



Investment Committee

Agenda Item 5a

September 16, 2024

Item Name: Mid-Cycle Asset Liability Management Review: Long-Term Care

Program: Long-Term Care Program

Item Type: Action

Recommendation

Approve the recommended portfolio for the Long-Term Care Fund as the Policy Portfolio, which includes the following elements:

1. Capital Market Assumptions
2. Policy Targets and Ranges
3. Benchmarks

Executive Summary

This agenda item presents the results of the Asset Liability Management (ALM) Mid-Cycle Review for the Long-Term Care (LTC) Program, along with Program information and Actuarial considerations to provide context and aid in the evaluation of the analysis and recommendation.

This review is more extensive than the mid-cycle reviews presented in June for other Affiliate Funds in that it evaluates both assets and liabilities. The LTC liabilities are updated annually, which enables current liability information to be evaluated during the strategic asset allocation process of the mid-cycle review. Candidate Portfolios for the Long-Term Care Fund have been designed in partnership with an external manager, using similar methods used for the other Affiliate Funds and the Public Employees' Retirement Fund. The evaluation process and recommendation are in alignment with CalPERS' objectives of minimizing potential losses, maximizing projected returns, maintaining sufficient liquidity, and minimizing costs. This item includes information about asset allocation, projected risk, and projected return.

The Policy Portfolio recommendation is to make allocation changes that reduce projected risk, while maintaining a projected return that is supportive of the discount rate.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the Long-Term Care Fund. Reviewing financial market conditions and investment strategies at the midpoint of the 4-year ALM cycle provides the opportunity to adjust the Policy Portfolio with the objective of strengthening the sustainability of the fund.

Investment Beliefs

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 2: A long term investment horizon is a responsibility and an advantage;
- Investment Belief 6: Strategic asset allocation is the dominant determinant of portfolio risk and return; and
- Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it

Background

Governed by CalPERS Asset Liability Management Policy, the ALM process occurs every four years with a mid-point review and is the primary process by which investment portfolio allocations evolve.

The Mid-Cycle Review of Current and Candidate Portfolios and the selection of the Policy Portfolio provides an opportunity to make portfolio allocation adjustments in response to financial market conditions, which may have changed from the last full ALM review.

This agenda item is intended to provide comprehensive information to support the Investment Committee in selecting the Policy Portfolio for adoption.

Analysis

Not applicable.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of conducting an ALM Mid-Cycle Review and adopting allocation changes for the Policy Portfolios are:

1. Reviewing Current and Candidate Portfolios at the mid-point in the 4-year cycle provides an opportunity to review financial market conditions and determine if the portfolio allocation could be adjusted to improve the risk/return profile.
2. Selecting a Policy Portfolio that has been designed with updated market information may improve the portfolio return/risk profile.

The risks of conducting an ALM Mid-Cycle Review and adopting allocation changes for the Policy Portfolios are:

1. Reviewing Current and Candidate Portfolios and selecting a Policy Portfolio requires evaluating and balancing a variety of risks to different stakeholders.
2. Selecting a Policy Portfolio requires reliance on investment and actuarial assumptions, which are inherently uncertain.
3. Dramatic shifts or frequent allocation changes may undermine the long-term, strategic nature of the ALM's purpose.

Attachments

Attachment 1 – Asset Liability Management Mid-Cycle Review: Long-Term Care Fund

Attachment 2 – Wilshire Opinion Letter

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