



Investment Committee

Agenda Item 9a

June 17, 2019

Item Name: Mitigating Drawdowns

Program: Total Fund

Item Type: Information

Executive Summary

Agenda Item 4 is an information item intended to convey some basic information on the topic of “drawdown”. Drawdown refers to a decline in the value of the investment assets underlying the Public Employees’ Retirement Fund (PERF) or other trusts. Drawdown derives primarily from the publicly traded equity assets that make up a significant portion of the PERF. The degree by which equity assets are included in the investment portfolio originates in the capital market assumptions and desired target rate of return. Drawdown has the potential to impair CalPERS mission and significant steps to mitigate it have been taken.

Strategic Plan

The agenda item support CalPERS’ Strategic Plan goal to improve long-term pension and health benefit sustainability. This effort provides information deriving from the asset allocation and performance results impacting all trusts to effectively support the CalPERS Investment Committee (IC) in their oversight capacity.

Investment Beliefs

This agenda item supports CalPERS Investment Belief 6: Strategic asset allocation is the dominant determinant of portfolio risk and return; Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it; and Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility and tracking error.

Background

This report provides information about the market opportunity set and the potential for valuation drawdown. Also discussed are mitigating aspects to counter the effects of drawdown.

Analysis

Not Applicable

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Not Applicable

Attachments

Attachment 1 – Mitigating Drawdowns

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