



Investment Committee

Agenda Item 8a

June 15, 2020

Item Name: Asset Liability Management Mid-Cycle Review

Program: Trust Level Portfolio Management

Item Type: Information

Executive Summary

This agenda item provides an update at the mid-point of CalPERS' four-year Asset Liability Management (ALM) cycle. Included in this item are an economic overview, a market-based valuation analysis, a review of capital market assumptions (CMAs), trends since the 2017/18 adoption of CalPERS' CMAs, and a review of asset segments.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability. This item provides information regarding the market valuation and capital market assumptions impacting all trusts and supports the CalPERS Investment Committee (IC) in their oversight capacity.

Investment Beliefs

This agenda item supports CalPERS' Investment Belief 2: A long term investment horizon is a responsibility and an advantage; 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 8: Costs matter and need to be effectively managed.

Background

Aligned with investment policy, this item presents a market-valuation-based analysis at the midpoint of the four-year review cycle. Capital market assumptions have been collected from several market intermediaries and compared to the estimates used in 2017/18.

Analysis

Not Applicable.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Conducting a mid-cycle review of market valuations and capital market assumptions is prudent and aligns with CalPERS' fiduciary duty to provide sustainable, risk adjusted returns for its members. The mid-cycle review serves as a checkpoint on the current allocation and highlights areas of focus leading up to the next full ALM study. Not conducting a review would introduce risks of not evaluating the portfolio allocation for a period of four years as well as a lack of market and portfolio information as CalPERS moves toward the full ALM study.

Attachments

Attachment 1 – Asset Liability Management Mid-Cycle Review Presentation

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