

# Affiliate Investment Programs Annual Review

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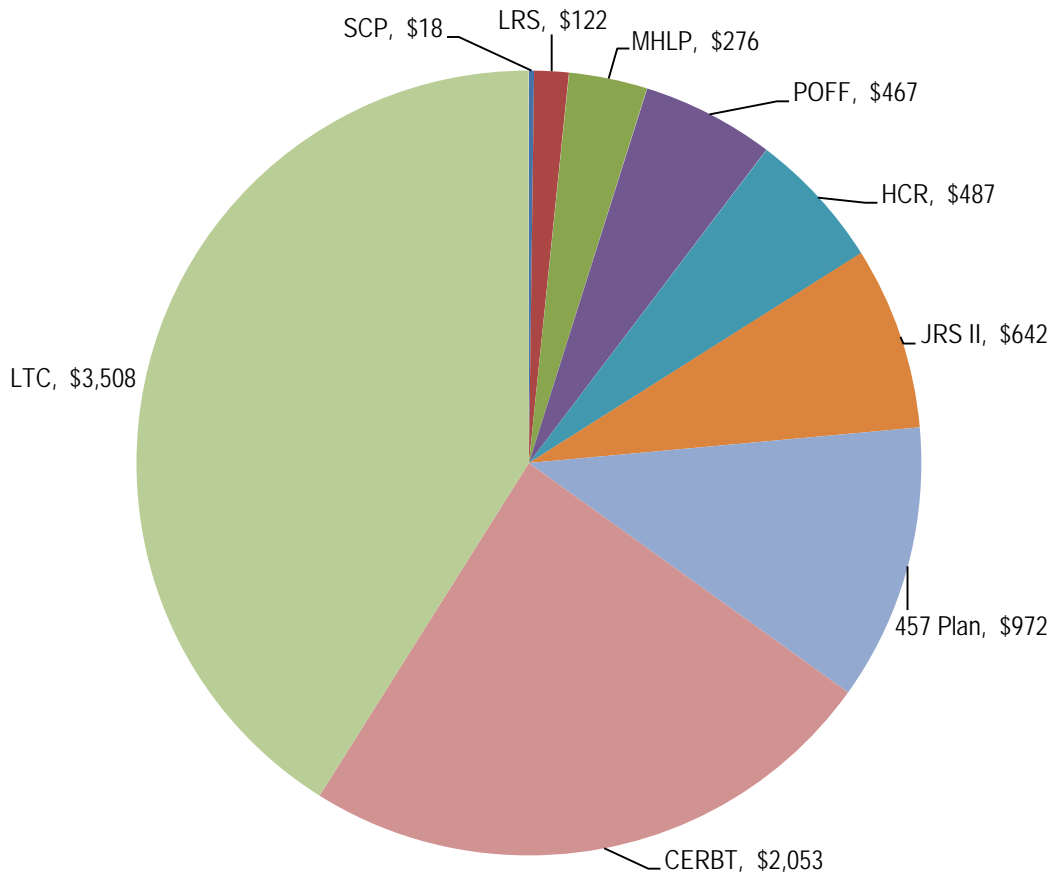
October 15, 2012

# Affiliate Investment Programs (AIP)

Plan Type	Plan/Program
Supplemental Income Plans (SIP)	457 Plan
	Peace Officers and Firefighters' (POFF) Plan
	Supplemental Contributions Plan (SCP)
Defined Benefit Plans	Legislators' Retirement System (LRS)
	Judges' Retirement System (JRS) II
Health-Related Plans	California Employers' Retiree Benefit Trust (CERBT)
	Long-Term Care Program (LTC)
	Health Care Reserves (HCR)
Loan Programs	Member Home Loan Program (MHLP)

# Affiliate Investment Program Assets (as of 6/30/12)

Total \$8,545 (in millions)



Assets by Program (in Millions)	Growth Trend
Long-Term Care Program (LTC)	→
California Employers' Retiree Benefit Trust (CERBT)	↑
457 Plan	→
Judges' Retirement System (JRS) II	↑
Health Care Reserves (HCR)	→
Peace Officers and Firefighters (POFF) Plan	↓
Member Home Loan Program (MHLP)	↓
Legislators' Retirement System (LRS)	↓
Supplemental Contributions Plan (SCP)	↓

# Investment Management Responsibilities

Single Investment Fund	# of Funds	# of underlying portfolios	Portfolio Management	AIP Responsibility
SIP core	7		External	Monitoring
SIP core	5		Internal	Monitoring
HCR	1		Internal	Monitoring
MHLP	1		Internal	Monitoring
Asset Allocation Funds	# of Funds	# of underlying portfolios	Portfolio Management	AIP Responsibility
SIP	14	13	Internal/External	Rebalancing
LRS	1	12	Internal	Rebalancing
JRS II	1	12	Internal	Rebalancing
LTC	1	8	Internal	Rebalancing
CERBT	3	8	Internal	Rebalancing
<b>Total</b>	<b>34</b>	<b>53</b>		

# Policy Ranges and Targets\*

## Affiliate Funds

- All funds are within policy range, compared to Policy targets and actual
- LTC Fund will be transitioned to new asset allocation policy targets, approved by the IC in May 2012, in November 2012

## SIP

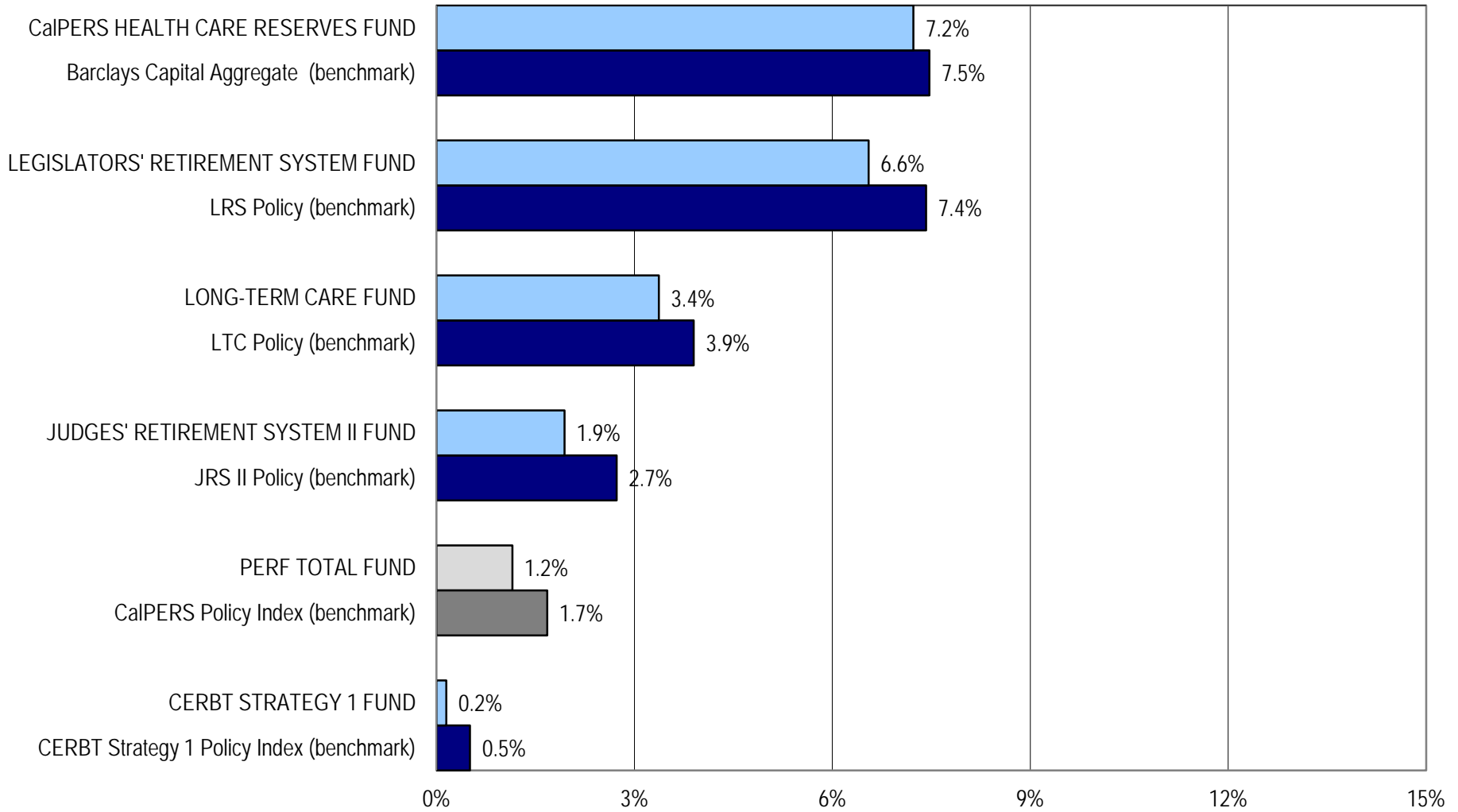
- All funds are within policy range, compared to Policy targets and actual

# Investment Performance – Affiliate Funds

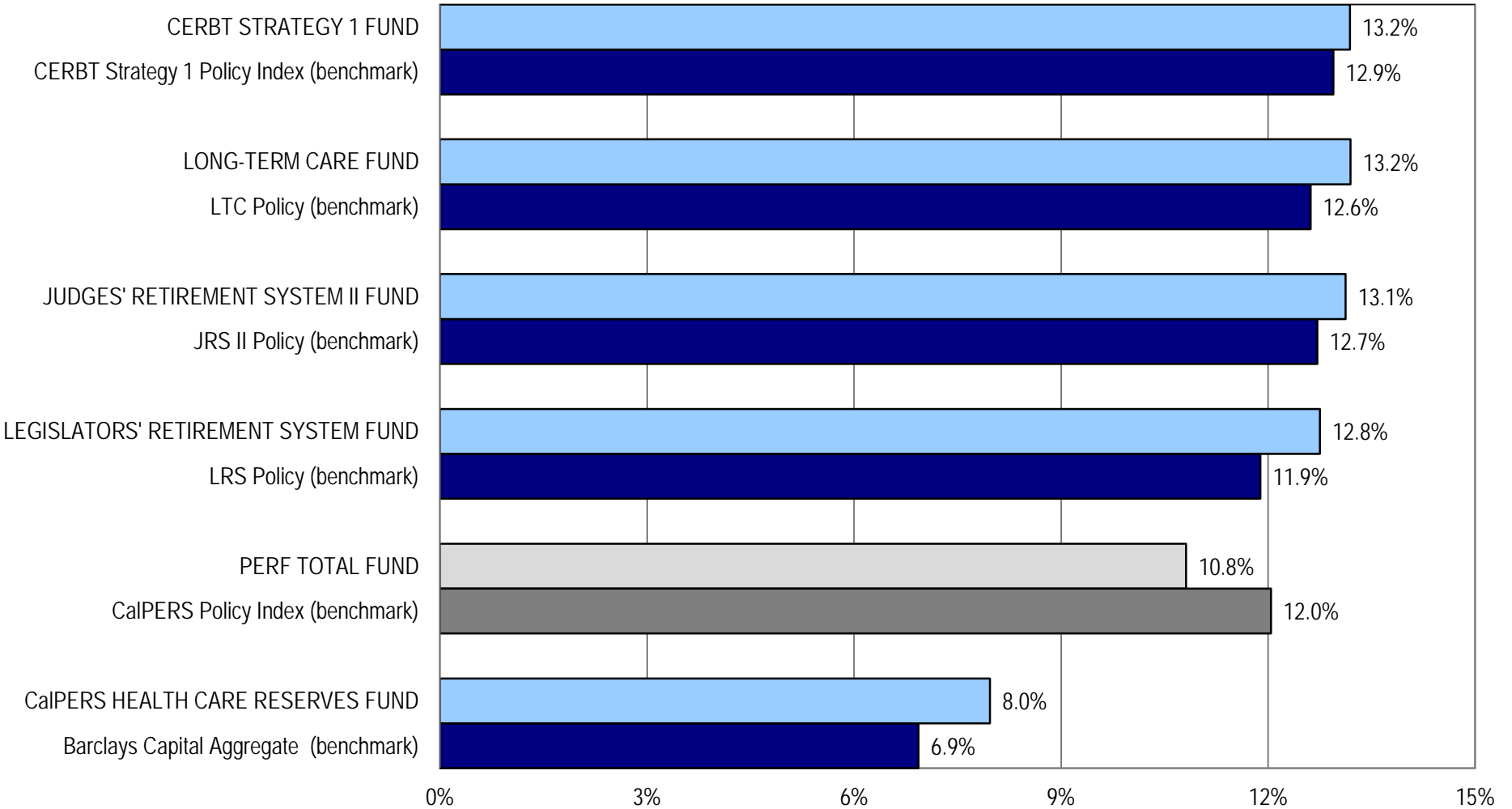
1 & 3 years ending 6/30/12\*

- For the 1-year period, all funds underperformed their benchmark
- For the 3-year period, all funds outperformed their benchmark
- Primary performance driver was CalPERS managed domestic fixed income
- Four of five funds outperformed the PERF

# 1-year\* Investment Performance



# 3-years\* Investment Performance



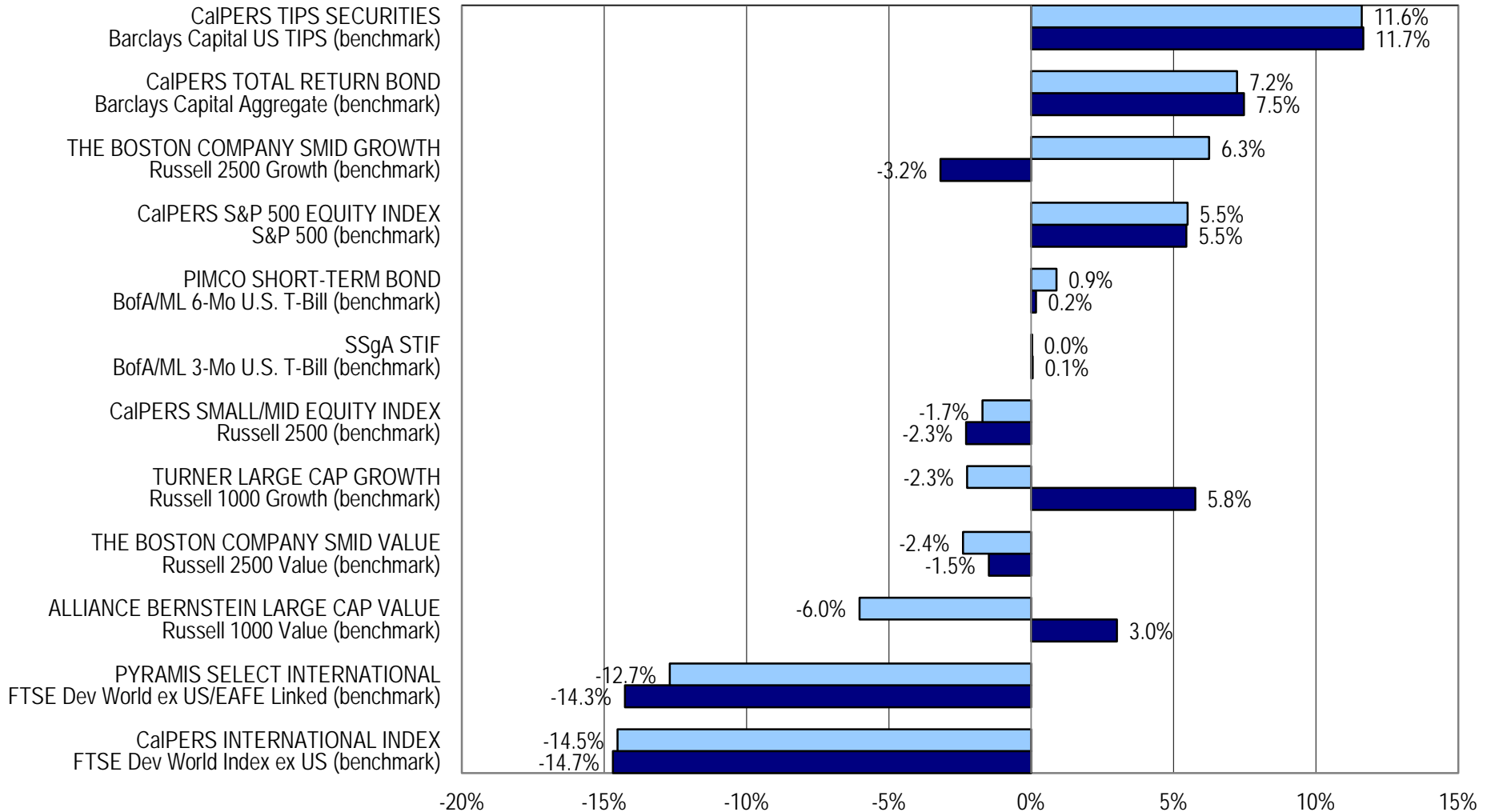


# Investment Performance – SIP Funds

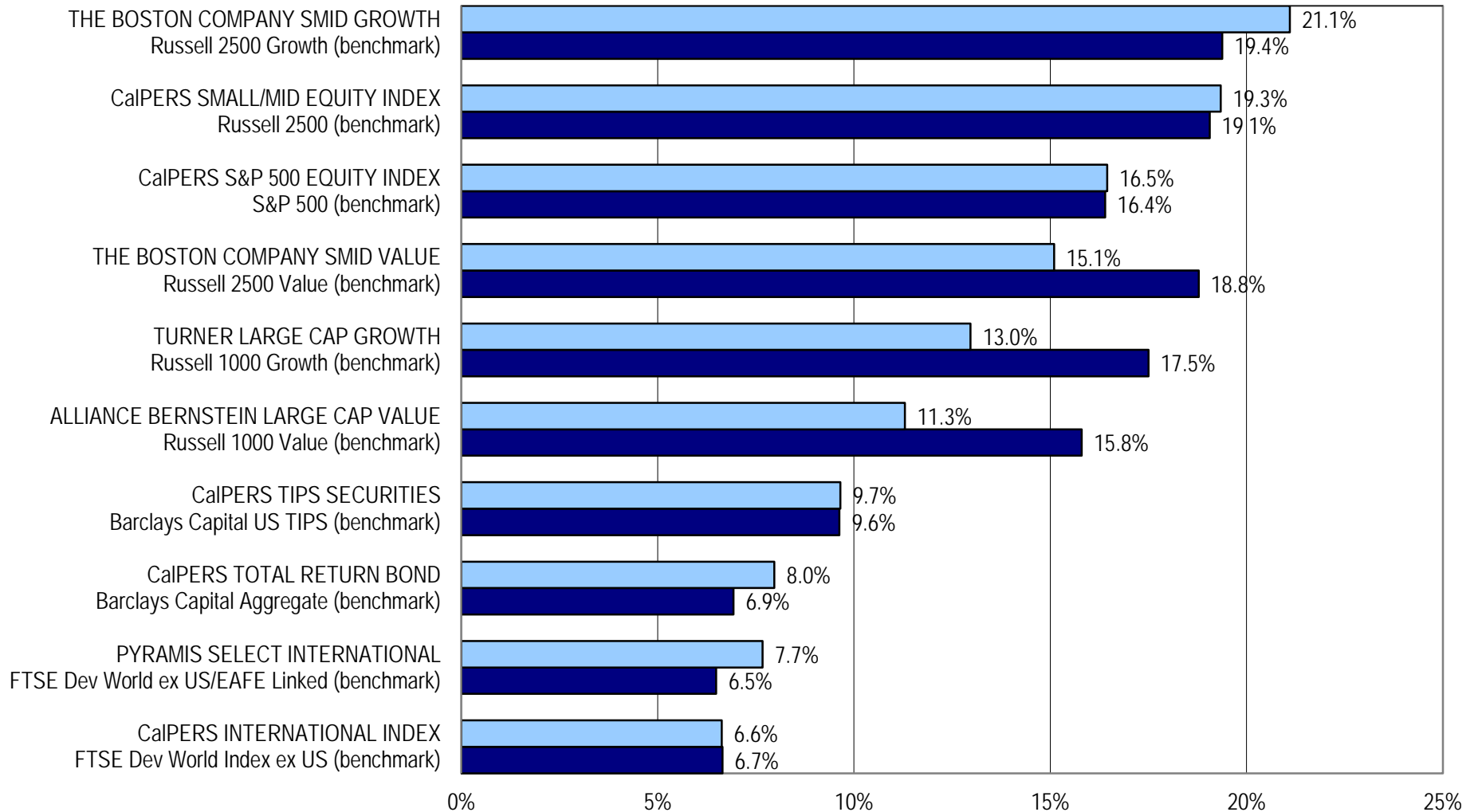
1 & 3 years ending 6/30/12\*

- SIP Core Funds
  - Three out of five active equity external managers underperformed their benchmarks
  - CalPERS Total Return Bond fund outperformed its benchmark for the 3 year period
  - The remaining funds performed at or near their benchmarks
- SIP Asset Allocation (Target Retirement Date & Risk-Based) Funds – underperformed their benchmarks primarily due to the active equity manager underperformance

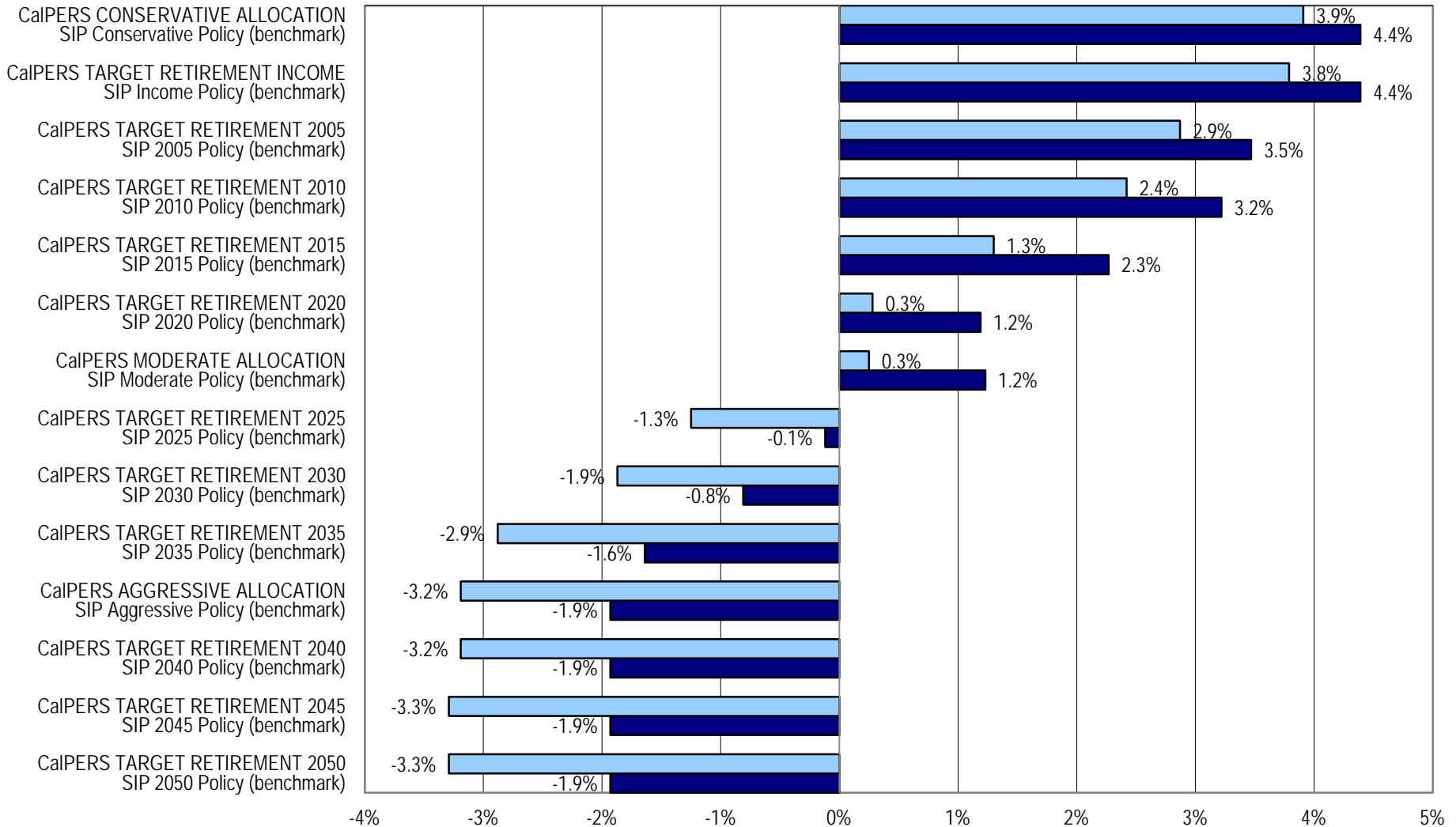
# 1-year\* Investment Performance – SIP Core Funds



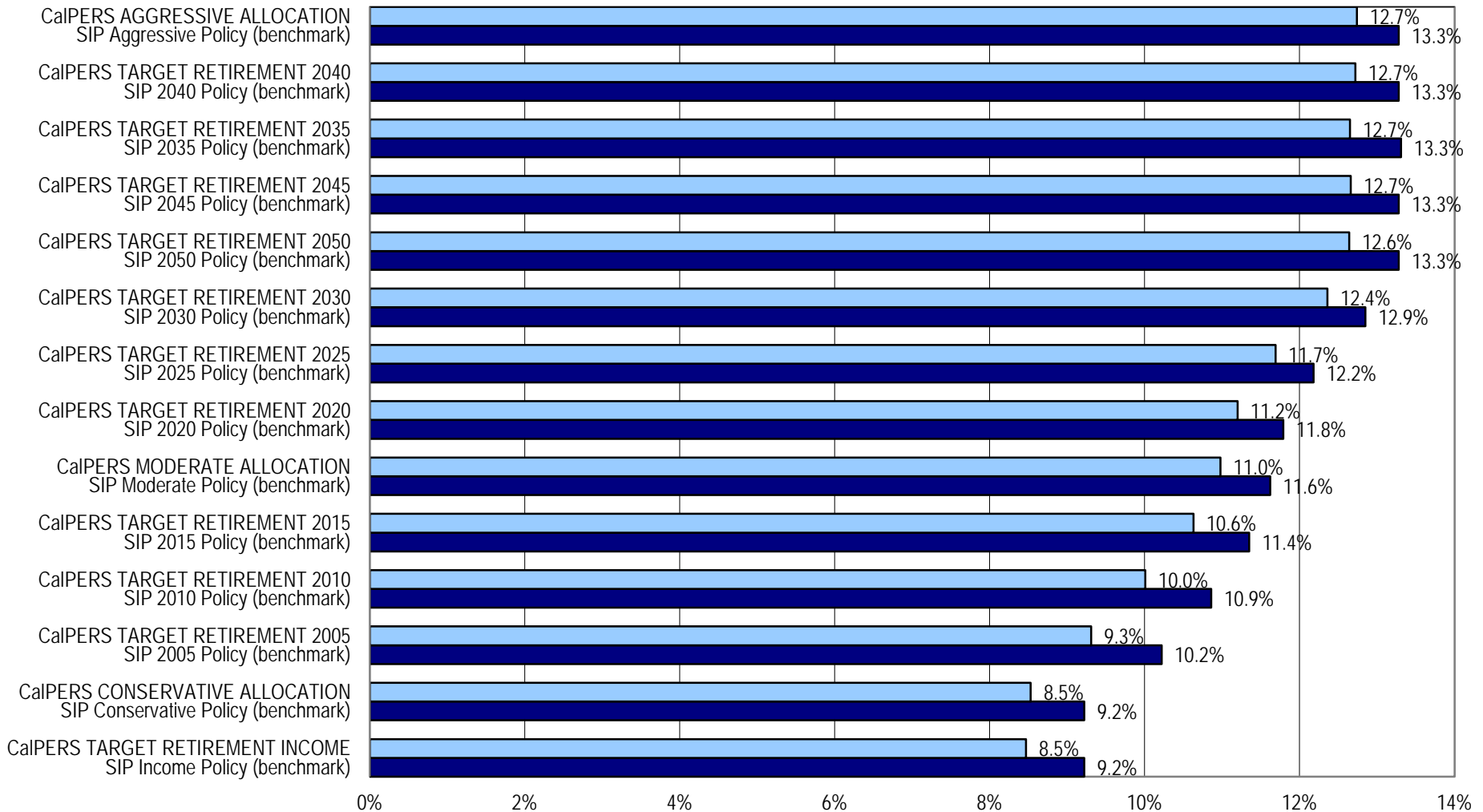
# 3-years\* Investment Performance – SIP Core Funds



# 1-year\* Investment Performance – SIP Asset Allocation Funds



# 3-years\* Investment Performance – SIP Asset Allocation Funds



\*Gross returns ending 6/30/12

# SIP Strategic Review

## 1. Goals & Process

- To evaluate the value proposition of the 457 Plan in the long-term
- To answer key questions about the investment line-up
- Hired R.V. Kuhns & Associates
- Surveyed 19,006 members, 19 employers & 4 competitors

## 2. What were the findings?

- CalPERS Supplemental 457 Plan Strengths
  - Institutional investment design with custom Target Retirement Date Funds
  - Cost Transparency
  - CalPERS Brand
- CalPERS Supplemental 457 Plan Weaknesses
  - Investment menu -- too many options
  - Limited customer services & no advice services

# SIP Strategic Review

## 3. What is the way forward?

- In July 2012, added customer service resources from the third-party administrator & moved program administration to the Customer Services & Support branch
- Revisit investment line-up – **Less is better**
- Recommend long-term program direction

## Bottom line:

To be competitive in the long-term, CalPERS needs:

- Resources
- Larger asset scale
- Organization commitment
- Expertise
- Focus



# Significant Roadmap Objectives

Objective	Status
<ul style="list-style-type: none"> <li>Complete Supplemental Income Plans (SIP) Strategic Review</li> </ul>	On Track
<ul style="list-style-type: none"> <li>Transition certain affiliate assets to external management</li> </ul>	In progress: Beginning November 2012
<ul style="list-style-type: none"> <li>Implement new asset allocation for Long-Term Care Fund</li> </ul>	November 2012
<ul style="list-style-type: none"> <li>Enhance Member Home Loan Program reporting to monitor servicing and loss mitigation</li> </ul>	On Track

# Next Steps

## Key Activities for 2013

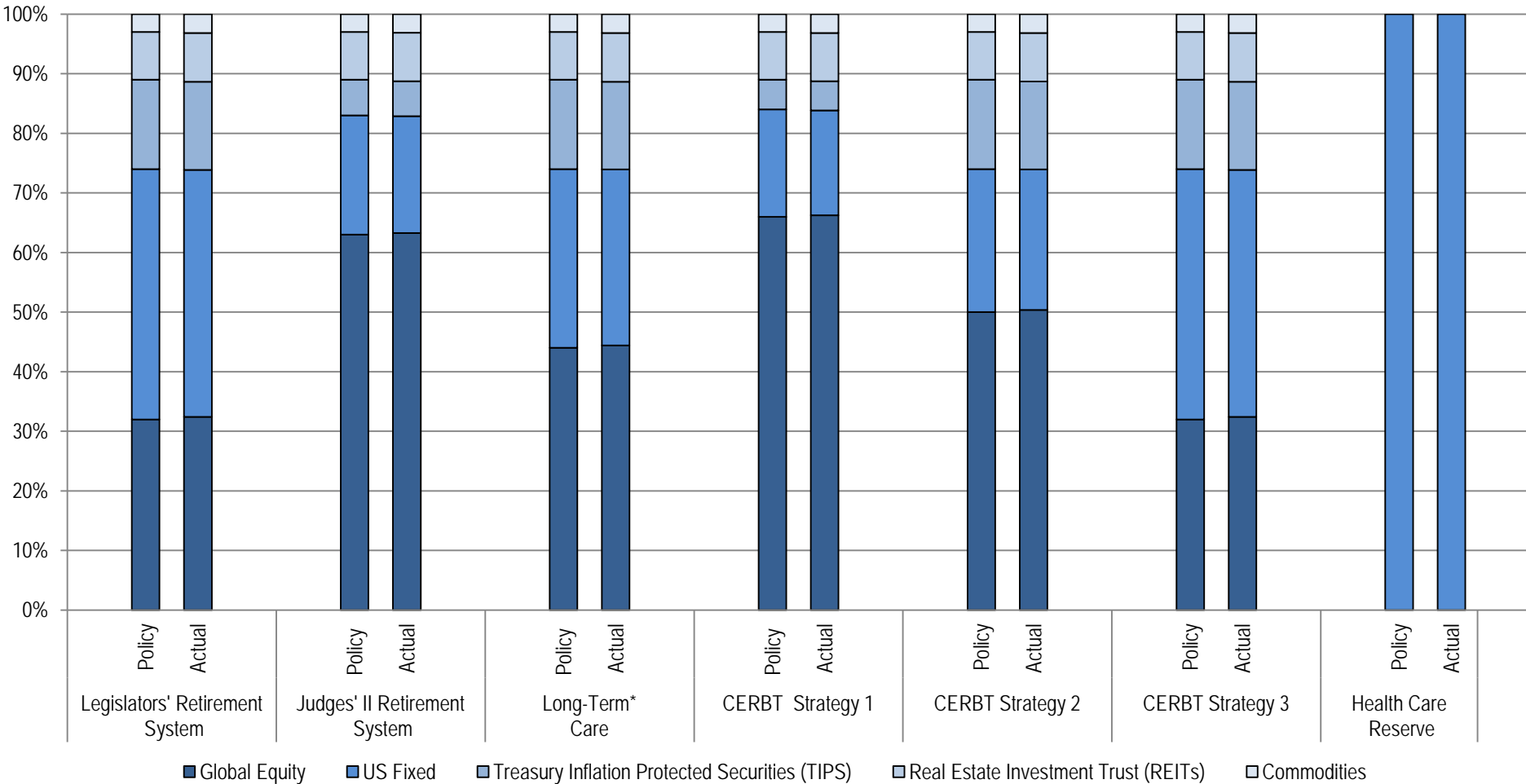
- Return to Investment Committee with SIP Strategic Review recommendation
- Finalize and implement changes to SIP Investment lineup

## Appendix

- Policy Targets & Ranges
- MHLP and Personal Loan Program

# Affiliate Fund Asset Allocation Policy Target to Actual

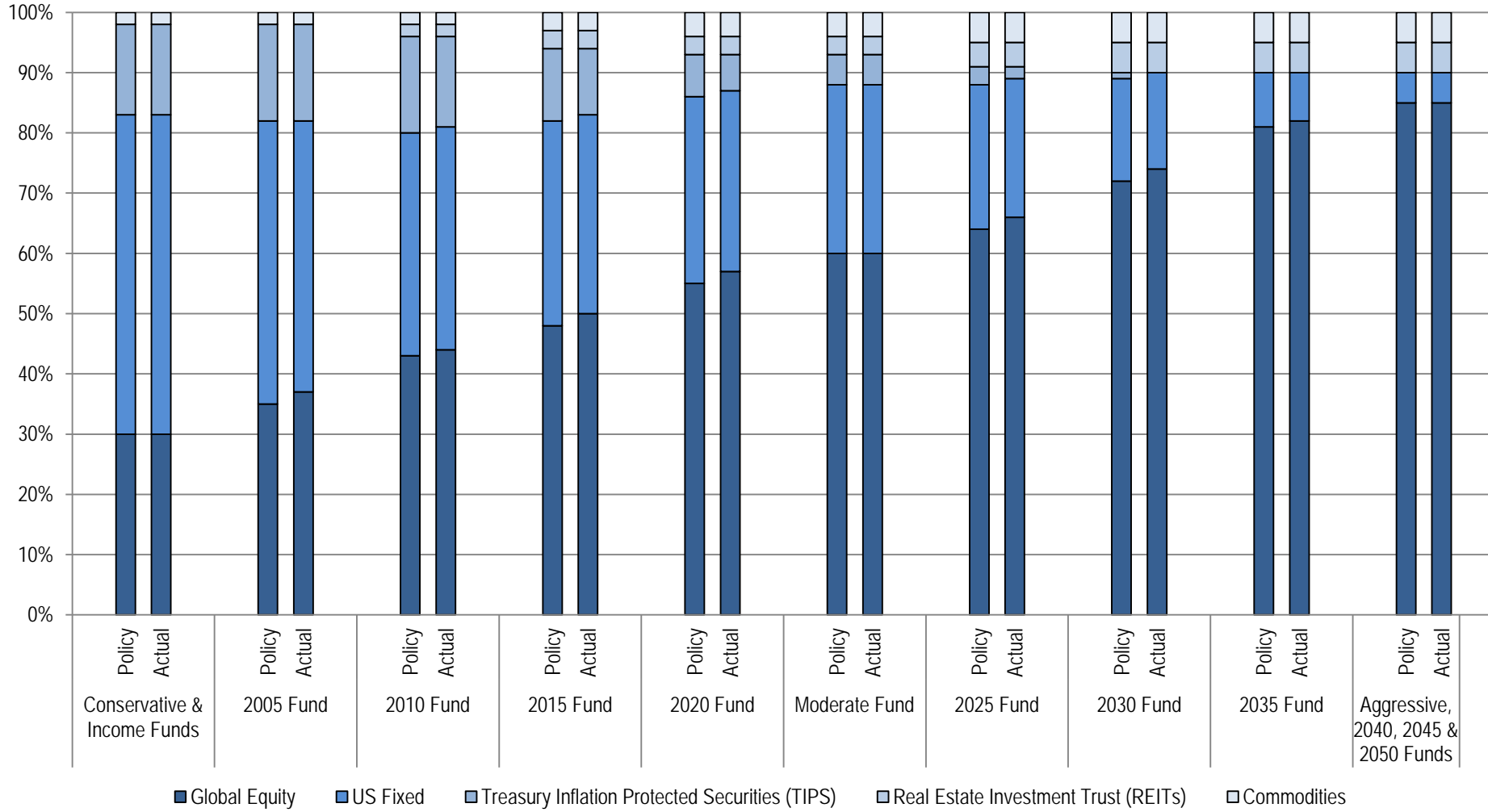
As of 6/30/12



\*The Long-Term Care Fund will be transitioned to new asset allocation policy targets and ranges approved by the Investment Committee in May 2012 in November 2012.

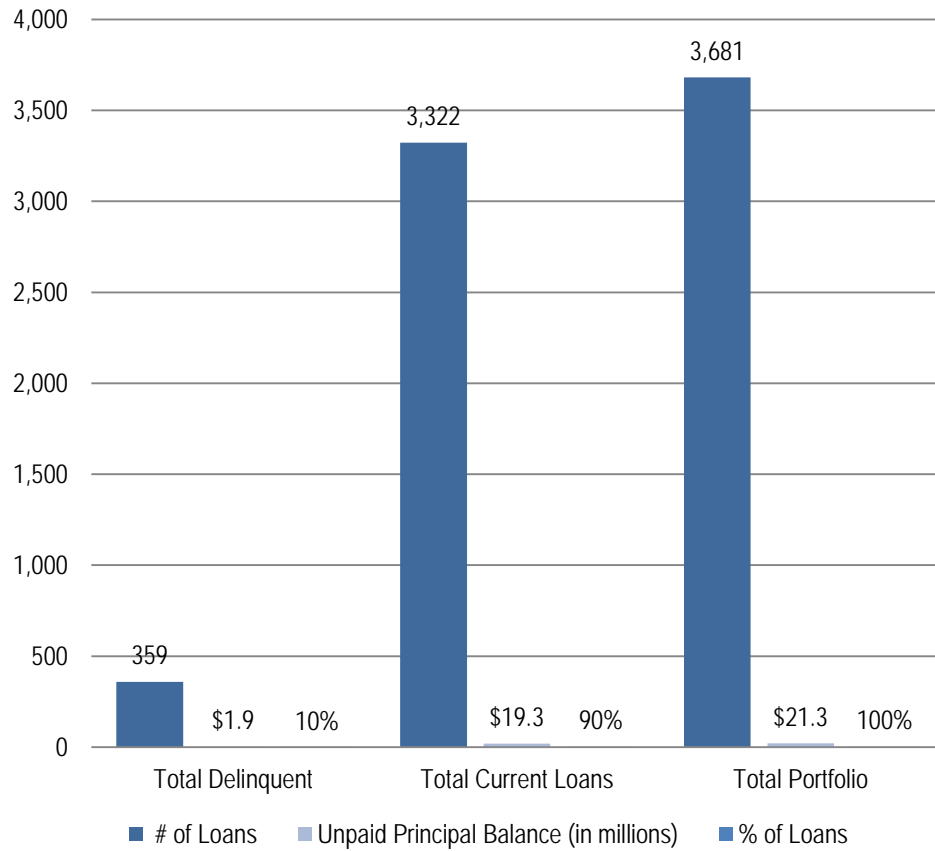
# SIP Asset Allocation Policy Target Range to Actual

As of 6/30/12

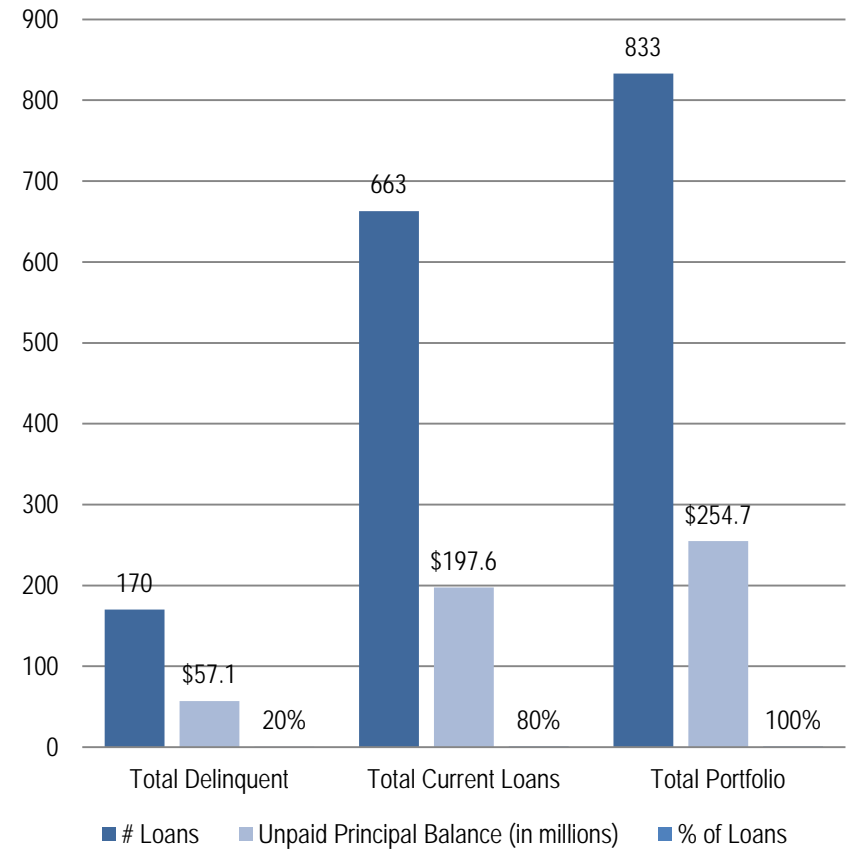


# Loan Program – Member Home Loan Program (MHLP) as of 6/30/12

### Personal Loan Portfolio



### Whole Loan Portfolio



Note: The number of personal loan delinquencies does not include those loans that have been defaulted due to no payment and are awaiting a final resolution through full payoff or a reduction to the Member's benefit payments.

# MHLP Whole Loan Loss Mitigation

