



Investment Committee

Agenda Item 8a

November 16, 2020

Item Name: Tracking Error as a Risk Management tool at CalPERS

Program: Total Fund

Item Type: Information

Executive Summary

This agenda item provides the Investment Committee of the CalPERS Board of Administration (Committee) with information about the tracking error risk metric as part of the CalPERS' investment risk framework and one of many guardrails to manage the portfolio investment risk. It includes details on the metric's interpretation, its uses at CalPERS, challenges with the current implementation, and potential future improvements.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability by supporting the Committee in its oversight role for CalPERS' investment program.

Investment Beliefs

This Agenda Item supports several of CalPERS Investment Beliefs, including Investment Belief 9, risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error, and Investment Belief 5, that CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution.

Background

This agenda item provides information that was requested by Committee's members and supports the Committee in exercising its oversight role.

Tracking error limits for the total fund and some programs are currently defined in the CalPERS' investment policies. Actual tracking error usage is regularly reported to the Committee.

Analysis

Not Applicable.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Not Applicable.

Attachments

Attachment 1 – Tracking Error as Risk Management Tool at CalPERS

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