



# Investment Committee

## Agenda Item 5b

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**November 18, 2024**

**Item Name:** Asset Liability Management

**Program:** Total Fund

**Item Type:** Information

### **Executive Summary**

This agenda item initiates the asset liability management (ALM) 2025 review cycle by introducing some key framework ideas and concepts which will be integral to the work that will take place over the next year. These include:

- **Understanding the Portfolio and Value Creation:** we can approximate our portfolio using simple liquid strategies, and we should expect to add value to those strategies.
- **Portfolio Implementation and Risk Alignment:** the team has flexibility to implement the portfolio, but a key step is agreeing on our risk appetite.
- **Return Objectives and Valuations:** our return objective remains challenging, especially as higher valuations are associated with lower future expected returns.
- **A Holistic, Long-term Portfolio Approach:** a total portfolio approach, with a genuine long horizon, can add value; the return assumption should be based on the asset allocation, which is in turn a function of 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 presentation

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