



Finance and Administration Committee

Agenda Item 4b

September 15, 2020

Item Name: External Manager Request for Proposal - Long-Term Care Fund

Program: Trust Level Portfolio Management and Implementation

Item Type: Action Consent

Recommendation

Approve the recommendation to release a Focused Request for Proposal (RFP) Solicitation for an External Investment Manager for the Long-Term Care Fund.

Executive Summary

The Investment Office requires a Long-Term Care Fund Investment Manager that can design and manage a strategic asset allocation for the CalPERS Long-Term Care Fund. The Investment Manager will also assist the Investment Office with implementation, manage the assets, and provide ongoing monitoring and rebalancing of any new investment strategy.

Strategic Plan

This RFP for a Long-Term Care Fund Investment Manager supports the “Fund Sustainability” Goal of the CalPERS 2017-2022 Strategic Plan. Evaluating external investment manager strategic asset allocation designs and recommendations for the Long-Term Care Fund will aid in determining whether the strategic asset allocation could be further optimized, which will strengthen the long-term sustainability of the Long-Term Care Program.

Investment Beliefs

Strategic asset allocation and management of the Long-Term Care Fund supports CalPERS Investment Belief 1: Liabilities must influence the asset structure and Investment Belief 6: Strategic asset allocation is the dominant determination of portfolio risk and return. Proper care and diligence must be made to incorporate both the liabilities and the strategic asset allocation of the Long-Term Care Fund.

Background

The Investment Office manages the Long-Term Care Fund on behalf of the participants in the Long-Term Care Program. CalPERS Long-Term Care Program coverage helps participants pay

for the cost of care when they need assistance with the activities of daily living. This is a participant-paid optional benefit.

In 2011, CalPERS issued a Request for Proposal for Investment Management Services for several multi-asset class funds, with the Long-Term Care Fund among them. State Street Global Advisors was issued the contract award and continues to be the Investment Manager for the multi-asset class funds, including the Long-Term Care Fund.

The 2011 RFP included the investment management of the Long-Term Care Fund and not the design and management of the strategic asset allocation, which was performed by CalPERS team members, and are new services included in this 2020 RFP. CalPERS team members will continue to include the Long-Term Care Fund in the Strategic Asset Allocation study and the Mid-Cycle Review and will retain authority for recommending to the Board any changes to the strategic asset allocation. CalPERS team members will also monitor the asset allocation, rebalancing, investment management, and performance for any selected manager.

Analysis

The following analysis has been exercised for this solicitation request:

- Option 1: Remain with the current contractor and asset allocation process.
- Option 2: Release an RFP to targeted contractors who specialize in the management of similar funds to determine if the asset allocation of the Long-Term Care Fund could be optimized. A cost analysis would also be performed based on the RFP responses from the vendors to ensure CalPERS is managing costs appropriately.

Budget and Fiscal Impacts

The estimated costs to manage this portfolio will exceed \$1 million annually or could be substantially more. If a new manager is successful in the RFP, the new contractor and all fees will be reported on the November 2020 Prospective Report for the Board's approval.

Benefits and Risks

The benefits of approving staff's request include:

- The determination, in consultation with market experts and CalPERS investment staff, of whether the asset allocation of the Long-Term Care Fund could be further optimized.
- Provide CalPERS an opportunity to engage with a manager who could implement the new strategy successfully.

The risks of not approving staff's request include:

- Continue with status quo asset allocation process and not perform the analysis of externally available alternatives for the strategic asset allocation of the Long-Term Care Fund.
- Potential impact on the ability of the Board and staff to fulfill their fiduciary obligations to CalPERS Long-Term Care Program participants.

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