



Investment Committee

Agenda Item 6a

June 10, 2024

Item Name: Asset Liability Management Mid-Cycle Review: Affiliate Funds

Program: Affiliate Investment Program

Item Type: Action

Recommendation

Adopt the Capital Market Assumptions for the Affiliate Funds.
Approve the recommended portfolios for each Affiliate Fund as the Policy Portfolio.
Approve the Health Care Fund liquidity benchmark, as recommended by Wilshire.

Executive Summary

This agenda item presents the results of the Asset Liability Management (ALM) Mid-Cycle Review for the Health Care Fund, Legislators' Retirement Fund, Judges' Retirement System Fund, Judges' Retirement System Fund II, California Employers' Retiree Benefit Trust Fund, and the California Employers' Pension Prefunding Trust Fund.

The Candidate Portfolios for each Affiliate trust have been designed with the same methods used for the Public Employees' Retirement Fund and in alignment with CalPERS objectives of minimizing potential losses, maximizing projected returns, maintaining sufficient liquidity, and minimizing costs. For each portfolio, both current and candidates, this item includes information about asset allocation, projected risk and projected return.

The Policy Portfolio recommendations are primarily to maintain the current portfolio. In some cases, a recommendation is made to make allocation changes that reduce risk.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the Affiliate Funds. Reviewing financial market conditions and investment strategies at the midpoint of the 4-year ALM cycle provides the opportunity to make adjustments to the Policy Portfolios with the objective of strengthening the sustainability of the funds.

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 Portfolios 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: Affiliate Funds

Attachment 2 – Wilshire Opinion Letter

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