CalPERS Update
League of California Cities

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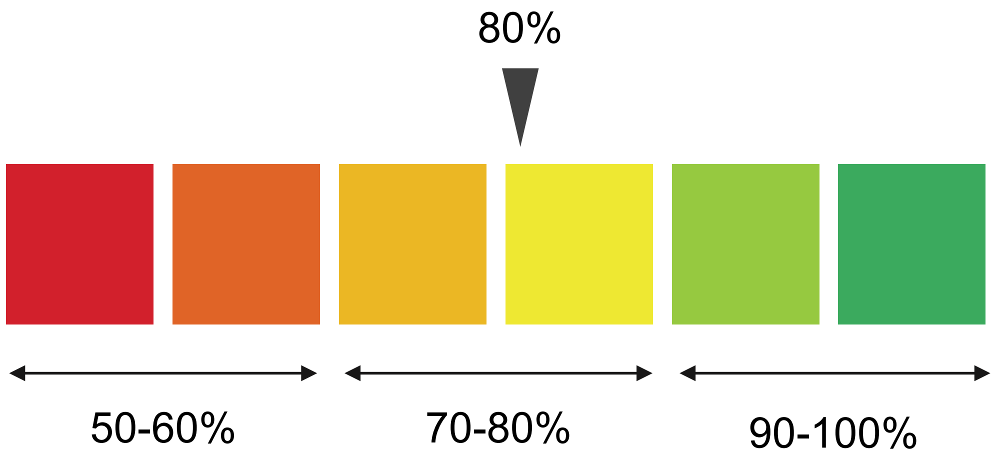
CalPERS

Fiscal Year Financial Status *(as of 6/30/21)*

$469 billion in assets
(from $389b)

21.3% net return on investments
(from 4.7%)

82% funded status
(from 71%)



Total Net Investment Returns Over Time

30 year	8.4%
20 year	6.9%
10 year	8.5%
5 year	10.3%
1 year	21.3%

(As of fiscal-year ending 6/30/21)

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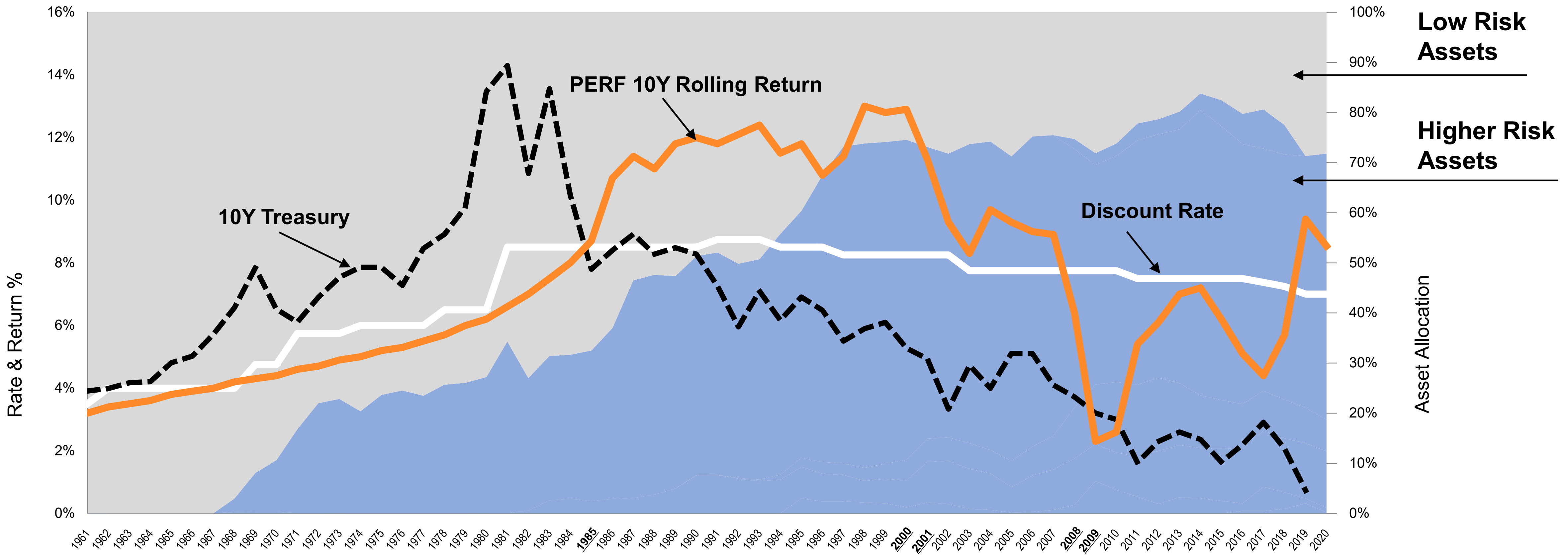
Challenges to Achieving Target Returns

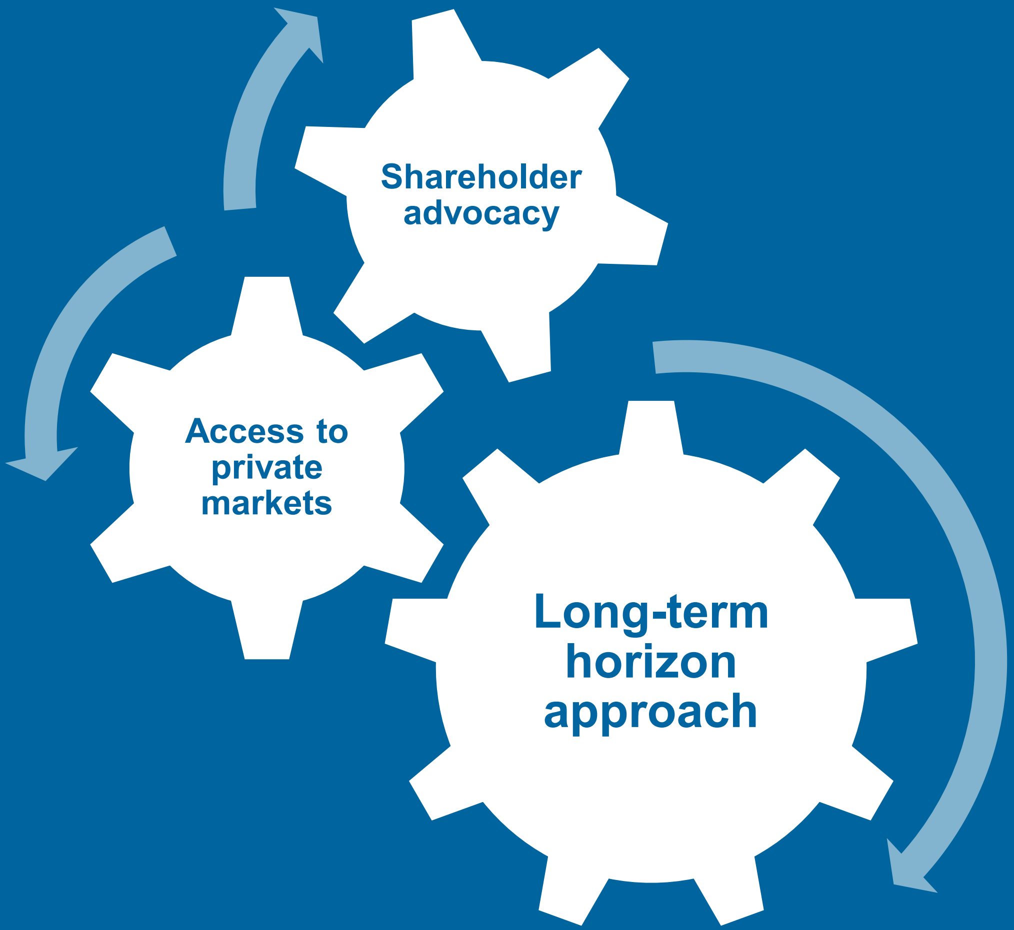
U.S. Treasury Yields Reduced to Near Zero



Capital Market Assumptions: Survey Results

	Survey Parameter	**2017** ALM	**2020** Mid-Cycle ALM Survey Median Value 03/31/20	**2021** Second ALM Survey Median Value 03/31/21
10-Year Expectations	Expected Return	6.1%	5.7%	5.3%
	Expected Risk	11.4%	10.5%	11.3%
	Expected Return/Risk	0.54	0.54	0.47
20-Year Expectations	Expected Return	7.0%	6.6%	**6.2%**
	Expected Risk	11.4%	10.5%	11.3%
	Expected Return/Risk	0.73	0.63	0.55

Strategic Investment Approach



Three Key Risks

Investment Risk

Sustainability

Employer Affordability

Purpose of Funding Risk Mitigation Policy

Lowers the discount rate in years of very good investment returns

Lowers investment volatility over time

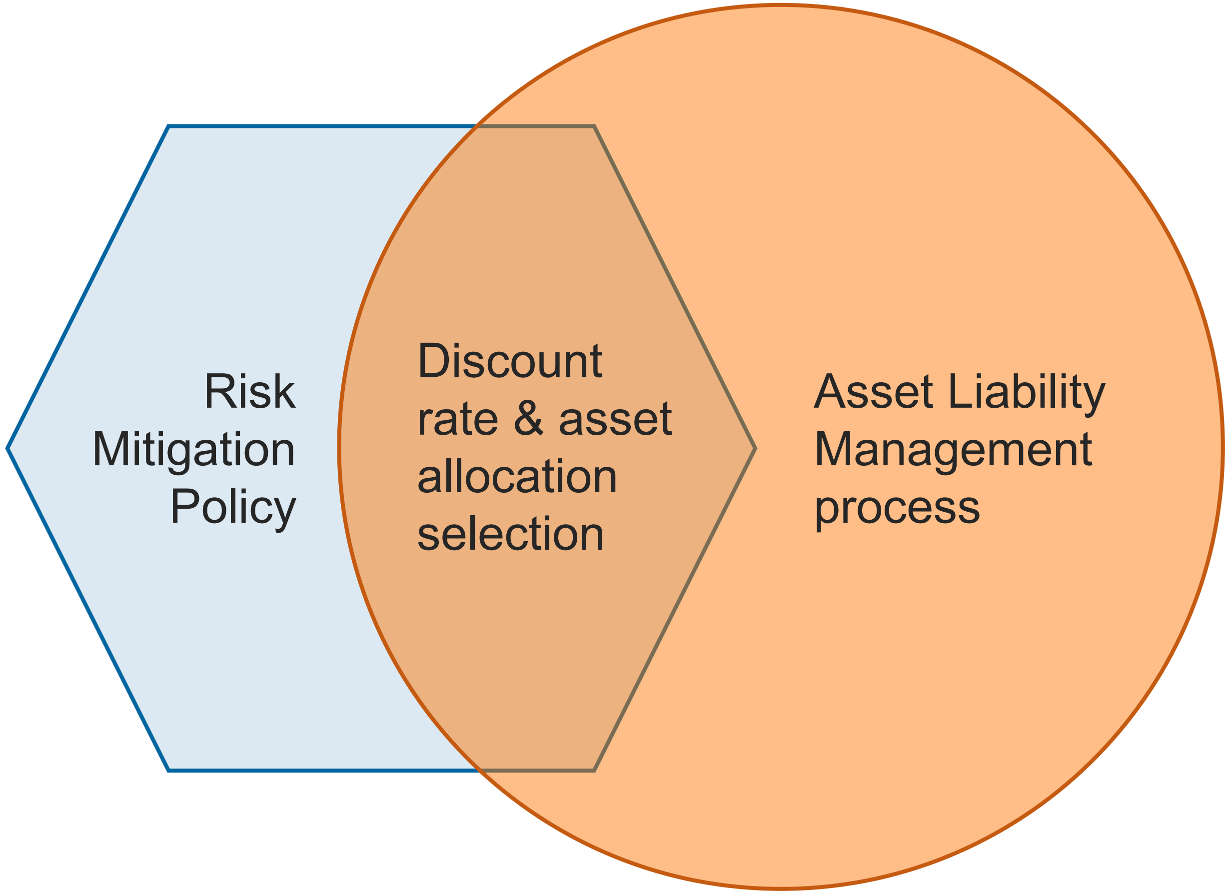
Provides greater predictability and less volatility in contribution rates for employers

Risk Mitigation Policy Sample Scenarios

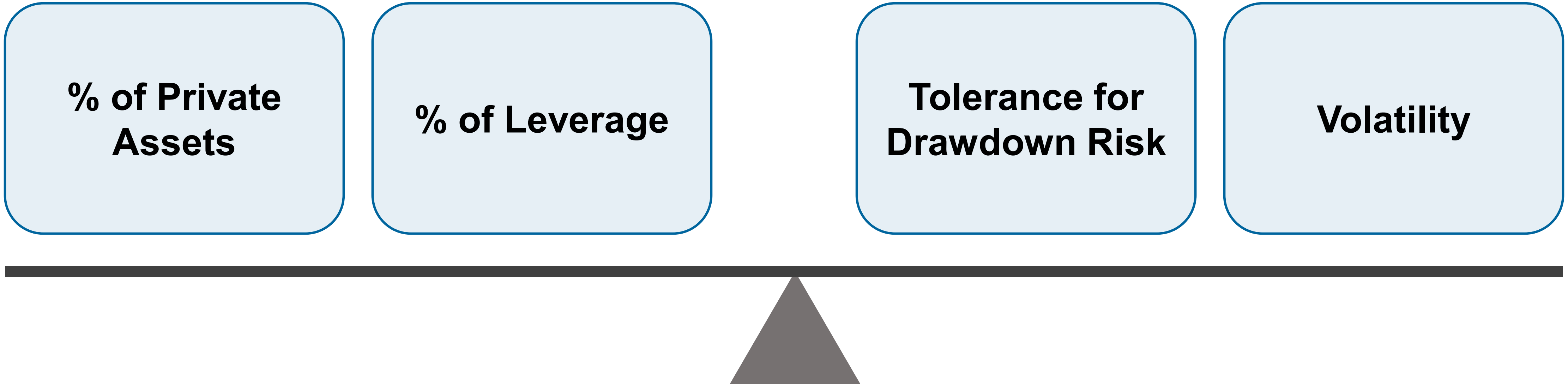
If investment returns outperform discount rate by:	**then** resulting discount rate will be:
+2 pp → 9%	6.95%
+7 pp → 14%	6.90%
+10 pp → 17%	6.85%
+13 pp → 20%	6.80%
+17 pp → 24%	6.75%

From Risk Mitigation Policy triggering

Risk Mitigation Policy and Asset Liability Management (ALM)



Balancing Risk & Reward



Current Portfolio: Status Quo

Necessitated Discount rate: 6.25%, Projected Return: 6.2%

Time Horizon	Projected Return	Drawdown Risk	Volatility
20 Years	6.2%	22.6%	11.2%
Near-term	5.2%	23.6%	10.9%
Long-term	6.6%	22.3%	11.3%

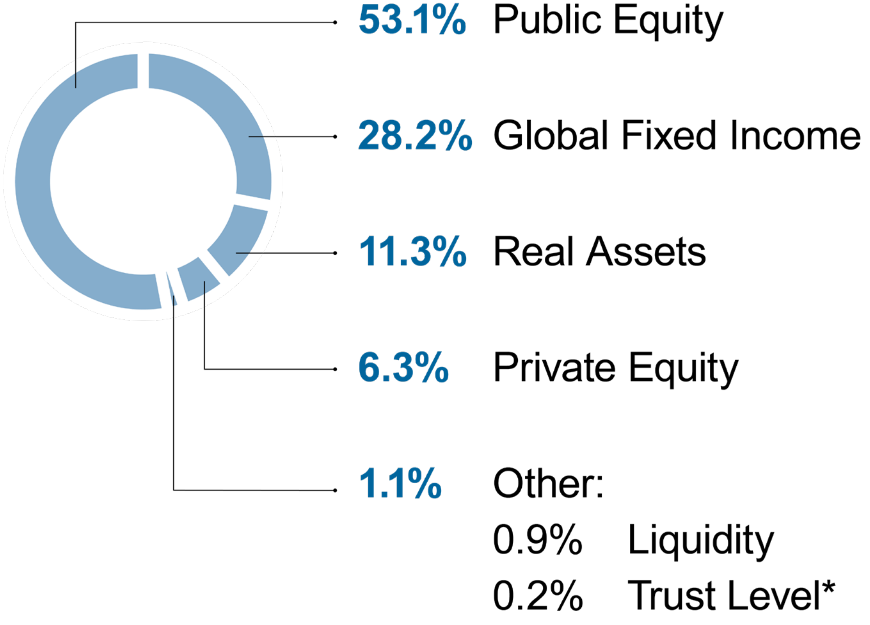
In comparison to other candidate portfolios:

Pros

- No changes, no added complexity
- No policy changes required

Cons

- Lowest return for similar risk levels
- Lower projected returns in near-term horizon
- Lower diversification
- Higher projected contributions



Returns are geometric and net of estimated administrative expenses of .10% (10 basis points).

Candidate Portfolio C: higher risk/return, diversified

Discount rate: 6.75%, Projected Return: 6.8%

Time Horizon	Projected Return	Drawdown Risk	Volatility
20 Years	6.8%	22.9%	11.8%
Near-term	6.2%	26.3%	12.6%
Long-term	7.0%	22.0%	11.6%

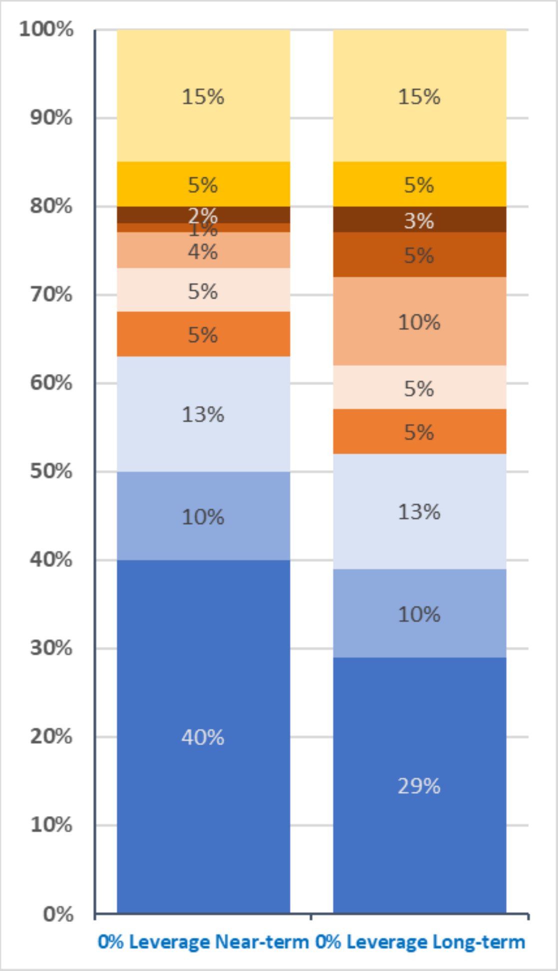
In comparison to other candidate portfolios:

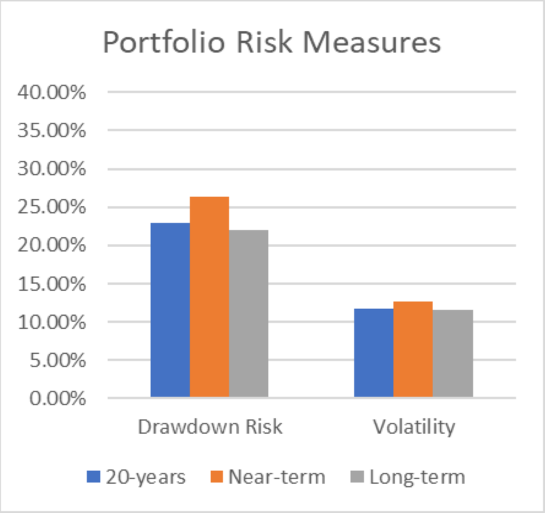
Pros

- Higher returns than current portfolio
- Lower contributions

Cons

- Private asset deployment requires policy changes.
- Potential increased exposure to ESG issues
- Higher contribution and funding risk compared to portfolio A and current portfolio





Returns are geometric and net of estimated administrative expenses of .10% (10 basis points).

Candidate Portfolio D: higher risk/return, diversified, 5% leverage

Discount rate: 6.75%, Projected Return: 6.8%

Time Horizon	Projected Return	Drawdown Risk	Volatility
20 Years	6.8%	22.1%	11.6%
Near-term	6.4%	27.2%	13.0%
Long-term	7.0%	20.8%	11.1%

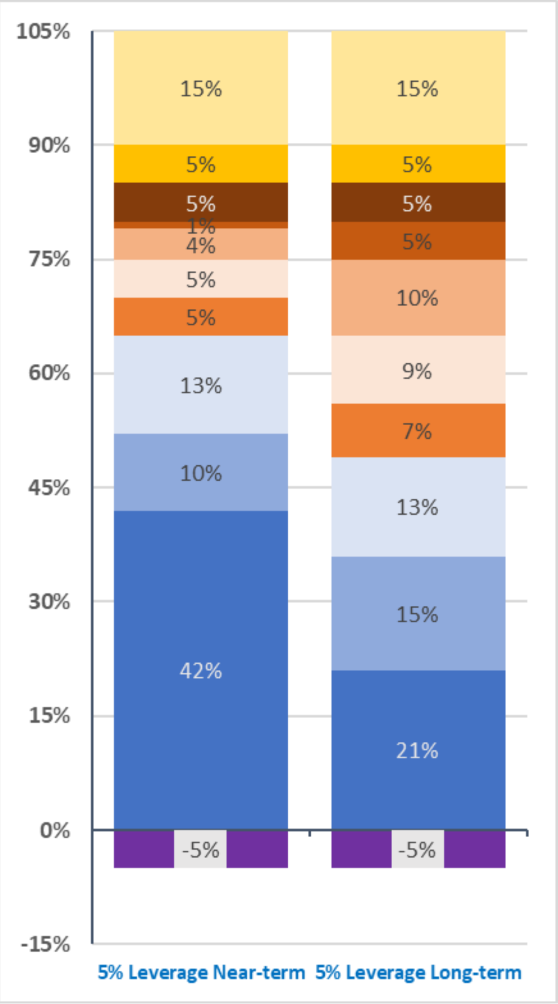
In comparison to other candidate portfolios:

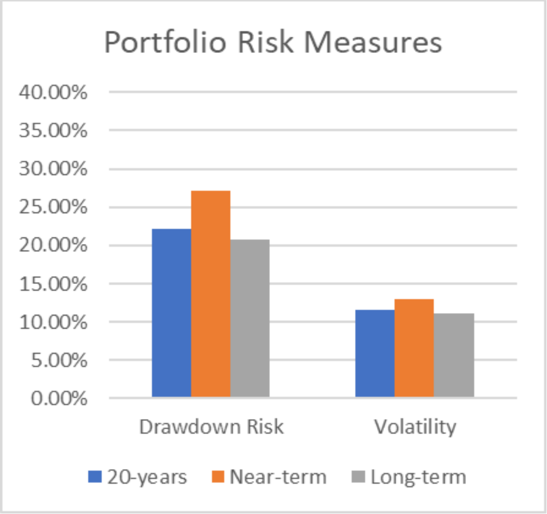
Pros

- Higher returns than current portfolio
- In the long-term, more diversification than unlevered
- Lower contributions

Cons

- More complexity with leverage
- Private asset deployment requires policy changes
- Potential increased exposure to ESG issues
- Higher contribution and funding risk compared to portfolio A and current portfolio





Returns are geometric and net of estimated administrative expenses of .10% (10 basis points).

Candidate Portfolio E: highest risk/return, diversified, 5% leverage

Discount rate: 7.0%, Projected Return: 7.0%

Time Horizon	Projected Return	Drawdown Risk	Volatility
20 Years	7.0%	24.5%	12.5%
Near-term	6.4%	28.2%	13.4%
Long-term	7.2%	23.6%	12.2%

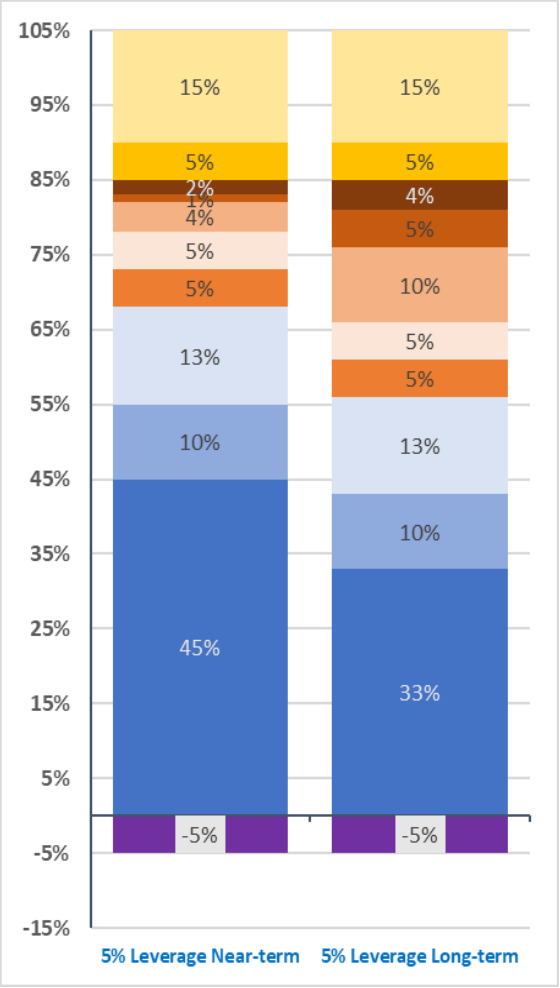
In comparison to other candidate portfolios:

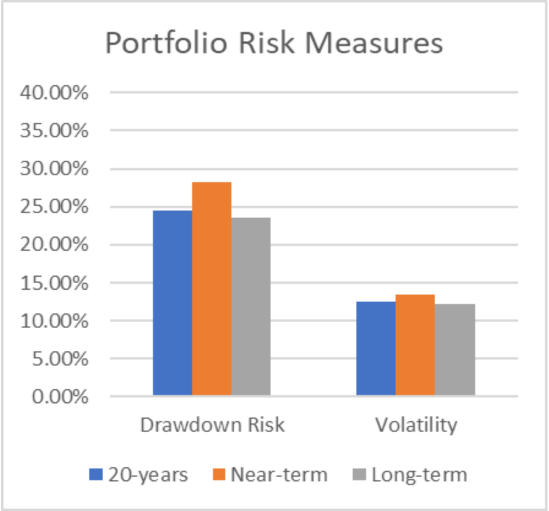
Pros

- Highest projected return at 7.0%
- Highest discount rate
- Lowest projected contributions

Cons

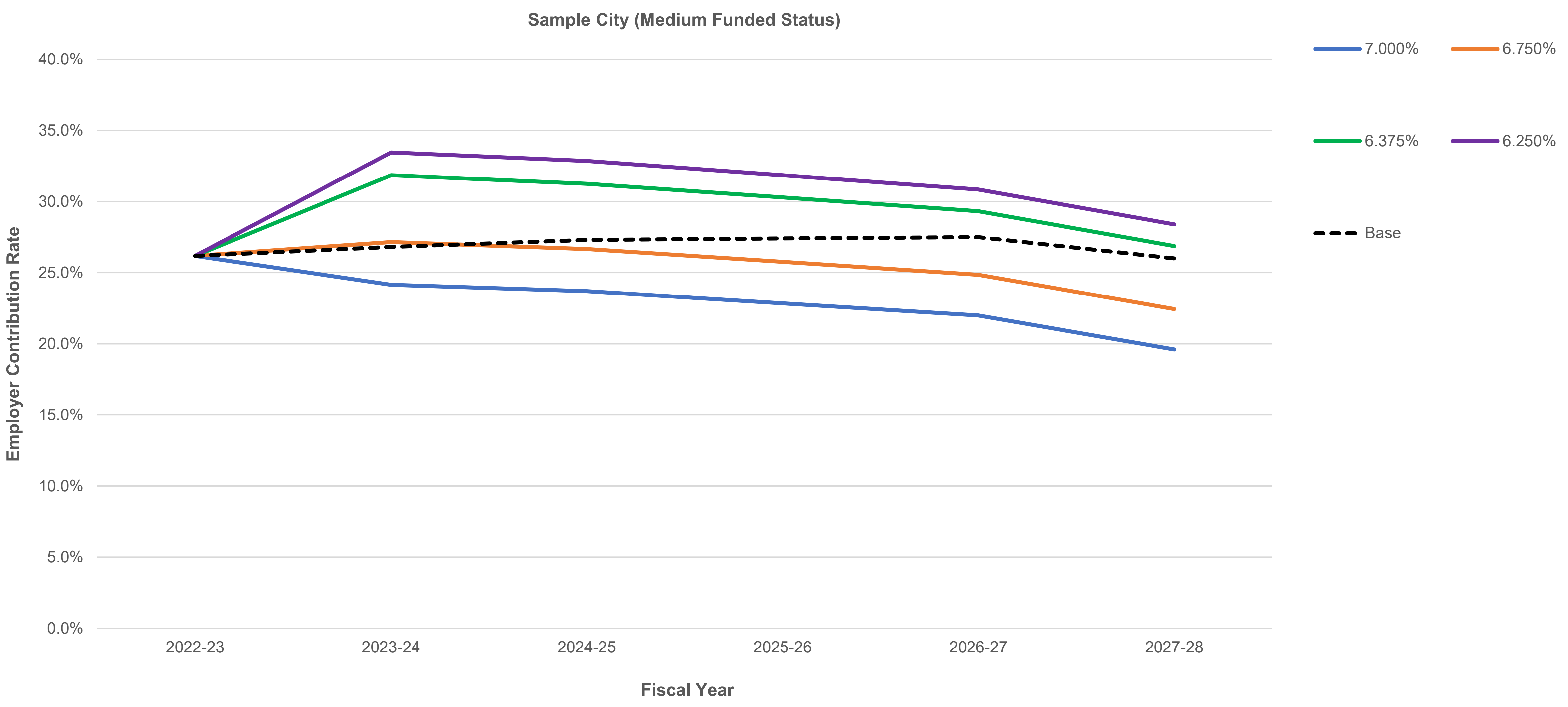
- 7.0% return target not feasible without 5% leverage
- Private asset deployment requires policy changes
- Potential increased exposure to ESG issues
- Higher portfolio, contribution and funding risk compared to portfolio A and current portfolio





Returns are geometric and net of estimated administrative expenses of .10% (10 basis points).

Impact on Employer Contribution Rates: **Sample City**



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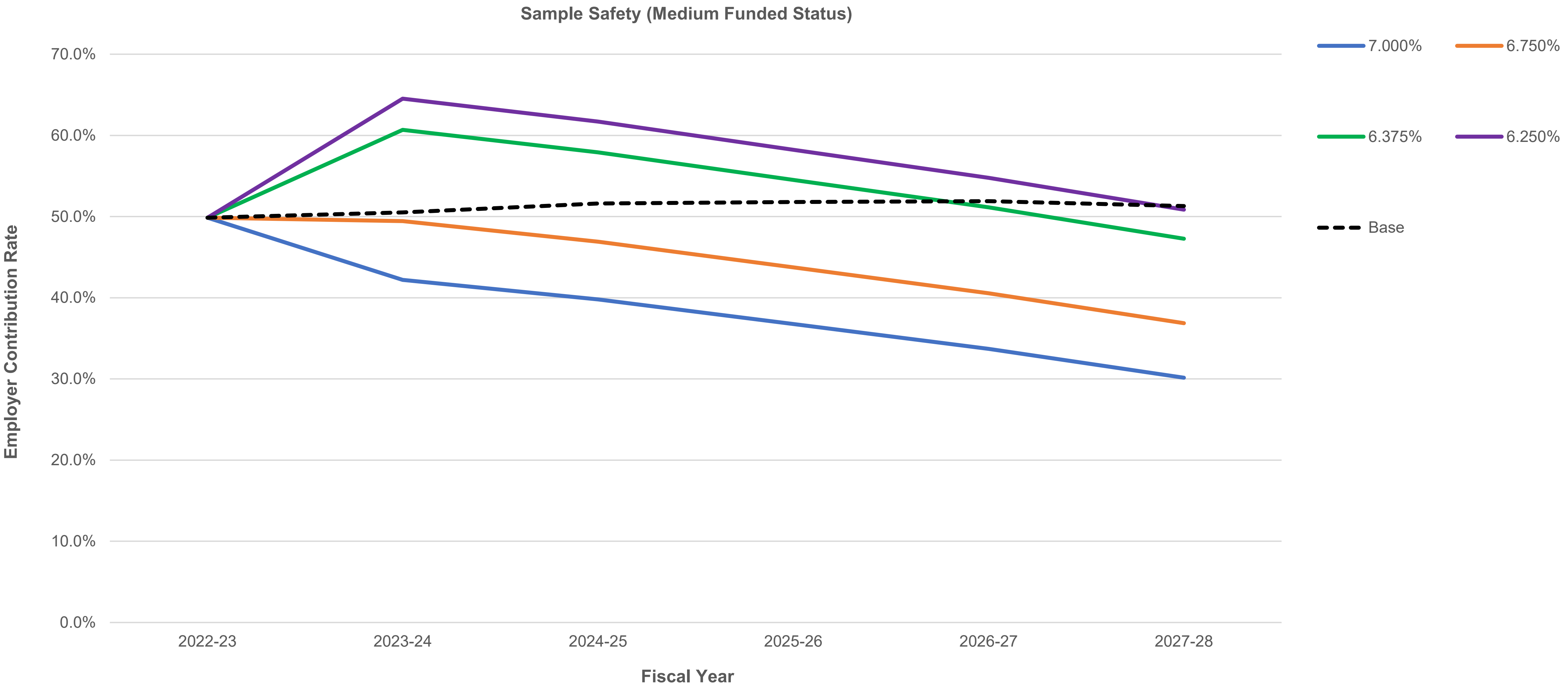
Impact on Employer Contribution Rates: **Sample Safety Plan**



Potential Impact to PEPRA Contribution Rates

Will Employees Be Affected?

Normal cost base rate

If discount rate increases normal cost base rate by 1% or more

No

Employee contribution stays the same

Yes

Employee contribution goes up—shares 50% of increase with employer

Potential PEPRA Rate Increases

Keys to Remember

- All employees hired after Dec. 31, 2012
- Employees pay 50% of the Normal Cost, with 1% increase threshold
- New MOUs cannot lower 50% cost-share, but can increase it
- Further communication coming when ALM completed
- Contact CalPERS for your plans' specifics

Opportunities for Stakeholder Engagement

2021
February

- Educational sessions:
  - ALM concepts and framework
  - ALM timeline

June

- Review of economic climate

July*

- Capital Market Assumptions
- Educational sessions:
  - ALM process and framework
  - Investment funds risk assessment
  - Gauging the funds' ability to tolerate market risk

September

- Discussion of candidate portfolios with proposed discount rates
- Draft Experience study results (first reading)

November

- Experience study results
- Discussion of candidate portfolios with discount rates
- Adopt new actuarial assumptions
- Adopt new economic assumptions
- Final approval of discount rate
- Final approval of strategic asset allocation

2022
July*

- Effective date for strategic asset allocation

Quarterly stakeholder webinars throughout the ALM process:
January 20, April 27, August 3, and October TBD 2021

** Board offsite*

November Board Preview

- CIO Search
- Health care plan design
- COVID and CalPERS operations
- Diversity, equity, and inclusion framework
- Upcoming public agency election – April 2022
- Educational Forum Online – October 19-20 – free registration now open

Our Commitment to You

Ongoing communication

Listening to employers

Partnerships

Here for you

Q&A

CalPERS_Stakeholder_Relations@calpers.ca.gov

We Serve CA