34%	+/- 4.00	4%	+/- 1.00	3%	+/- 1.00
2021		57%	+/- 4.00	36%	+/- 4.00	4%	+/- 1.00	3%	+/- 1.00
2022		55%	+/- 4.00	38%	+/- 4.00	4%	+/- 1.00	3%	+/- 1.00
2023		52%	+/- 4.00	41%	+/- 4.00	4%	+/- 1.00	3%	+/- 1.00
2019	2020	50%	+/- 4.00	43%	+/- 4.00	4%	+/- 1.00	3%	+/- 1.00
2020		47%	+/- 4.00	45%	+/- 4.00	4%	+/- 1.00	4%	+/- 1.00
2021		44%	+/- 4.00	47%	+/- 4.00	5%	+/- 1.00	4%	+/- 1.00
2022		42%	+/- 4.00	49%	+/- 4.00	5%	+/- 1.00	4%	+/- 1.00
2023		40%	+/- 4.00	51%	+/- 4.00	5%	+/- 1.00	4%	+/- 1.00
2019	2015	37%	+/- 4.00	54%	+/- 4.00	5%	+/- 1.00	4%	+/- 1.00
2020		34%	+/- 4.00	56%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2021		32%	+/- 4.00	58%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2022		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2023		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2019	Income	30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2020		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2021		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2022		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00
2023		30%	+/- 4.00	60%	+/- 4.00	5%	+/- 1.00	5%	+/- 1.00

Global Equity is allocated between U.S. Equity and International Equity based on their respective market capitalization weights within the MSCI ACWI IMI Index, as of June 30 each year.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Risks and benefits associated with the asset allocation glide path were discussed in the April 16, 2018 agenda item. Staff has not identified any risks associated with providing this informational follow-up to the Committee on the specifics of the glide path. Staff believe this item supports open communication and transparency between the Committee and staff, which is beneficial in supporting the Committee in its oversight capacity.

Attachments

Attachment 1 – Wilshire Associates Opinion Letter

Eric Baggesen

Managing Investment Director
Trust Level Portfolio Management

Theodore Eliopoulos

Chief Investment Officer