



## Investment Committee

# Agenda Item 6a

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**June 14, 2021**

**Item Name:** Long-Term Care Investment Policy Update

**Program:** Trust Level Portfolio Management & Implementation

**Item Type:** Action

### **Recommendation**

Adopt the proposed updates to the Long-Term Care (LTC) policy that are associated with the Asset Liability Management Review. The policy updates are proposed to be implemented as an administrative update in the month in which the assets transfer to the new strategy, which is targeted for August/September of 2021.

The Investment Policy updates, which are detailed in Attachment 1, include:

- Strategic Asset Allocation Targets and Ranges
- Benchmark Composition
- Tracking Error Limit

### **Executive Summary**

The CalPERS LTC Program offers voluntary coverage that helps policyholders pay for care when they need long-term care assistance and is funded solely by policyholder premiums and investment income. The CalPERS team completed the Asset Liability Management Review for the LTC Fund in 2020/21 and a candidate portfolio was selected at the March 2021 Investment Committee (IC) meeting. Following on from the portfolio selection, this agenda item presents the associated updates that are necessary for the LTC Investment Policy (Policy).

### **Strategic Plan**

These items further the CalPERS 2017-22 Strategic Plan by supporting strong governance and effective process to cultivate a risk-intelligent organization.

### **Investment Beliefs**

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 4: Long-term value creation requires effective management of three forms of capital: financial, physical, and human. Sub-belief: Governance is the primary

tool to align interests between CalPERS and managers of its capital, including investee companies and external managers.

- Investment Belief 5: CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution.

## **Background**

This item is being brought to the IC to document in the LTC Policy the changes that are necessitated by the completion of the Asset Liability Management review and the portfolio selection from the March IC meeting.

## **Analysis**

Highlights of the proposed revisions to the Policy are outlined below:

### Strategic Asset Allocation Targets and Ranges

The Strategic Asset Allocation Targets were presented and approved at March IC and are proposed to be slightly adjusted for the Policy update.

1. Include U.S. TIPS in the Global Fixed Income asset class allocation – this modification does not change the expected risk/return profile of the portfolio and will facilitate operational and trading efficiency in the management of the portfolio.
2. Include a Liquidity asset class for operational cash flows – this asset class is in current Policy and is presented here to confirm its continuation.

The Strategic Asset Allocation Ranges provide room for the allocations to float with market movement between quarterly rebalances. The proposed ranges for Global Equities and Global Fixed Income are wider than current Policy to help mitigate the need to rebalance mid-quarter, which would move the allocations away from the benchmark and introduce active risk. The remaining ranges are the same or lower than in the current Policy.

### Benchmark Composition

The proposed Benchmark Components are industry indices from MSCI, FTSE, Bloomberg Barclays, and JPMorgan and many are the same or similar to benchmarks currently in use for the LTC Fund.

### Tracking Error Limit

The proposed Tracking Error Limit creates a specific limit for the LTC Fund and strengthens governance and reporting.

## **Budget and Fiscal Impacts**

Not applicable.

## **Benefits and Risks**

The proposed Policy updates support a strong governance framework for the management of the LTC Fund assets. There are no anticipated risks.

## **Attachments**

Attachment 1 – Long-Term Care: Investment Policy Update

Attachment 2 – Wilshire Associates Opinion Letter

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