

# Asset Liability Management — Focus on CalPERS Prefunding Programs

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# Presenters



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# Agenda

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- Affiliate trusts
- ALM process
- Capital Market Assumptions
- Candidate portfolios
- Program benefits
- Next steps

# Affiliate Trusts

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- Health Care Fund
- Legislators' Retirement System Fund
- Judges' Retirement System Fund
- Judges' Retirement System II Fund
- California Employers' Retiree Benefit Trust Fund (CERBT)
- California Employers' Pension Prefunding Trust Fund (CEPPT)
- Supplemental Income Plan Funds (457 and SCP)
- Long-Term Care Fund

# Employer Prefunding Trusts — Program Overview

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## California Employers' Retiree Benefit Trust Fund (CERBT)

- Provides employers ability to voluntarily pre-fund non-pension, other post-employment benefits (OPEB). Employers can select from three strategies, depending on risk tolerance.
- Established 2007
- 591 employer participants
- \$17.7B invested assets

## California Employers' Pension Prefunding Trust Fund (CEPPT)

- Provides employers ability to voluntarily pre-fund required pension contributions. Employers can select from two strategies, depending on risk tolerance.
- Established 2019
- 58 employer participants
- \$72M invested assets

# Prefunding Program Employers

**605 contracting employers (591 CERBT and 58 CEPPT)**



State of California



154 cities or towns



10 counties

79 school employers



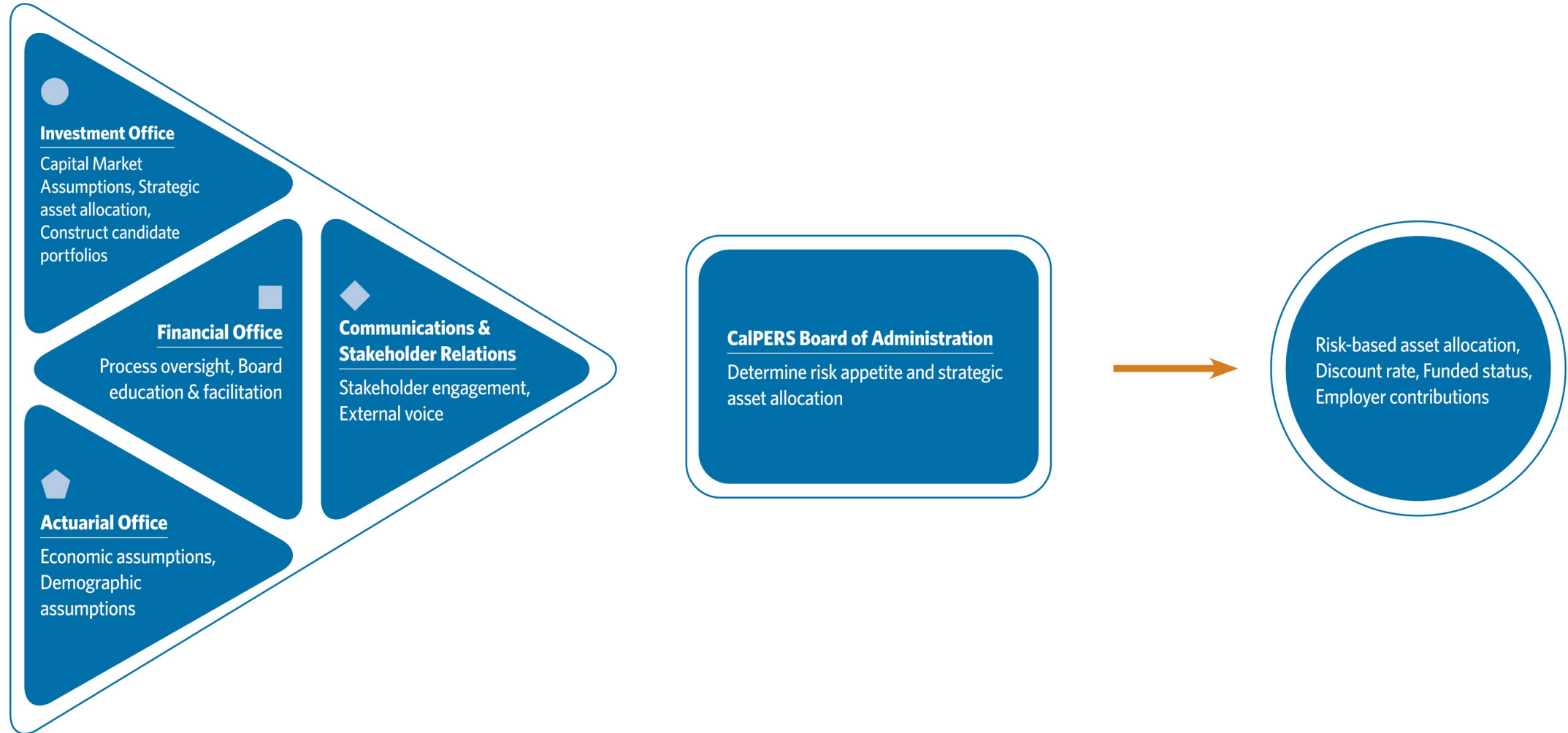
31 courts



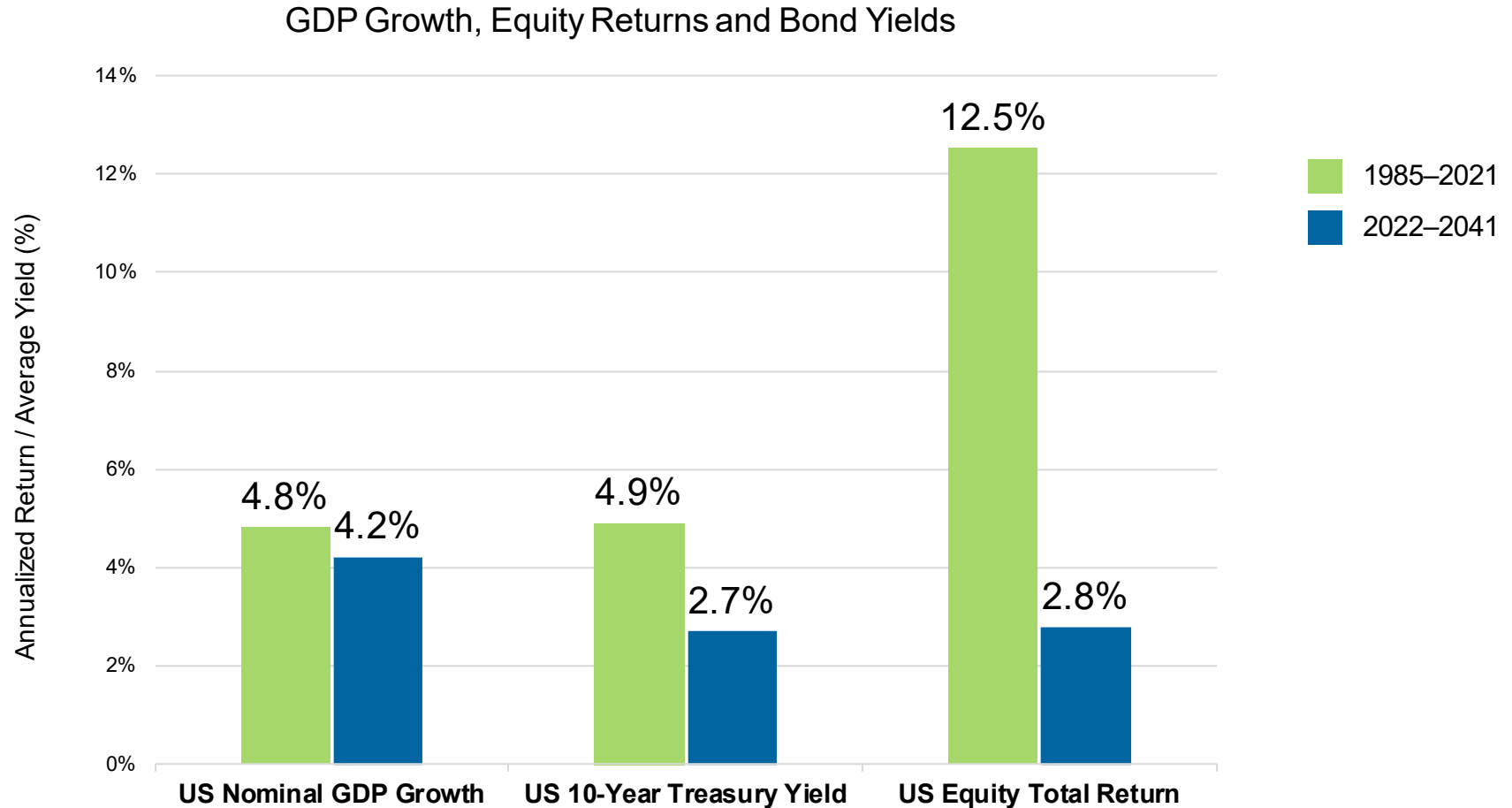
330 special districts &  
other public agencies



# Key Functions Within the ALM Process



# Historic and Projected Growth, Yields, Returns





# Capital Market Assumptions: Returns and Volatility

| Asset Class        | Asset Segment                  | 5-Year Projected Return | 20-Year Projected Return | 20-Year Projected Volatility |
|--------------------|--------------------------------|-------------------------|--------------------------|------------------------------|
| <b>Growth</b>      | Global Public Equity           | 6.8%                    | 6.8%                     | 17.0%                        |
| <b>Income</b>      | U.S. Fixed Income Intermediate | 0.9%                    | 2.7%                     | 4.5%                         |
|                    | U.S. Fixed Income Long         | 1.4%                    | 3.7%                     | 8.2%                         |
|                    | U.S. Treasuries Long           | 0.1%                    | 2.6%                     | 12.4%                        |
|                    | Mortgage-Backed Securities     | 1.2%                    | 2.8%                     | 3.1%                         |
|                    | Investment Grade Corporates    | 0.1%                    | 3.9%                     | 8.5%                         |
|                    | High Yield                     | 2.2%                    | 4.7%                     | 9.2%                         |
|                    | Sovereigns                     | 3.2%                    | 4.5%                     | 10.4%                        |
|                    | TIPS                           | 0.6%                    | 2.8%                     | 5.9%                         |
| <b>Real Assets</b> | Global REITS                   | 5.4%                    | 6.0%                     | 18.7%                        |
|                    | Commodities                    | 3.2%                    | 3.4%                     | 15.3%                        |
| <b>Cash</b>        | Liquidity                      | 0.3%                    | 1.7%                     | 0.8%                         |

# Investment Focus and Assumption Updates

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**2022 ALM for CERBT and CEPPT** focuses on balancing risk and return, consistent with previous ALM cycles

**Fixed Income Benchmark for CERBT** — the Long Liability Benchmark weights have been reoptimized.

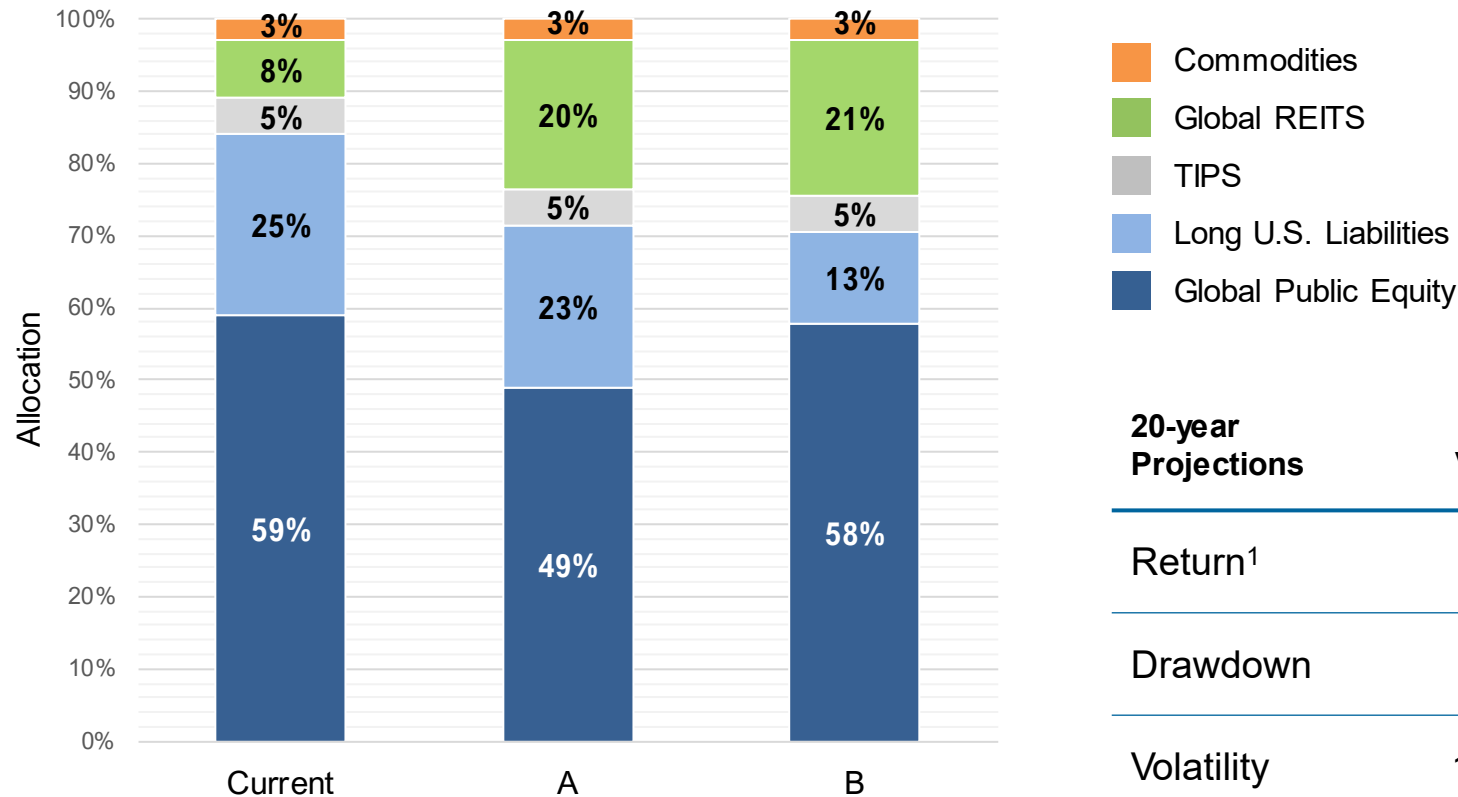
**CERBT CMAs:** 5 yrs and 20 yrs  
2018 CMAs: 10 yrs and 60 yrs

**CEPPT CMAs:** 10-yrs

Portfolio asset class constraints remain the same as from prior ALM

# CERBT Strategy 1 Candidate Portfolios

Candidate portfolios compared to current portfolio:



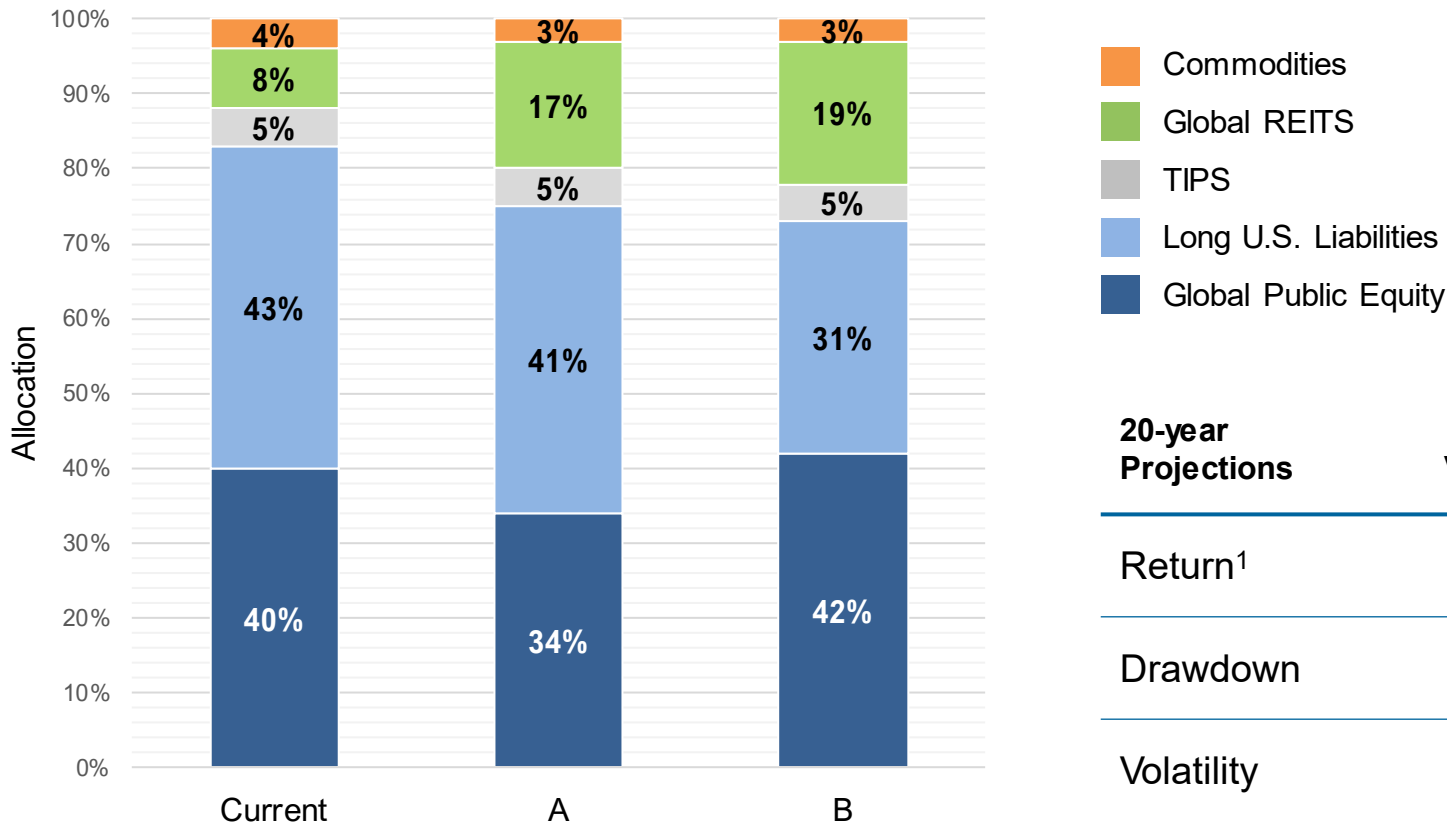
| 20-year Projections | 2018 <sup>2</sup> Values | Current Portfolio | Candidate A | Candidate B |
|---------------------|--------------------------|-------------------|-------------|-------------|
| Return <sup>1</sup> | 7.6%                     | 5.9%              | 6.0%        | 6.2%        |
| Drawdown            | —                        | 25.8%             | 25.6%       | 29.2%       |
| Volatility          | 11.8%                    | 12.0%             | 12.1%       | 13.4%       |

<sup>1</sup>Returns are geometric and net of expenses of 0.10%.

<sup>2</sup>The 2018 returns were estimated to 60 years, the 2018 10-year estimated return was 5.8%.

# CERBT Strategy 2 Candidate Portfolios

Candidate portfolios compared to current portfolio:



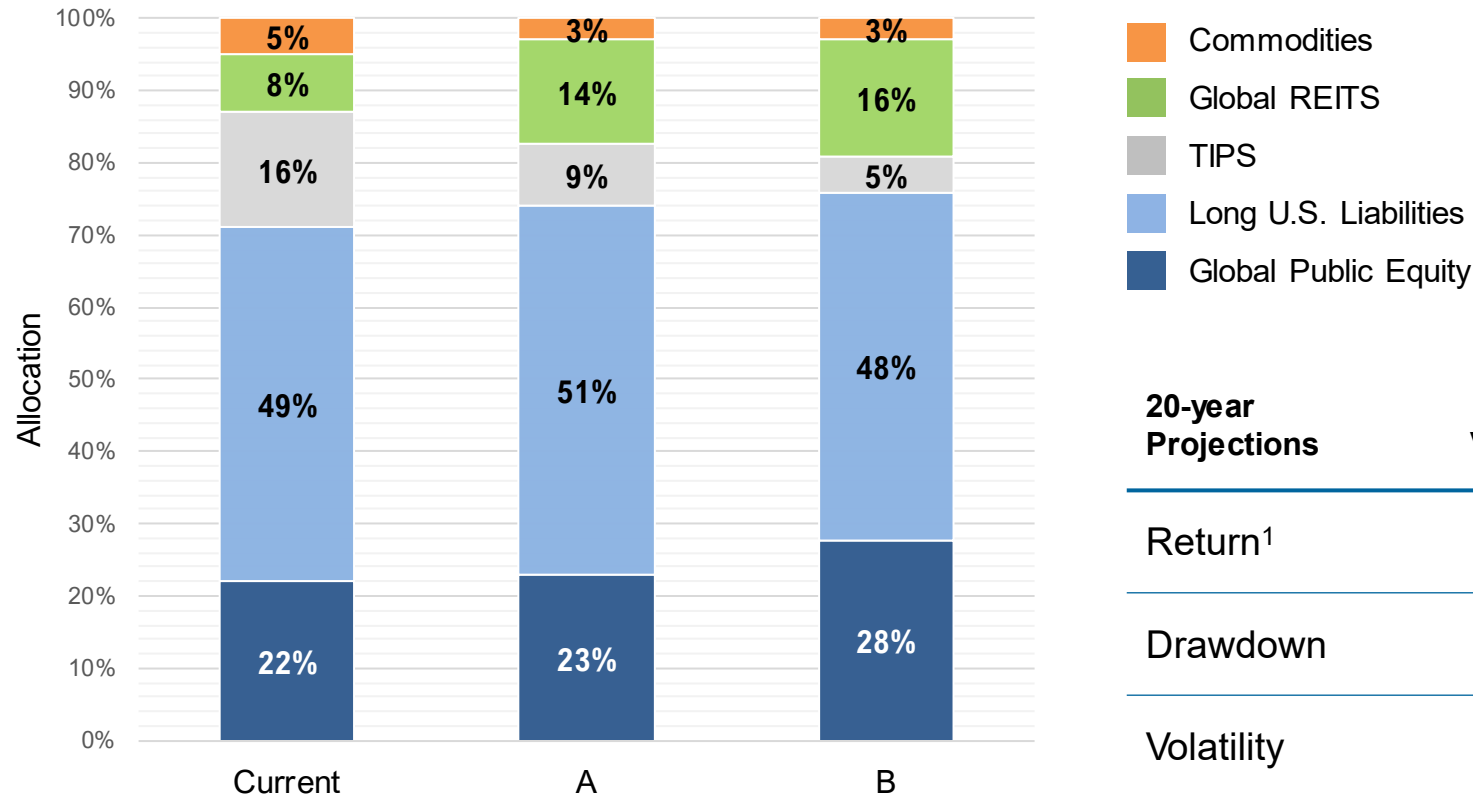
| 20-year Projections | 2018 <sup>2</sup> Values | Current Portfolio | Candidate A | Candidate B |
|---------------------|--------------------------|-------------------|-------------|-------------|
| Return <sup>1</sup> | 7.0%                     | 5.2%              | 5.5%        | 5.8%        |
| Drawdown            | —                        | 19.5%             | 19.8%       | 22.9%       |
| Volatility          | 9.2%                     | 9.5%              | 9.9%        | 11.1%       |

<sup>1</sup> Returns are geometric and net of expenses of 0.10%.

<sup>2</sup> The 2018 returns were estimated to 60 years, the 2018 10-year estimated return was 5.1%.

# CERBT Strategy 3 Candidate Portfolios

Candidate portfolios compared to current portfolio:



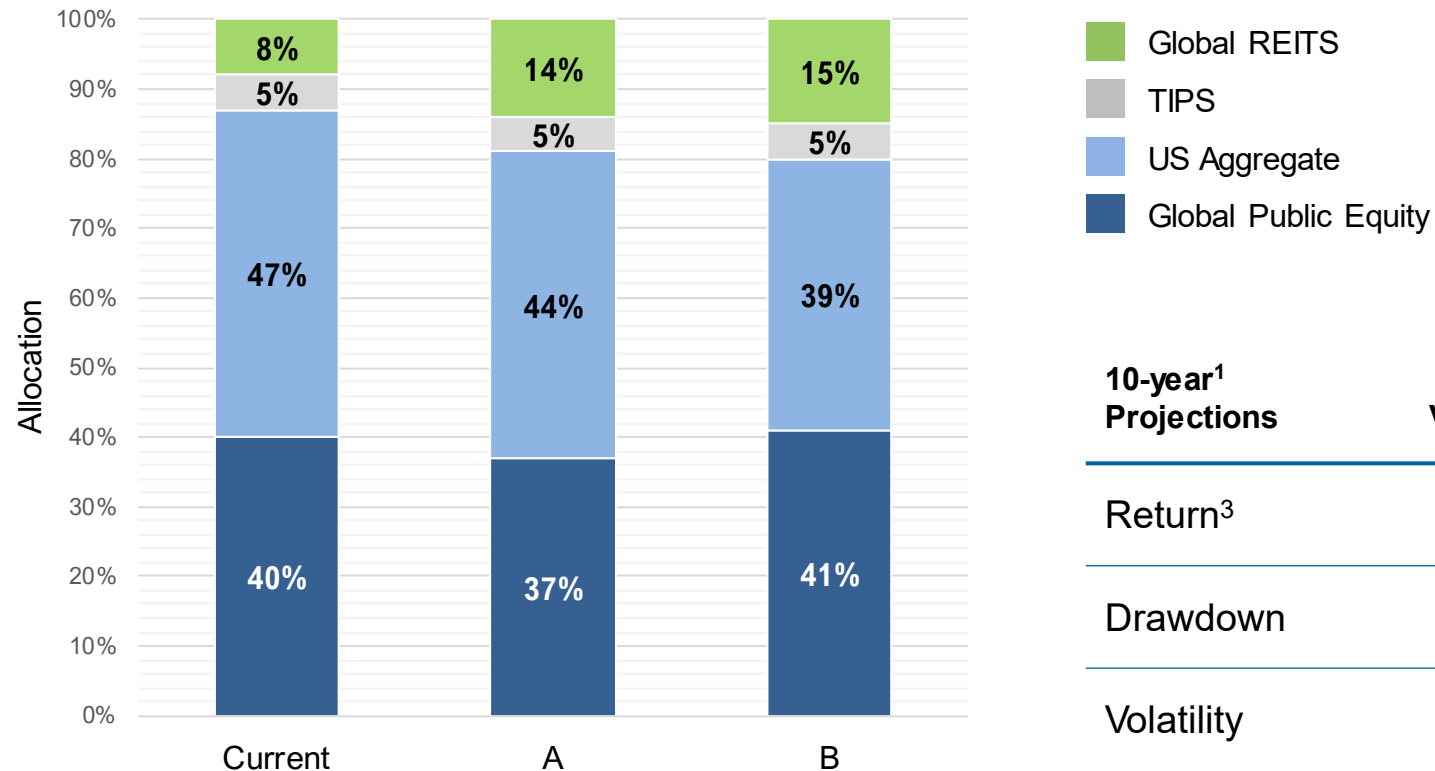
| 20-year Projections | 2018 <sup>2</sup> Values | Current Portfolio | Candidate A | Candidate B |
|---------------------|--------------------------|-------------------|-------------|-------------|
| Return <sup>1</sup> | 6.2%                     | 4.5%              | 5.0%        | 5.3%        |
| Drawdown            | —                        | 14.2%             | 15.8%       | 17.8%       |
| Volatility          | 7.3%                     | 7.5%              | 8.4%        | 9.2%        |

<sup>1</sup> Returns are geometric and net of expenses of 0.10%.

<sup>2</sup> The 2018 returns were estimated to 60 years, the 2018 10-year estimated return was 4.4%.

# CEPPT Strategy 1 Candidate Portfolios

Candidate portfolios compared to current portfolio:



| 10-year <sup>1</sup> Projections | 2019 <sup>2</sup> Values | Current Portfolio | Candidate A | Candidate B |
|----------------------------------|--------------------------|-------------------|-------------|-------------|
| Return <sup>3</sup>              | 5.0%                     | 4.4%              | 4.5%        | 4.8%        |
| Drawdown                         | —                        | 17.6%             | 18.2%       | 19.9%       |
| Volatility                       | 8.2%                     | 8.4%              | 8.8%        | 9.4%        |

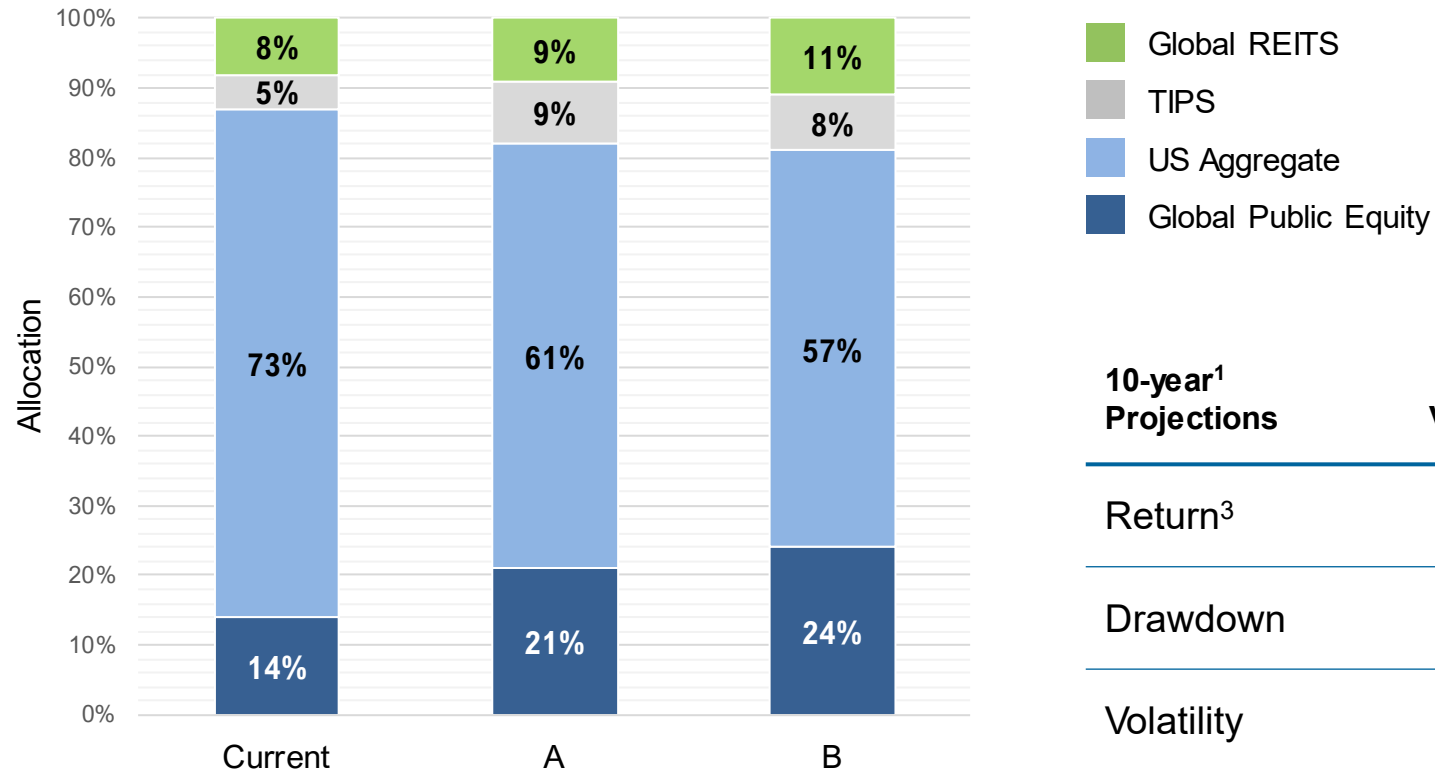
<sup>1</sup> CEPPT 10-year projections are calculated based on the Board-approved CMA's.

<sup>2</sup> CEPPT was established in 2019.

<sup>3</sup> Returns are geometric and net of expenses of 0.25%.

# CEPPT Strategy 2 Candidate Portfolios

Candidate portfolios compared to current portfolio:



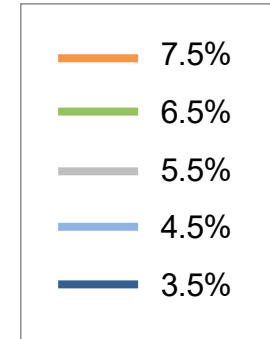
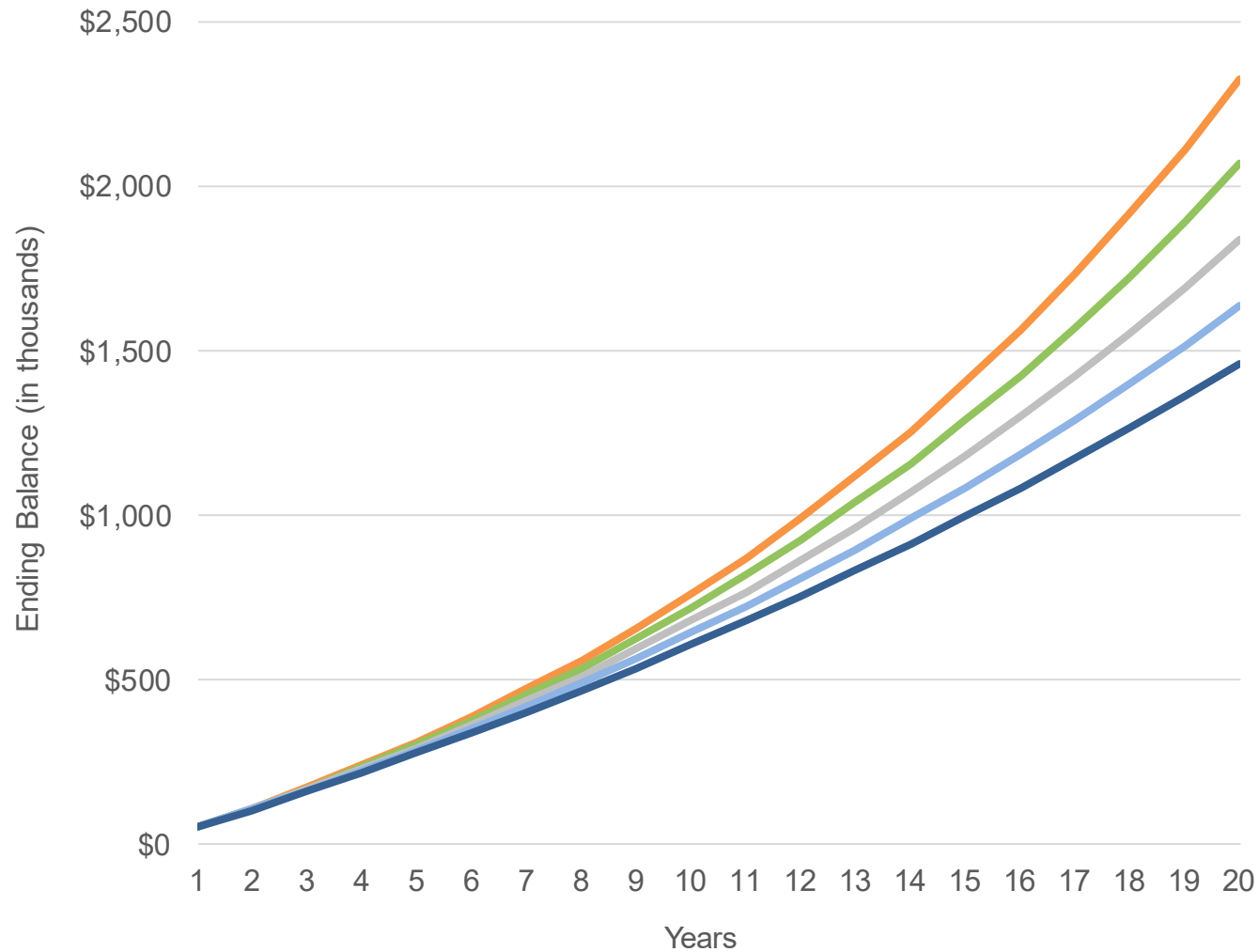
| 10-year <sup>1</sup> Projections | 2019 <sup>2</sup> Values | Current Portfolio | Candidate A | Candidate B |
|----------------------------------|--------------------------|-------------------|-------------|-------------|
| Return <sup>3</sup>              | 4.0%                     | 3.1%              | 3.5%        | 3.8%        |
| Drawdown                         | —                        | 9.7%              | 11.7%       | 13.1%       |
| Volatility                       | 5.2%                     | 5.3%              | 6.1%        | 6.7%        |

<sup>1</sup> CEPPT 10-year projections are calculated based on the Board-approved CMA's.

<sup>2</sup> CEPPT was established in 2019.

<sup>3</sup> Returns are geometric and net of expenses of 0.25%.

# Example: Growth of \$50k Annual Contribution for 20 Years



**Balance of Principal and Interest\***

| Sample Returns | At 10 years | At 20 years |
|----------------|-------------|-------------|
| 7.5%           | \$760,000   | \$2,330,000 |
| 6.5%           | \$720,000   | \$2,070,000 |
| 5.5%           | \$680,000   | \$1,840,000 |
| 4.5%           | \$640,000   | \$1,640,000 |
| 3.5%           | \$610,000   | \$1,460,000 |

\* Numbers rounded to the nearest \$10,000



# Program Benefits: Total All-Inclusive Cost of Participation

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Combines administrative, custodial, and investment fees

Offers high quality investment vehicles with various risk tolerances

Public market asset classes consistent with various providers

Fee is applied daily to assets under management:

- CERBT 10 basis points
- CEPPT 25 basis points

# Next Steps: Recommendation for the Board

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→ Adopt the updated Fixed Income Long Liability benchmark weights for the Affiliate Funds

→ Adopt the recommended Candidate Portfolio for each Affiliate Trust as the Policy Portfolio

# Asset Liability Management Timeline

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**2021**

November

- Board adoption of Affiliate Funds Capital Market Assumptions

**2022**

January

- Discussion of candidate portfolios with proposed time weighted rates of return

March

- Educational webinar
- Board decision on Affiliate Funds Strategic Asset Allocation

July — September

- Implementation of strategic asset allocation portfolios

# Q&A

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