



Investment Committee

Agenda Item 5a

February 18, 2025

Item Name: Asset Liability Management: Key Risk Tradeoffs and Risk Appetite

Program: Total Fund

Item Type: Information

Executive Summary

This agenda item provides board education on asset liability management (ALM) by summarizing key takeaways from the risk tradeoffs activity at the January Board Education Day and then links those risk tradeoffs to the setting of a risk appetite. This presentation then explores the use of a simple reference portfolio and active risk limits as an example of how the board could set their risk appetite.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal of strengthening the long-term sustainability of the pension fund. As defined in CalPERS ALM policy, ALM is the process of balancing the expected cost of future pension payments with the expected future investment returns. The periodic review and evaluation of investment and actuarial assumptions are intended to strengthen the sustainability of the pension fund.

This agenda item additionally supports the Strategic Plan goal of Stakeholder Engagement by promoting collaboration, support, and transparency. Stakeholder input is a critical component to the ALM process.

Investment Beliefs

- Investment Belief 2: a long-term investment horizon is a responsibility and an advantage.
- Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it.
- Investment Belief 8: costs matter and need to be effectively managed.

Background

ALM is Governed by CalPERS ALM Policy, and the ALM process is a collaborative effort between the Actuarial Office (ACTO), the Financial Office (FINO), and the Investment Office (INVO), with stakeholder engagement a critical input. ALM operates on a four-year cycle with a mid-cycle review. and is the primary process by which investment portfolio and actuarial assumptions evolve to reflect the investment risks and framework, the market opportunity set, demographic assumptions and experience, and plan status. The ALM decision frequency is supported by ACTO's annual actuarial valuation process that determines subsequent employer and employee contribution levels. This process establishes an amortization of each fiscal year's actual experience versus the assumptions underlying the ALM decisions, thus correcting annually for forecast and estimation uncertainty.

Analysis

Not applicable.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

Not applicable.

Attachments

Attachment 1 – Asset Liability Management: Key Risk Tradeoffs and Risk Appetite presentation

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