Investment Committee

Agenda Item 6c

March 17, 2025

Item Name: Asset Liability Management: Governance and Reporting

Program: Total Fund

Item Type: Information

Executive Summary

This agenda item provides board education on asset liability management (ALM) governance and investment performance reporting. First, it reviews the current ALM framework and potential changes under a Total Portfolio Approach (TPA). Then it considers how investment performance reporting will need to change under TPA.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal of strengthening the long-term sustainability of the pension fund. As defined in CalPERS ALM policy, ALM is the process of balancing the expected cost of future pension payments with the expected future investment returns. The periodic review and evaluation of investment and actuarial assumptions are intended to strengthen the sustainability of the pension fund.

This agenda item additionally supports the Strategic Plan goal of Stakeholder Engagement by promoting collaboration, support, and transparency. Stakeholder input is a critical component to the ALM process.

Investment Beliefs

- Investment Belief 2: a long-term investment horizon is a responsibility and an advantage.
- Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it.
- Investment Belief 8: costs matter and need to be effectively managed.

Background

ALM is Governed by CalPERS ALM Policy, and the ALM process is a collaborative effort between the Actuarial Office (ACTO), the Financial Office (FINO), and the Investment Office (INVO), with stakeholder engagement a critical input. ALM operates on a four-year cycle with a mid-cycle review and is the primary process by which investment portfolio and actuarial assumptions evolve to reflect the investment risks and framework, the market opportunity set, demographic assumptions and experience, and plan status. The ALM decision frequency is supported by ACTO's annual actuarial valuation process that determines subsequent employer and employee contribution levels. This process establishes an amortization of each fiscal year's actual experience versus the assumptions underlying the ALM decisions, thus correcting annually for forecast and estimation uncertainty.

Analysis

Implementing TPA requires a change to the Board of Administration's (Board) ALM decisions and varying levels of change to the investment performance reports.

In the current ALM governance, the Board decides on a target Strategic Asset Allocation (SAA) and establishes the broad types of asset classes, with ranges, that management may invest in, sets a target expected investment return, and adopts a discount rate. Management provides the Board with capital market assumptions (CMAs), an actuarial experience study, and actuarial economic assumptions to inform their decisions.

Under TPA, the Board would first adopt its risk appetite in the form of a reference portfolio and management's level of discretion, then it establishes the broad types of investment strategies management may invest in, then sets the target expected investment return, and lastly, adopts a discount rate.

Investment performance reporting would experience varying levels of change, with the Trust Level Review and Annual Program Reviews likely changing the most in the shift away from a SAA to TPA, as risk reporting becomes more prominent and central in TPA. Standardized reports like the Annual Comprehensive Financial Report and Global Investment Performance Standards Report change very little.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Not Applicable

Attachments

Attachment 1 – Asset Liability Management: Governance and Reporting

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