Long-Term Care: Asset Allocation and Discount Rate

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Investment Committee
November 16, 2020
Current Portfolio

Expected Risk/Return

- Fixed Income: 60%
- Public Equity: 15%
- REITs: 11%
- Commodities: 8%
- TIPS: 6%

Note: 2018 expected risk/return values sourced from CalPERS CMA's adopted in the 2017/18 ALM process. 2020 expected risk/return values sourced from the CalPERS mid-cycle review in June 2020.
Portfolio Evaluation

**Current**

- Market evolution has reduced yield and future return expectations dramatically
- Risk profile in 2018 ALM 7.35% volatility
- Shorter duration than liabilities
- Publicly traded asset classes, institutional commingled funds

**Opportunities**

- Search for external expertise with LTC programs
- Liability profile may support increase in risk
- Potential for some private asset inclusion
- Low leverage may warrant some utilization
External Management Value

**Expertise**

- Working with wide array of client types and objectives adds perspective
- Long-Term Care and insurance-related risk management experience
- Actuarial staff with broad insurance experience
- Development of cash flow and de-risking glidepaths are core capabilities

**Market Access**

- Structuring investments for taxable and tax-exempt clients
- Experience with leverage and access to management tools
- Inclusion of private assets for smaller funds
- Sourcing private assets and managing liquidity
External Manager Portfolio Evaluation

- Several portfolios cluster in an area at or above 5.0% return and below a proposed threshold of 9.5% volatility.

- Increasing risk by up to 30% looks to be supportive of a discount rate in the range of 4.75% to 5.0%.

Data source: 20-year and 10-year asset class expectations for return and risk sourced from CalPERS mid-cycle review in June 2020.
Capital Market Assumptions

Data Sources:
- 2020 – March 31, 2020 CMA Survey Results from 10+ providers; CalPERS’ CMA models
## Asset Allocation Timeline

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<th>Milestone</th>
<th>2020</th>
<th>2021</th>
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<td>A</td>
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<tr>
<td>Evaluate Current Portfolio</td>
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<td>Conduct Research</td>
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<td>Draft &amp; Release RFP</td>
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<td>Approve Discount Rate (Nov IC)</td>
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<td>Prepare Allocation Recommendation</td>
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<td>Approve Allocation (Feb IC)</td>
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<td>Contracting &amp; Planning</td>
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<td>Implement Allocation</td>
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Recommendation & Next Steps

**Recommendation**

1. Long-Term Care discount rate between 4.75% to 5.0% (specific recommendation to be discussed during the Investment Committee meeting)

2. Portfolio risk upper threshold of 9.50%

3. Inclusion of private assets and leverage, to the extent necessary

**Next Steps**

1. Complete the full strategic asset allocation review

2. Bring asset allocation options and recommendation to IC in February