

# CalPERS Trust Level Review Risk Management Summary

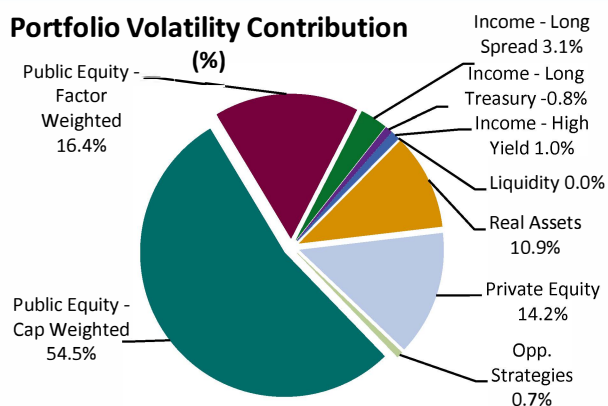


As of July 1, 2021

**Investment Belief 9:** Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk. The path of returns matters, because highly volatile returns can have unexpected impacts on contribution rates and funding status.

Total Fund Forecast Volatility Trends (%)				
	Policy Limit	Current 7/1/2021	Last Qtr 4/5/2021	Last Year 7/1/2020
Total	n/a	10.7	11.4	11.5
Benchmark	n/a	10.4	11.0	11.1
Tracking Error (TE)	< 1.5	1.16	1.11	1.05
Actionable TE	n/a	0.13	0.16	0.24
Allocation TE	< 0.75	0.00	0.02	0.02

## Portfolio Volatility Contribution



### Comments:

- Forecast Total Volatility of the PERF decreased marginally over the last year to 10.7%. This change is primarily a reflection of lower market volatility in first half of 2021 relative to the prior year.
- Rapid shifts in volatility regime can occur and would not be predicted by this model. The best interpretation of this estimate is as an indicator of the plan's volatility given the current market environment.
- The pie chart above gives a visual representation of portfolio volatility contribution by asset classes (in percent). Growth sensitive assets, such as public and private equities, high yield bonds and real assets dominate, so PERF returns will be driven by performance of those assets.

Asset Class	Market Value (\$millions)	Total Forecast Volatility (%)	% Contribution to Total Volatility	Tracking Error (%)
<b>Public Equity</b>	<b>\$ 242,216</b>	<b>15.3</b>	<b>71.0</b>	<b>0.1</b>
Cap Weighted <sup>1</sup>	\$ 171,735	16.6	54.5	0.2
Factor Weighted	\$ 70,481	12.4	16.4	0.0
<b>Income</b>	<b>\$ 140,413</b>	<b>7.2</b>	<b>3.2</b>	<b>0.7</b>
Long Spread	\$ 70,915	5.1	3.1	0.4
Long Treasury <sup>1</sup>	\$ 48,276	11.2	-0.8	0.3
Total Fund Income	\$ 7,071	11.7	-0.1	0.7
High Yield	\$ 14,150	5.0	1.0	0.2
<b>Total Fund</b>	<b>\$ 4,101</b>	<b>N/A</b>	<b>0.7</b>	<b>N/A</b>
Opportunistic	\$ 2,095	8.3	0.7	8.3
LLER	\$ 9,542	3.7	0.0	3.7
Liquidity <sup>2</sup>	\$ 4,831	0.2	0.0	0.2
Trust Level Financing <sup>2</sup>	\$ (12,589)	N/A	0.0	N/A
Other	\$ 222	N/A	0.0	N/A
<b>TOTAL PERF Actionable</b>				<b>0.13</b>
<b>Private Equity</b>	<b>\$ 38,855</b>	<b>22.0</b>	<b>14.2</b>	<b>13.0</b>
<b>Real Assets</b>	<b>\$ 45,254</b>	<b>16.0</b>	<b>10.9</b>	<b>3.4</b>
<b>TOTAL PERF</b>	<b>\$ 470,838</b>	<b>10.7</b>	<b>100.0</b>	<b>1.16</b>

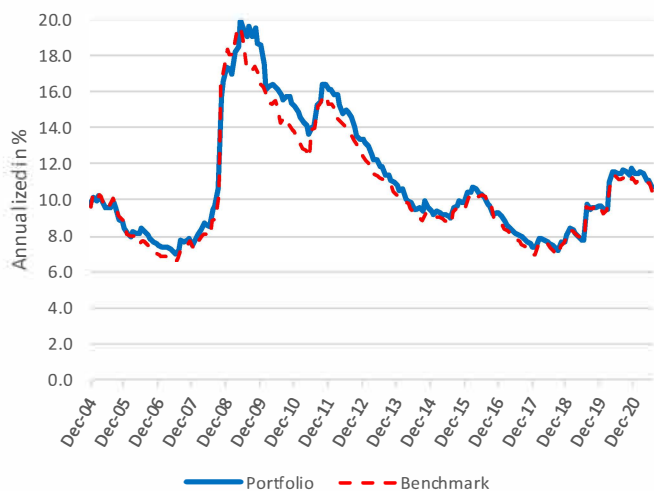
Source: BarraOne, SSB, CalPERS

<sup>1</sup> Market value of Public Equity Cap Weighted and Income Treasury segments includes notional exposure obtained via trust level Synthetic Cap Weighted and Synthetic Treasury portfolios respectively.

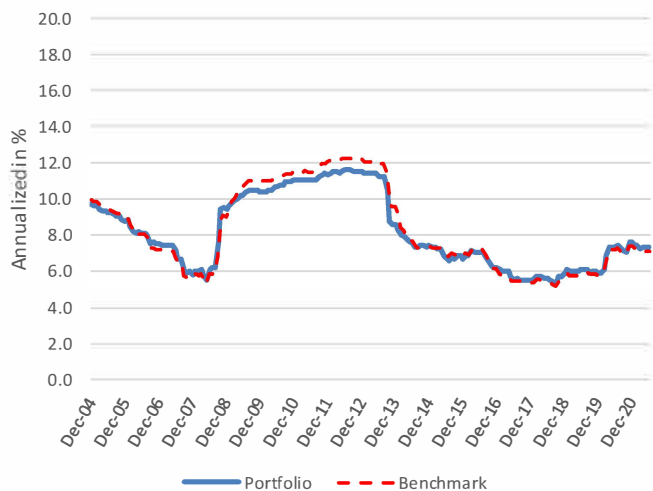
<sup>2</sup> Liquidity reflects net asset value of the Liquidity segment. Trust Level Financing reflects derivatives financing and repo borrowing in trust level Synthetic Cap Weighted and Synthetic Treasury portfolios.

## RISK MANAGEMENT TIME SERIES

### Total Fund Forecasted Volatility



### Total Fund Realized 5 yr Volatility



#### Comments:

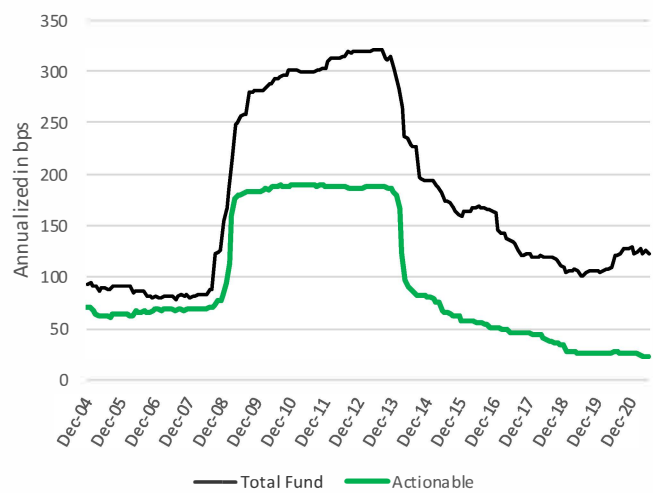
Forecasted volatility and tracking error are model-based estimates that reflect the point in time portfolio positions and historical returns of market factors. These charts correspond to the point in time "volatility" and "tracking error" figures reported for PERF on the first page of this report and in the Quarterly Update on Performance and Risk.

In contrast, 5 yr Realized volatility and tracking error are based on the realized portfolio returns and do not provide information about current positioning. Divergence between Forecasted and subsequently Realized metrics should be expected due to a number of reasons, including a downward bias for Realized volatility resulting from smoothed valuations in private assets.

### Total Fund Forecasted Tracking Error



### Total Fund Realized 5 yr Tracking Error



#### Comments:

Changes in Forecasted Tracking Error over time reflect evolving market conditions, changes in active portfolio positions, and changes in the underlying risk model.

Actionable Tracking Error metric captures controllable and measurable active exposures. This measure includes all public market strategies and asset allocation management, and excludes contributions from private assets relative to their respective benchmarks.

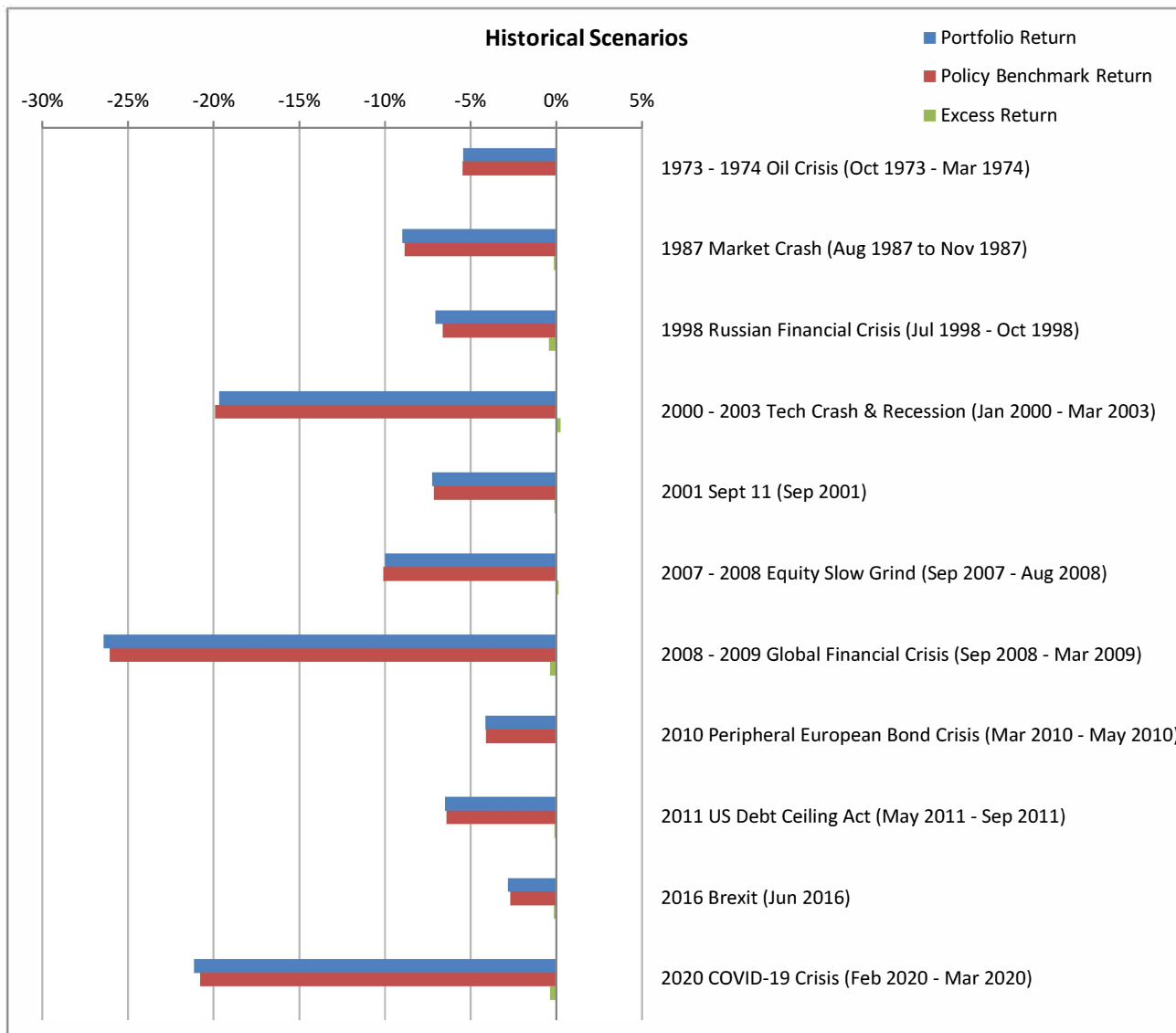
\* Limited historical data availability

Source: BarraOne, SSB, CalPERS; Risk model changes: Barra's BIM301L prior to Jul 2019, BIM301XL for Jul 2019- Apr 2021, MAC.XL from Apr 2021

## STRESS TESTING

Historical scenarios highlight the sensitivity of the portfolio to past economic regimes or specific events. The scenarios can be used as a "what if" gauge of current portfolio positioning to understand the potential impact if a similar event or regime were to repeat.

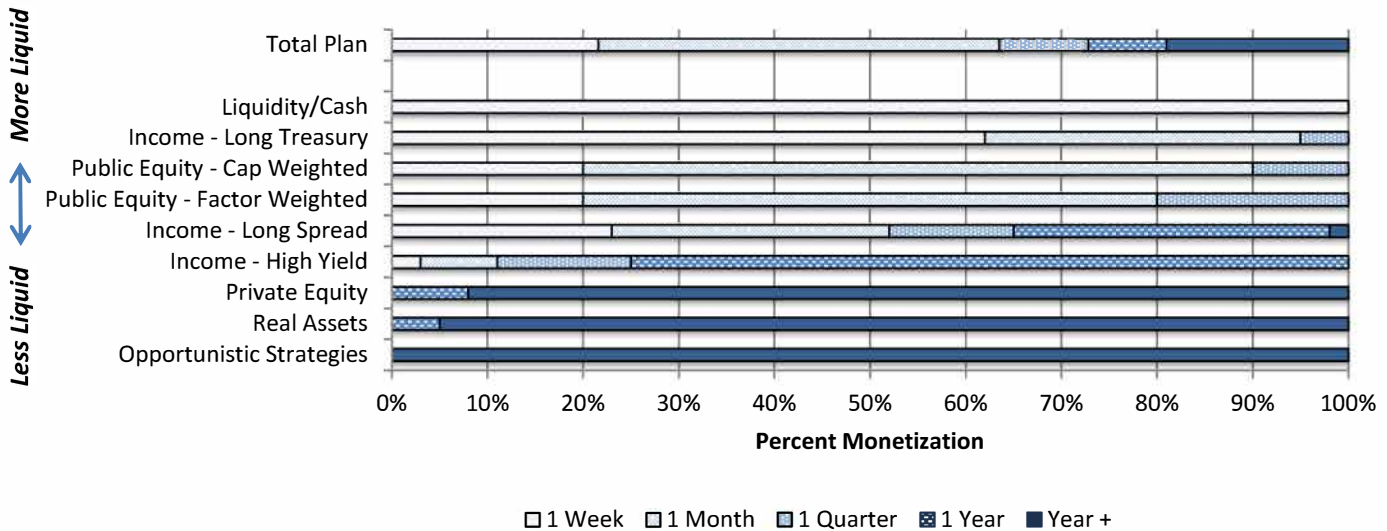
Scenario	Portfolio Return	Policy Benchmark Return	Excess Return
2016 Brexit (Jun 2016)	-2.8%	-2.7%	-0.1%
2010 Peripheral European Bond Crisis (Mar 2010 - May 2010)	-4.1%	-4.1%	0.0%
1973 - 1974 Oil Crisis (Oct 1973 - Mar 1974)	-5.4%	-5.5%	0.0%
2011 US Debt Ceiling Act (May 2011 - Sep 2011)	-6.5%	-6.4%	-0.1%
1998 Russian Financial Crisis (Jul 1998 - Oct 1998)	-7.0%	-6.6%	-0.4%
2001 Sept 11 (Sep 2001)	-7.2%	-7.1%	-0.1%
1987 Market Crash (Aug 1987 to Nov 1987)	-9.0%	-8.8%	-0.1%
2007 - 2008 Equity Slow Grind (Sep 2007 - Aug 2008)	-10.0%	-10.1%	0.1%
2000 - 2003 Tech Crash & Recession (Jan 2000 - Mar 2003)	-19.7%	-19.9%	0.2%
2020 COVID-19 Crisis (Feb 2020 - Mar 2020)	-21.1%	-20.8%	-0.4%
2008 - 2009 Global Financial Crisis (Sep 2008 - Mar 2009)	-26.4%	-26.1%	-0.4%



Source: BarraOne, CalPERS

# Total Plan Liquidity

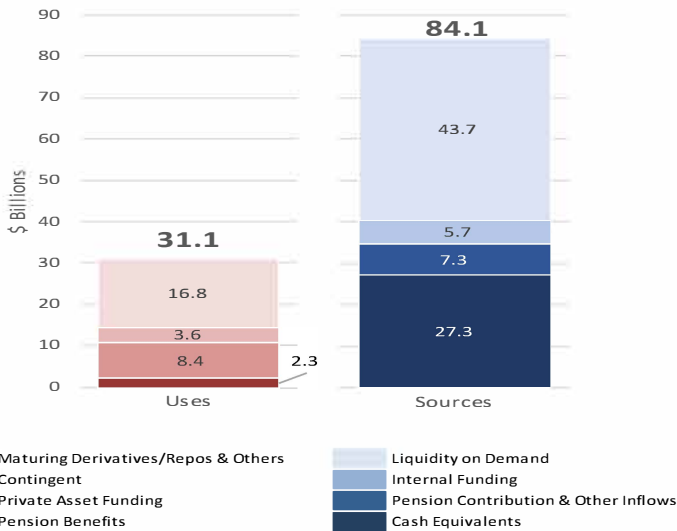
As of 6/30/21



Transactional liquidity is estimated for each asset class/strategy based on the current market environment while also accounting for legal structures or other factors that may impact liquidity. *Source: SSB, CalPERS*

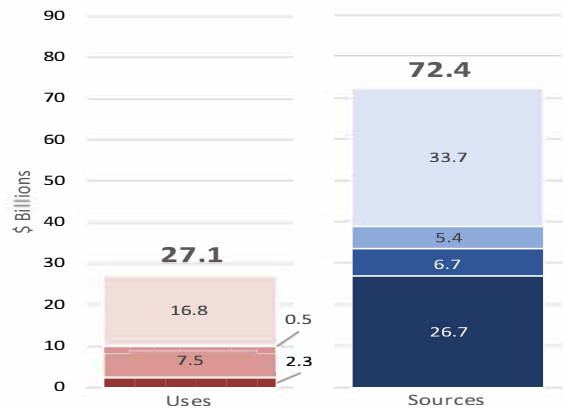
## Stress (Current Regime)<sup>1</sup>

Tier 1 30 Day Liquidity Coverage Ratio = **2.7x**



## Historical Worst<sup>2</sup>

Tier 1 30 Day Liquidity Coverage Ratio = **2.7x**



<sup>1</sup> **Stress (Current Regime)** - Regime-dependent scenario to capture a "worst contemplated" outcome across liquidity uses and sources given current market conditions.

<sup>2</sup> **Historical Worst** - Historical experience for the 30 day period: 9/28/08-10/27/08 (the worst 30 day equity drawdown in the past 20 years) applied to current portfolio.

Liquidity Coverage is computed from estimates of future cash inflows and outflows. In this table, the 1-month forward period is shown with Liquidity Coverage ratios for a stress scenario and for a historical worst experience. The Liquidity Coverage ratios could be interpreted as how many times available sources could cover projected cash needs over a 1-month forward period. A ratio of less than one implies the Fund could be forced to sell assets to meet liquidity needs in the given scenario.

Source: Aladdin, SSB, CalPERS

## Total Plan Leverage

As of 7/1/21

Leverage changes a portfolio's risk profile through both impact on liquidity and amplification of returns volatility. As a metric, leverage has the benefit of being relatively straightforward to calculate, making it a good backstop to more nuanced but complex perspectives on risk that could suffer from model errors or flawed assumptions. However, since the leverage metric implicitly treats all assets as equally risky, and because it does not capture the interrelationships between assets (diversification), leverage should always be viewed in conjunction with other perspectives. For example, a low leverage portfolio could easily be more risky than a better-diversified moderate leverage portfolio.

### Total Plan Leverage Breakdown:

Total portfolio leverage as defined in the Total Fund Investment Policy.

### Company Embedded Leverage:

Some Fund assets embed leverage by their nature (i.e., private and public companies). In this case, leverage is not a portfolio management decision, but does contribute to the assets' inherent riskiness.

### Unfunded Commitments:

Represent potential draws on Fund liquidity, but are contingent in nature.

Total Plan Leverage Breakdown <sup>1</sup>	Asset Value (\$ Mill)	Share of Plan NAV (%)
<b>Total Fund Leverage</b>		
Financing (Derivatives and Repos)	12,589	
Liquidity	(4,831)	
<b>TOTAL</b>	<b>7,759</b>	<b>1.6%</b>
<b>Program Level Leverage</b>		
Real Assets Borrowing (Net of Cash) <sup>2</sup>	22,525	
Private Equity (Subscription Financing)	2,786	
Opportunistic (Subscription Financing)	644	
Public Equity	(101)	
Income	611	
Total Fund Income	252	
Other	(10)	
<b>TOTAL</b>	<b>26,706</b>	<b>5.7%</b>
<b>TOTAL PLAN LEVERAGE</b>	<b>34,464</b>	<b>7.3%</b>
	<b>Leverage in Strategic Asset Allocation</b>	<b>2.9%</b>
	<b>TOTAL POLICY LEVERAGE</b>	<b>4.4%</b>

### Embedded Leverage in Asset Classes

	Embedded Leverage <sup>3</sup>
Public Equity	1.59
Private Equity	2.22
Real Estate	1.30

### Unfunded Commitments

	Market Value (\$B)	Unfunded Commitments (\$B)	% of Total Fund
Opportunistic (Private Debt)	2.1	8.9	1.9%
Private Equity	38.9	30.3	6.4%
Real Assets	45.3	16.1	3.4%

1. FX Forwards used for hedging and fixed income duration shifting are not counted as leverage. Options are included based on delta adjusted notional value.

Cash is defined as assets meeting Liquidity program guidelines. All debt is recourse except for Real Assets as listed.

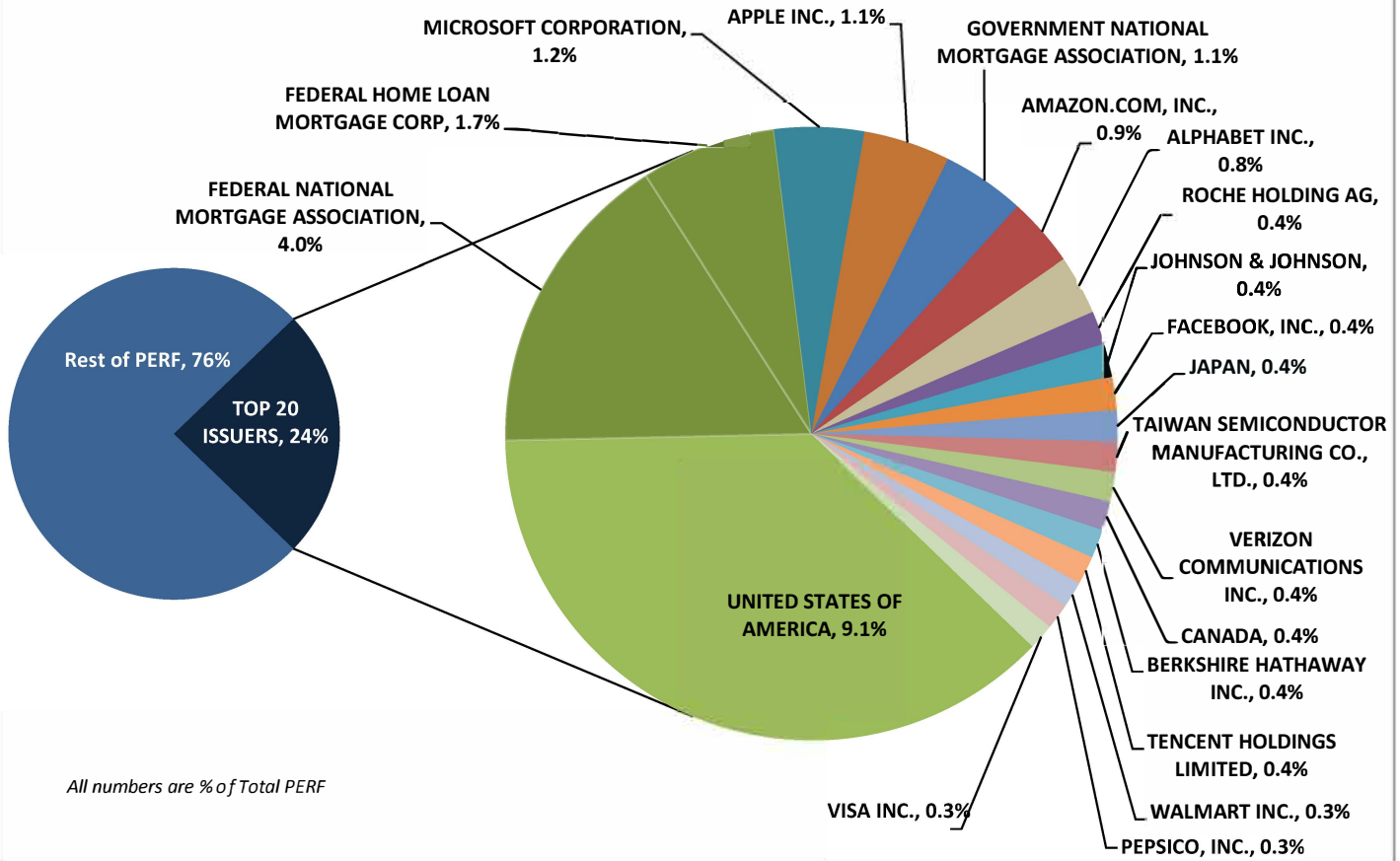
2. There is no recourse debt and there has been no change to recourse debt from the last RMS reported date. All Real Assets debt is currently non-recourse.

3. Embedded leverage shown represents Enterprise Value to Equity Ratio. Embedded leverage for Public Equity and Private Equity is estimated based on industry research.

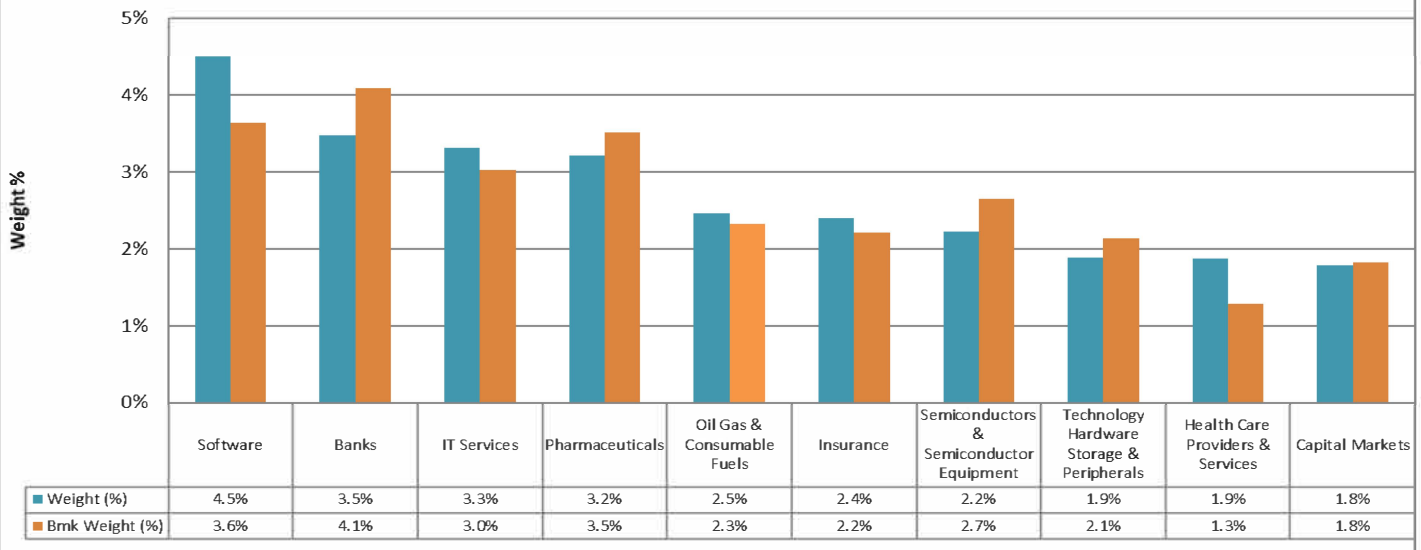
Source: Aladdin, SSB, Factset, CalPERS

**CONCENTRATION REPORT**

**Top 20 Global Issuer Exposure**



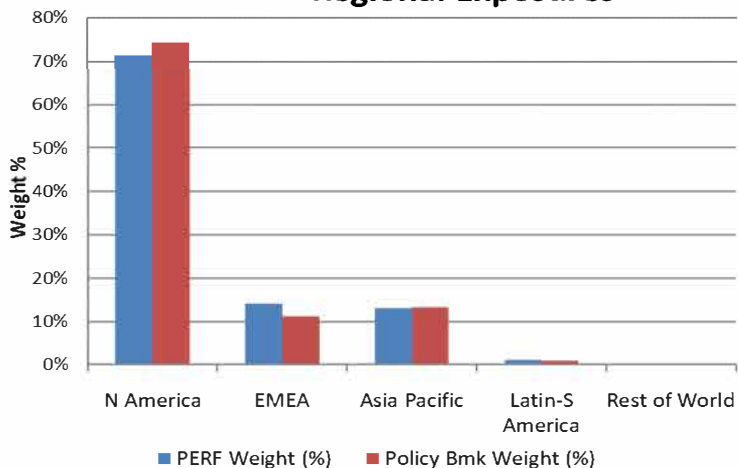
**Top 10 Industry Exposure**



*Industry Exposure figures are % of PERF and they represent exposures in Public Equity, Spread, High Yield and Private Equity Segments.  
Source: BarraOne, CalPERS*

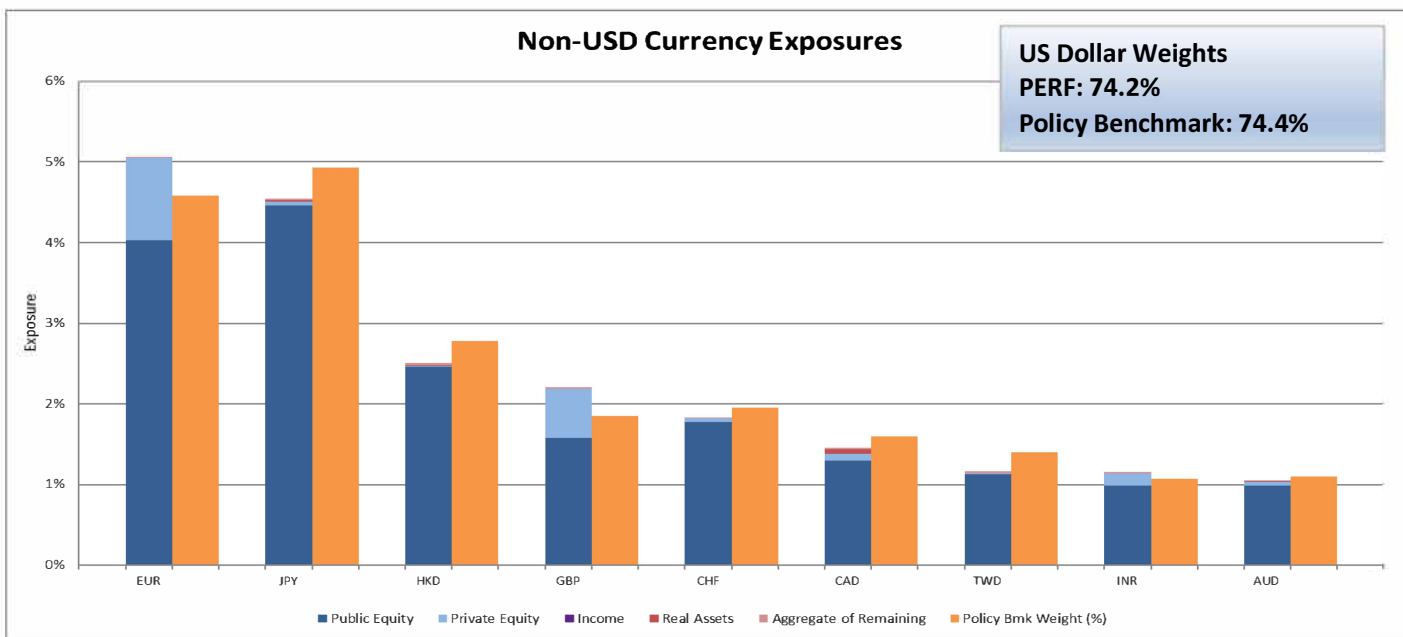
**CONCENTRATION REPORT**

**Regional Exposures**



Country	PERF Weight (%)	Policy Bmk Weight (%)	Active Weight (%)
United States	68.8%	72.5%	-3.7%
Japan	4.6%	4.6%	0.0%
China*	3.3%	3.5%	-0.2%
United Kingdom	3.0%	2.0%	1.0%
Canada	2.6%	1.9%	0.7%
France	1.9%	1.5%	0.4%
Switzerland	1.8%	2.0%	-0.2%
Germany	1.5%	1.4%	0.1%
Taiwan	1.3%	1.5%	-0.2%
India	1.3%	1.2%	0.1%

**Non-USD Currency Exposures**



\*Includes Hong Kong

Source: BarraOne, CalPERS

## Total Plan Counterparty Risk

As of 7/1/21

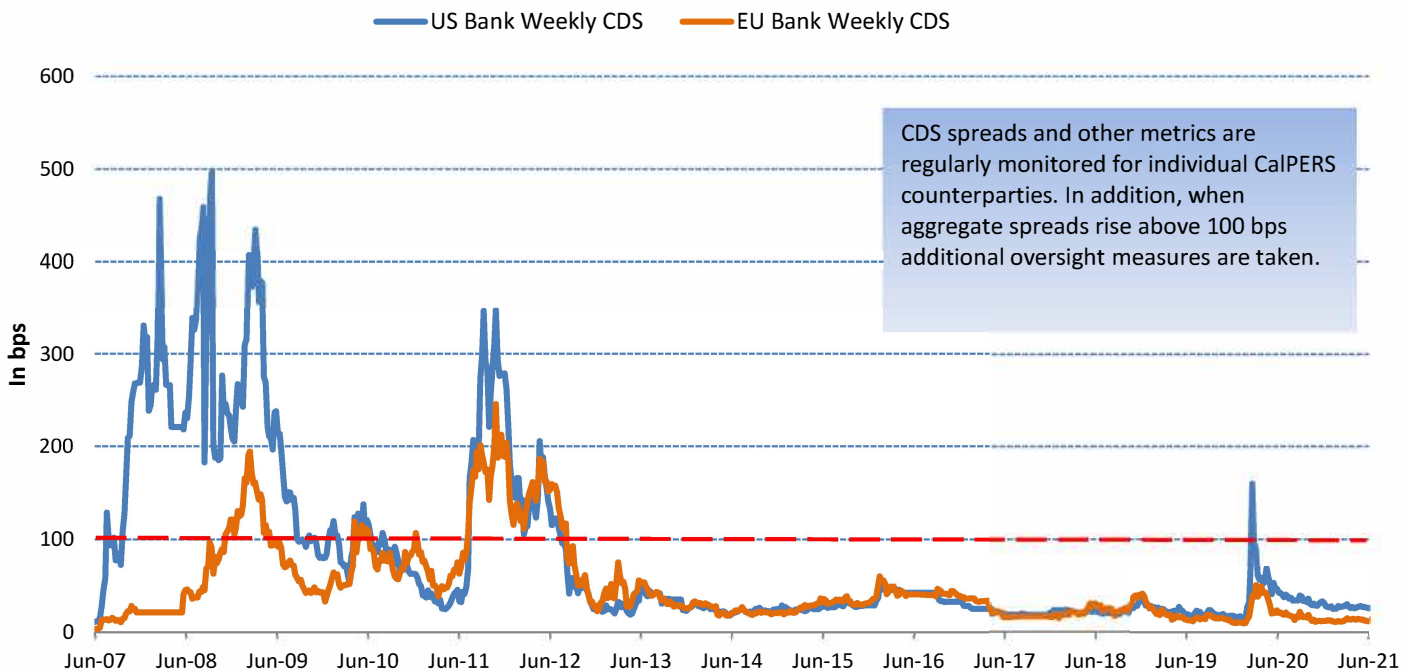
Counterparty risk is the risk that, in the event a counterparty fails, CalPERS would not have received enough collateral to cover the value cost in the contract with such counterparty. CalPERS seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral, monitoring procedures and entering into market accepted standard agreements.

CalPERS holds positions in swaps, options, futures, rights and warrants, forward foreign currency exchange, repurchase and reverse repurchase, forward purchase and securities lending contracts. In addition, external investment managers might also hold such instruments. External investment managers are required to have strict guidelines to manage and control counterparty risk. This report describes exposures directly contracted by CalPERS, and not by the external investment managers.

This Counterparty Risk section presents these exposures as required and governed by the CalPERS Investment Policy. The Policy is intended to ensure that CalPERS has effective operational, risk management, and compliance controls in place governing the counterparty risk arising within the investment process.

### Historical Bank Credit Default Swap Spreads

From June 2007 - Present



Source: Bloomberg



## COUNTERPARTY RISK (CONTINUED)

Derivatives are used to efficiently manage the risk of the overall investment portfolio and to support financing activities. Through the use of derivatives, the risks that are bound together in traditional cash market investments can be separated and managed independently. CalPERS Over the Counter (OTC) Derivative Investments include contingent features that require CalPERS or the Counterparty to post collateral in the event that the fair value surpasses a specified contractual threshold. CalPERS contracts derivatives on bilateral contracts (“Over the Counter”) or via Futures Exchanges (“Exchange Traded”). Counterparty Risk and Custodial Risk arise from these features.

### Counterparty Risk in “Over the Counter” Derivatives by Type of Contract

International Swaps and Derivatives Association (ISDA) Master Agreement			
Includes FX forwards, equity swaps, interest rate swaps, cross-currency swaps, total return swaps, and options			
Counterparty	Net Mark to Market Total (+) = CalPERS is due money (-) = CalPERS owes money	Collateral Posted (+) = CalPERS has posted (-) = Counterparty has posted	Net Exposure (+) = CalPERS exposed to Counterparty
Bank of Montreal	(325,484)	348,609	23,125
Bank of America N.A.	(5,693,489)	5,703,146	9,657
BNP Paribas	(4,352,601)	4,383,927	31,326
Barclays Bank PLC	7,362,408	(7,378,469)	(16,061)
Citibank N.A.	4,188,472	(4,193,820)	(5,348)
Canadian Imperial Bank of Commerce	(624,432)	639,528	15,096
Credit Suisse International	16,419,623	(16,450,000)	(30,377)
Deutsche Bank AG	9,531,840	(9,037,000)	494,840
Goldman Sachs International	65,877,130	(65,882,000)	(4,870)
HSBC Bank USA	874,714	(899,495)	(24,781)
JP Morgan Chase Bank N.A.	(288,528)	291,612	3,084
Morgan Stanley Capital Services Inc.	(22,764,830)	22,787,509	22,679
The Royal Bank of Canada	(800,664)	654,803	(145,861)
Standard Chartered Bank	20,567,337	(20,569,000)	(1,663)
Societe Generale	(6,278,669)	5,710,279	(568,390)
State Street Bank & Trust Company	10,937,755	(10,944,000)	(6,245)
The Toronto Dominion Bank	(228,498)	242,569	14,071
UBS AG	10,483,620	(10,400,000)	83,620
<b>Total</b>	<b>104,885,704</b>	<b>(104,991,802)</b>	<b>(106,098)</b>

Master Securities Forward Transaction Agreement (MFSTA)			
Includes forward purchase/sale of mortgage bonds and TBAs			
Counterparty	Net Mark to Market Total (+) = CalPERS is due money (-) = CalPERS owes money	Collateral Posted (+) = CalPERS has posted (-) = Counterparty has posted	Net Exposure (+) = CalPERS exposed to Counterparty
BarclaysCapital Inc.	(15,388)	-	(15,388)
Citigroup Global Markets Inc.	3,641,211	(3,649,000)	(7,789)
Credit Suisse AG, New York Branch	1,736,690	(1,740,000)	(3,310)
Daiwa Capital Markets America Inc.	161,040	(133,000)	28,040
Federal National Mortgage Association	370,863	(220,000)	150,863
Goldman Sachs & Co	5,195,889	(5,200,000)	(4,111)
JP Morgan Securities LLC	1,836,201	(1,839,000)	(2,799)
Merrill Lynch, Pierce, Fenner & Smith Incorporated	524,245	(592,955)	(68,710)
Morgan Stanley & Co. LLC	6,675,723	(6,682,928)	(7,205)
Wells Fargo Securities, LLC	5,178	-	5,178
<b>Total</b>	<b>20,131,652</b>	<b>(20,056,883)</b>	<b>74,769</b>

Custodial risk is the risk that, in the event a depository institution or counterparty fails, CalPERS would not be able to recover the value of its deposits, investments, or collateral securities. This risk arises in exchange traded derivatives, where CalPERS posts margin to engage in exchange traded derivatives via a Futures Commission Merchant (FCM). FCMs are highly regulated financial entities that accept orders for exchange traded contracts in Central Clearing Counterparties (CCPs). Collateral posted at the FCM is mostly used to meet the margin requirements at the CCPs. The collateral below has been provided to the FCM to post at the CCPs on behalf of CalPERS and bridging operational, timing and processing gaps in collateral transfer.

Futures Commission Merchant (FCM) Exposure	
Includes exchange traded futures	
Counterparty	Collateral Posted
Citigroup Global Markets Inc.	347,668,460
BOFA Securities Inc.	155,008,069
<b>Total</b>	<b>502,676,529</b>

Source: Aladdin

## COUNTERPARTY RISK (CONTINUED)

Investment guidelines permit certain portfolios to enter into collateralized loans of securities to borrow or lend securities. CalPERS has positions in repurchase, reverse repurchase and securities lending contracts. CalPERS is a cash borrower in reverse repurchase agreements and a cash lender in repos. CalPERS lends securities via Sec lending and receives either cash or other securities as collateral.

Counterparty risk is mitigated because the market value of the securities posted in a collateralized loan agreement exceeds the cash received, providing the counterparty a margin against a decline in market value of the securities. If the counterparty defaults, the lender could suffer an economic loss equal to the difference between the market value of the underlying securities plus accrued interest and the agreement obligation, including accrued interest.

### Counterparty Risk in Collateralized Loans by Type of Contract

<b>Master Repurchase Agreement (MRA)</b>			
Includes repurchase and reverse purchase agreements			
<b>Counterparty</b>	<b>Loan Amount</b> (+) = CalPERS is due money (-) = CalPERS owes money	<b>Collateral Posted</b> (+) = CalPERS has posted (-) = Counterparty has posted	<b>Net Exposure</b> (+) = CalPERS exposed to Counterparty
Bank of America Securities Inc.	(2,409,187,481)	2,388,826,580	(20,360,901)
BNP Paribas	(686,287,398)	686,284,176	(3,222)
Barclays Capital Inc.	52,500,000	(53,550,095)	(1,050,095)
Credit Agricole Corp & Inv Bank	(190,649,669)	191,328,693	679,024
Citigroup Global Markets Inc.	(1,012,808,529)	1,034,437,202	21,628,673
Canadian Imperial Bank of Commerce	310,675,568	(321,148,882)	(10,473,314)
Deutsche Bank Securities Inc.	1,390,518,929	(1,419,350,584)	(28,831,655)
Daiwa Capital Markets America Inc.	(195,397,006)	197,432,456	2,035,450
Goldman Sachs & Co	(959,256,740)	978,989,470	19,732,730
JP Morgan Securities LLC	(1,453,056,384)	1,467,661,649	14,605,265
The Royal Bank of Canada	1,000,000,000	(1,020,000,068)	(20,000,068)
State Street Bank & Trust Company	1,400,000,000	(1,428,000,052)	(28,000,052)
Truist Securities Inc.	300,000,000	(306,000,010)	(6,000,010)
Wells Fargo Securities, LLC	(313,884,765)	317,321,289	3,436,524
<b>Total</b>	<b>(2,766,833,475)</b>	<b>2,714,231,823</b>	<b>(52,601,652)</b>

<b>Securities Lending Agreement (SLA)</b>			
Includes collateralized loan of securities			
<b>Counterparty</b>	<b>Market Value of Securities</b> <b>Out on Loan</b> (+) = CalPERS lent securities	<b>Collateral Posted</b> <b>(Cash or Securities)</b> (+) = CalPERS has posted (-) = Counterparty has posted	<b>Net Exposure</b> (+) = CalPERS exposed to Counterparty
ABN AMRO Group N.V.	59	(74)	(15)
Bank of Montreal	16,042,817	(17,065,049)	(1,022,231)
Bank of New York Mellon	9,339,120	(9,567,600)	(228,480)
Bank of Nova Scotia	2,347,131,762	(2,533,194,588)	(186,062,826)
BankAmerica	49,864,500	(54,556,811)	(4,692,311)
Barclays Group	5,950,353,084	(6,322,856,443)	(372,503,359)
BNP Paribas Group	354,713,743	(392,878,015)	(38,164,272)
Citigroup	129,747,434	(141,715,465)	(11,968,030)
Credit Suisse Group	442,978,254	(478,009,593)	(35,031,338)
Deutsche Bank Group	20,512,713	(22,419,245)	(1,906,532)
Goldman Sachs Group	4,009,972,980	(4,200,441,906)	(190,468,926)
Healthcare of Ontario Pension Plan	3,959,789,458	(4,292,167,868)	(332,378,410)
HSBC Group	19,750,543	(21,443,511)	(1,692,967)
ING Group	19,397,649	(21,237,094)	(1,839,445)
J.P. Morgan Group	1,922,350,501	(1,985,531,130)	(63,180,629)
Macquarie Bank Group	49,852,190	(109,959,618)	(60,107,428)
Mitsubishi UFJ Financial Group	395,283,407	(424,791,205)	(29,507,798)
Morgan Stanley Group	2,542,364,535	(2,659,433,363)	(117,068,828)
NATIXIS group	4,118,471,451	(4,469,227,909)	(350,756,459)
Nomura Holdings, Inc.	631,932	(654,150)	(22,218)
Royal Bank of Canada	743,254,633	(795,030,691)	(51,776,058)
Societe Generale Group	948,869,378	(989,012,439)	(40,143,061)
UBS Group	2,817,665,634	(3,078,863,417)	(261,197,783)
<b>Total</b>	<b>30,868,337,777</b>	<b>(33,020,057,183)</b>	<b>(2,151,719,406)</b>

Source: Aladdin, eSec Lending