CalPERS Update
League of California Cities

Marcie Frost
CalPERS Chief Executive Officer
September 22, 2021
Fiscal Year Financial Status  
(as of 6/30/21)

$469 billion in assets  
(from $389b)

21.3% net return on investments  
(from 4.3%)

80% funded status  
(from 71%)

50-60%  
70-80%  
90-100%
## Total Net Investment Returns Over Time

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Return Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 year</td>
<td>8.4%</td>
</tr>
<tr>
<td>20 year</td>
<td>6.9%</td>
</tr>
<tr>
<td>10 year</td>
<td>8.5%</td>
</tr>
<tr>
<td>5 year</td>
<td>10.3%</td>
</tr>
<tr>
<td>1 year</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

*(As of fiscal-year ending 6/30/21)*
Challenges to Achieving Target Returns

US Treasury Yields Reduced to Near Zero

![Graph showing US Treasury yields, Discount Rate, Perf 10Y Rolling Return, and Asset Allocation.](https://via.placeholder.com/150)
## Capital Market Assumptions: Survey Results

<table>
<thead>
<tr>
<th>Survey Parameter</th>
<th>2017 ALM</th>
<th>2020 Mid-Cycle ALM Survey Median Value 03/31/20</th>
<th>2021 Second ALM Survey Median Value 03/31/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Year Expectations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected Return</td>
<td>6.1%</td>
<td>5.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Expected Risk</td>
<td>11.4%</td>
<td>10.5%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Expected Return/Risk</td>
<td>0.54</td>
<td>0.54</td>
<td>0.47</td>
</tr>
<tr>
<td>20-Year Expectations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expected Return</td>
<td>7.0%*</td>
<td>6.6%</td>
<td><strong>6.2%</strong></td>
</tr>
<tr>
<td>Expected Risk</td>
<td>11.4%</td>
<td>10.5%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Expected Return/Risk</td>
<td>0.73</td>
<td>0.63</td>
<td>0.55</td>
</tr>
</tbody>
</table>
Strategic Investment Approach

Long-term horizon approach

Access to private markets

Shareholder advocacy
Three Key Risks

- Investment Risk
- Climate Risk
- 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:

- +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 & Asset Liability Management (ALM)

- Risk Mitigation Policy
  - Discount rate & asset allocation selection
- Asset Liability Management process
Board Review of Candidate Portfolios

Range of investment portfolios

- Portfolios have attached discount rates
- Some portfolios include private equity, direct lending, and/or leverage
- Asset allocations will range from current mix to more aggressive
- Trade-off: higher discount rate means higher risk and volatility
Balancing Risk & Reward

- % of Private Assets
- % of Leverage
- Tolerance for Drawdown Risk
- Volatility
Our Commitment to You

- Ongoing communication
- Listening to employers
- Partnerships
- Here for you
Q&A

CalPERS_Stakeholder_Relations@calpers.ca.gov
We Serve CA