

November 18, 2024

Mr. David Miller  
Chair of the Investment Committee  
California Public Employees' Retirement System  
400 P Street  
Sacramento, CA 95814

Re: Consultant TFPM Program Review

Total Fund Portfolio Management (TFPM) continues to be a program that evolves in terms of key functions and responsibilities. Over the last 5 years we have seen TFPM:

- Inherit the role of providing centralized trading efforts for Global Equity and Global Fixed Income before those functions were migrated back into the asset class programs with TFPM focusing on managing Total Fund financing, and liquidity.
- Take on the role of providing centralized research for all of INVO, and then migrate some of those responsibilities to the various asset classes and allow TFPM to focus on providing a view of macroeconomic conditions and total fund risk reporting.
- Affiliate fund management was contained within TFPM and then moved to its own program with TFPM providing ALM support and guidance.
- Portfolio Strategy was carved out to complement overall research efforts and provide support across multiple dimensions including managing the ALM process.
- Portfolio Design was introduced to complement the portfolio construction process by helping to guide how the approved asset segments come together.

### **Team Resources**

It would be reasonable to assume there would be high personnel turnover in an environment where there is significant functional turnover. Over the last 5 years TFPM has experienced the number of FTE's range from over 60 to the current 41 positions (4 positions are currently open). Last year we noted that there were 42 FTEs with 5 open positions.

The ability to recruit and maintain team staffing continues to be challenging for INVO, but particularly within TFPM. **It should be noted that we feel the current team continues to provide strong output.** However, given the current requirements and potential expansion of responsibilities, Wilshire feels the need to highlight that current

TFPM resources could become stretched and require potential tradeoffs to pursue many of the important initiatives laid out in the overall strategic planning for the organization.

Our decreased scoring this year reflects a reduction for the overall Team and Information Gathering scores given the team size has decreased over the last year but also factoring in expectations for ramping up of initiatives that were paused while a permanent CIO was hired.

### **Areas of Responsibility**

In 2024, the current incarnation of TFPM has three primary areas of responsibility that are integral to maintaining portfolio balance, making informed investment decisions, and ensuring liquidity and financing efficiency:

- Portfolio Implementation
- Analytics and Research
- Strategy Development

**Analytics & Research** function provides macroeconomic and market research, supports decision making with tailored and standardized reporting and delivers comprehensive portfolio analytics to help drive success. Centralized economic research helps in making informed allocation decisions, and aggregated portfolio analytics are crucial for risk oversight. Given the decrease in resources in this area we have lowered the scoring within our Information Resources factor.

**Portfolio Implementation** is responsible for managing financing, liquidity, and the overall risk profile to meet external and internal funding needs and achieve efficient financing through opportunistic liquidity management. This is critical to help ensure smooth cash flow management, especially in volatile markets with material private asset allocations. Mismanagement in this area can lead to risk imbalances across asset segments which could impact the ability to maintain the long-term strategic objectives of the portfolio.

Over the last 12 months ending FY 2024 the team initiated over \$76 billion in gross notional allocation shifts between public markets to maintain that risk balance, including over \$38 billion in the last 3 months of the quarter as part of the recent SAA transition. Work also continues to progress in expanding the funding channels with Investment Grade Corporate repo and Securities Lending being added recently.

The Liquidity Management & Securities Finance teams are tasked with these responsibilities and currently have 7 FTE's which is down from 10 FTE's last year. While this team has demonstrated strong results managing financing and liquidity, there is

concern echoing earlier comments that the team is staffed to continue these efforts on an ongoing basis. As a result, we have reduced our resources score within the Implementation factor in the model to reflect the forward-looking nature of this risk.

**Strategy Development** is responsible for research and recommendations supporting the single most impactful investment decision made by the Investment Committee, the Strategic Asset Allocation (SAA) for the PERF and Affiliate funds.

In addition to that work, the role also provides insights into active risk allocation relative to the SAA that could be beneficial, including continuing explorations into the ability for multi-asset strategies to play a role in helping INVO achieve long-term goals.

Last year we touched on the development of the Active Risk Innovation (ARI) initiative which complements some of the core strategy functions. Over the last year, work to expand the granularity of active assumptions as part of the risk budgeting process continues to build on that progress. However, the pace of progress should pick up under the new CIO.

To support the integration of multi-asset strategies, the team has developed a framework for potential investments which is consistent with recent trends in the industry around downside risk mitigation, alternative risk premia, and long/short implementation.

Continued build out of the ARI and multi-asset program should lead to increased scoring for the program across Forecasting and Portfolio Construction factors.

**Utilizing Wilshire's standard manager research scoring framework, Wilshire's qualitative assessment of the Program places it in the 4th decile which is similar to last year's ranking. However, we should note that the scoring has decreased moderately due to the aforementioned staffing issues and remains on the low end of the 4<sup>th</sup> decile. While we have decreased our scoring due to issues related to resources, we continue to rate the existing team highly and they have been successful over the last year providing value to INVO.**

CalPERS Trust Level Portfolio Management		Tier	Letter
Total Qualitative Score		4th	B

	Weight	Tier	Letter
<b>Organization</b>	30%	6th	C
<b>FIRM</b>	50%	7th	D
Quality and Stability of Senior Management			
Quality of Organization			
Ownership/Incentives			
<b>TEAM</b>	50%	5th	C
Stability of Investment Professionals			
Quality of Team			
Commitment to Improvement			
<b>Information Gathering</b>	18%	6th	C
Information Resources			
Depth of Information			
Breadth of Information			
<b>Forecasting</b>	18%	4th	B
Clear & Intuitive Forecasting Approach			
Repeatable Process			
Strength, Clarity, and Intuitiveness of Valuation Methodology			
Forecasting Success			
Unique Forecasting Approach			
<b>Portfolio Construction</b>	18%	2nd	A
Risk Budgeting/Control			
Defined Buy/Sell Discipline			
Consistency of Portfolio Characteristics			
<b>Implementation</b>	9%	4th	B
Resources			
Liquidity			
Compliance/Trading/Monitoring			
<b>Attribution</b>	9%	3rd	B
Depth of Attribution			
Integration of Attribution			