Finance and Administration Committee

Agenda Item 6c

November 17, 2027

Item Name: Asset Liability Management Policy Update – First Reading

Program: Financial Office

Item Type: Information

Executive Summary

This presentation is the first reading to seek Board of Administration (Board) feedback of proposed updates to the Asset Liability Management (ALM) Policy, following the Board's November 2025 adoption of Total Portfolio Approach (TPA). The proposed edits integrate TPA into the ALM framework's analyses and Board decisions. Additionally, the ALM Advisory Committee's (ALMAC) membership is updated to include the relevant members of the Executive Committee.

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**.**

Investment Beliefs

- Investment Belief 1: liabilities must influence the asset structure.
- Investment Belief 2: a long-time investment horizon is a responsibility and an advantage.
- Investment Belief 3: CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.
- Investment Belief 6: asset allocation is the dominant determinant of portfolio risk and return.
- 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 the 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 at two years 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

The proposed policy changes include the following:

- Modifying ALMAC membership to be all relevant Executive Committee members. Adds the Chief Operating Investment Officer and removes the Deputy Chief Investment Officer.
- Integrates TPA's required analyses and Board decisions of a reference portfolio and active risk limits.
- Maintains SAA analyses and Board decisions for those funds still under SAA.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Not Applicable.

Attachments

Attachment 1 – Asset Liability Management Policy Update – First Read Presentation

Attachment 2 – Current Asset Liability Management Policy

Attachment 3 – Proposed Asset Liability Management Policy – Clean Copy

Attachment 4 – Proposed Asset Liability Management Policy – Redline Copy

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