The State of the Fund

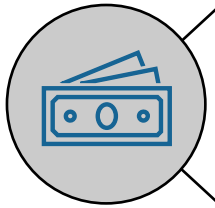
An Update on the California Public Employees' Retirement System

Michele Nix, Chief Financial Officer, CalPERS

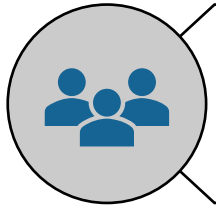
Randall Dziubek, Deputy Chief Actuary, CalPERS

CalPERS

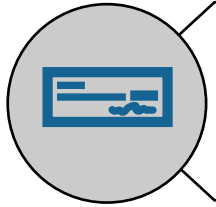
CalPERS By the Numbers



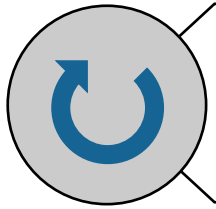
75% **Funded Status Estimate**



2,313,916 **CalPERS Members**



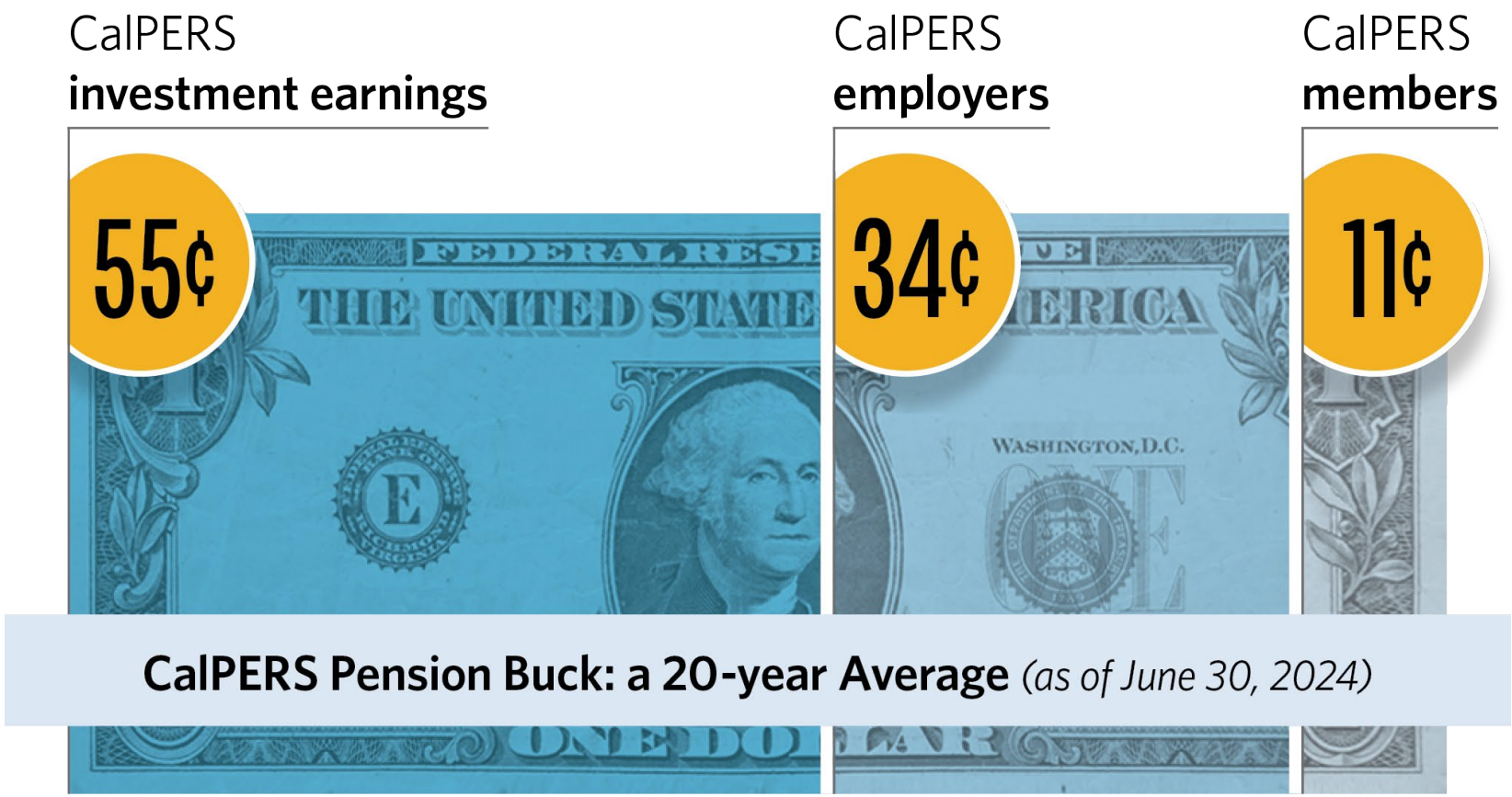
$43,819 **Average Annual Pensions** (for all retirees)



$32.8 billion **Annual Pension Benefits Paid**

as of June 30, 2024

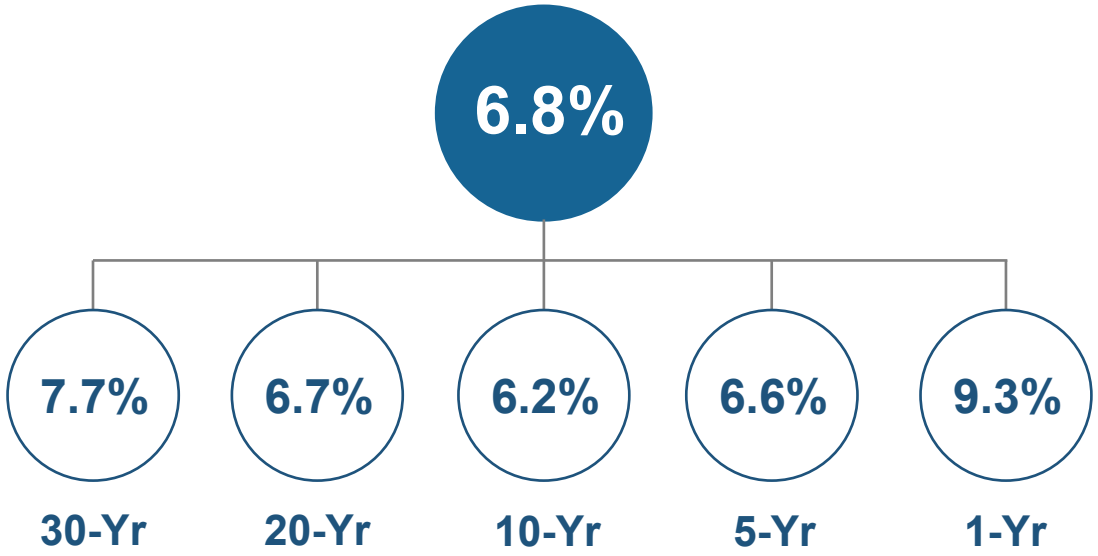
Funding CalPERS Pensions



CalPERS Pension Buck: a 20-year Average *(as of June 30, 2024)*

PERF Net Investment Returns

Investment Rate of Return Goal



as of June 30, 2024

Assets Under Management

$531.6 billion

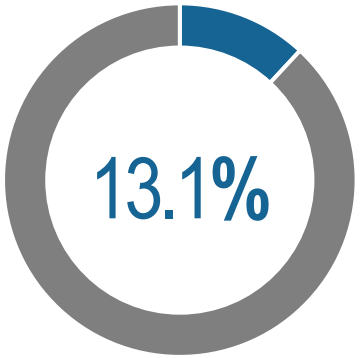
as of September 30, 2024

Returns by Asset Class (as of June 30, 2024)

ASSET CLASS	NET RATE OF RETURN
Public Equity	17.5%
Fixed Income	3.7%
Private Equity*	10.9%
Real Assets*	-7.1%
Private Debt*	17.0%
TOTAL FUND	**9.3%**

* Private market asset valuations lag one quarter and are as of March 31, 2024.

Investing in California

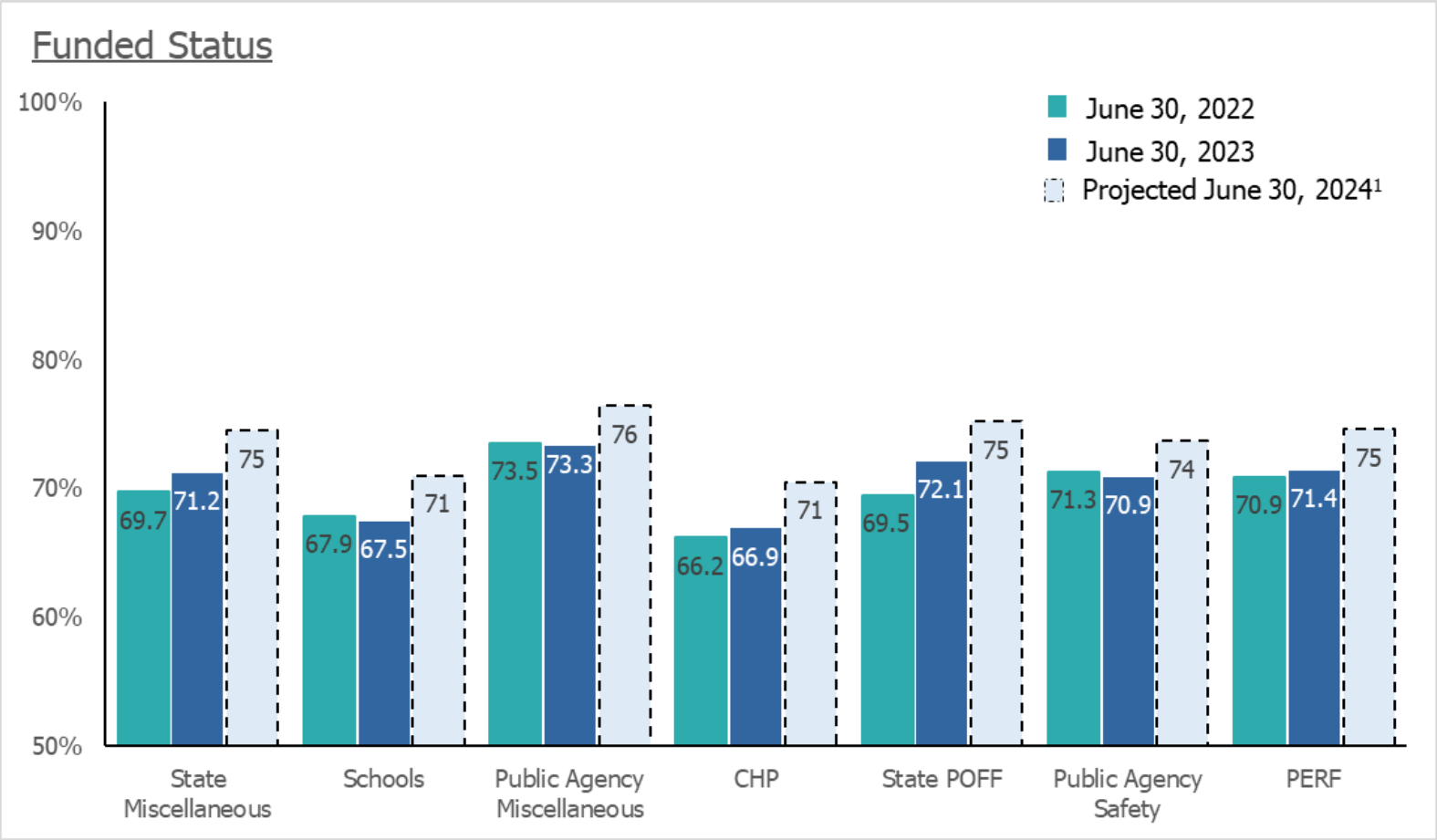


$60.8 billion
California investments
as a percentage of total fund

ASSET CLASS	$ Invested in California (in Billions)	% of $ Invested in California (in Billions)
Public Equity	$29.9	14.9%
Fixed Income	$6.3	5.1%
Private Equity	$3.1	5.1%
Real Assets	$20.0	29.1%
Private Debt	$1.5	13.8%
TOTAL FUND	**$60.8**	**13.1%**

170,591 estimated jobs supported in California from CalPERS' private market investments

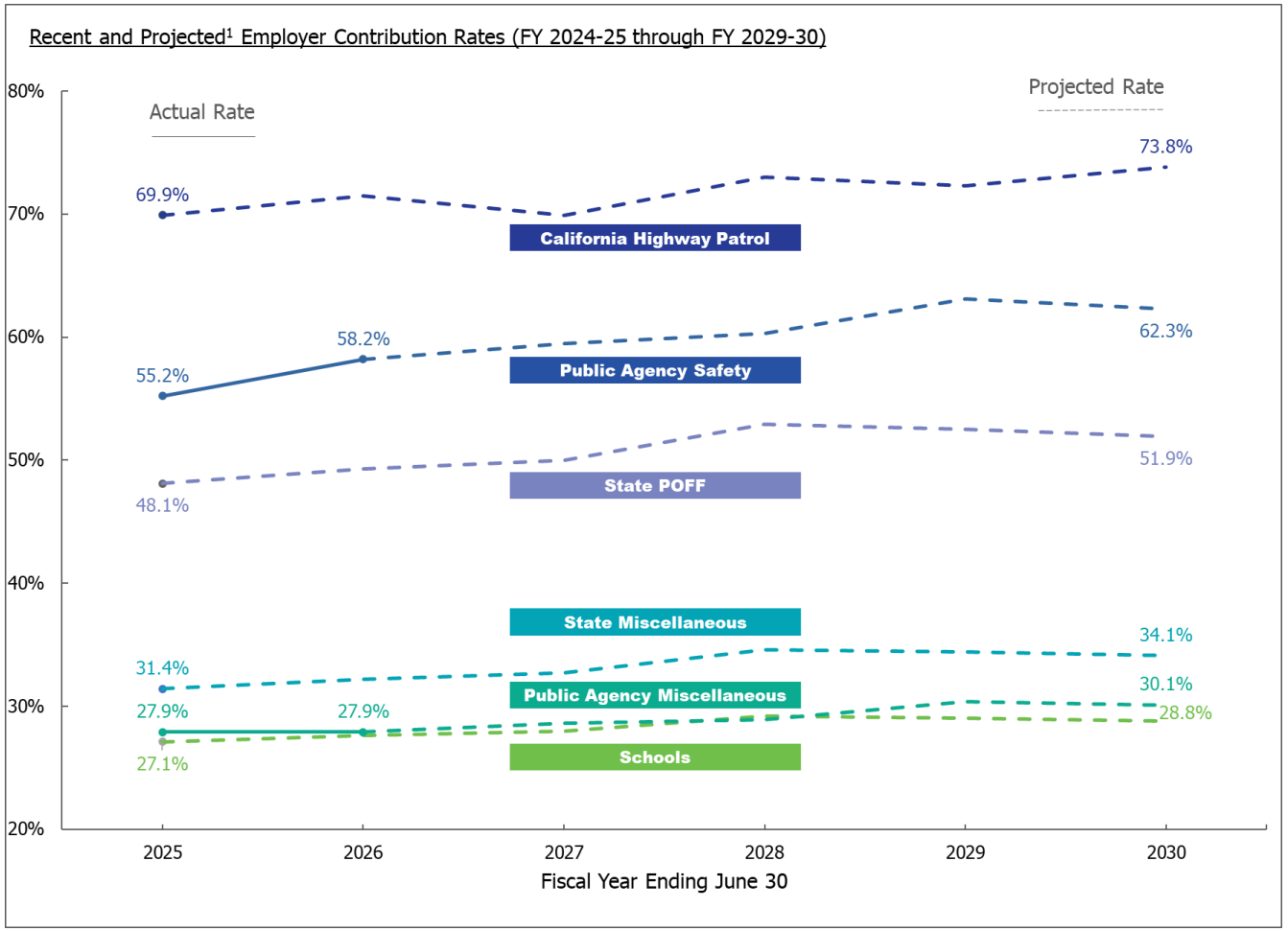
Current Funding Levels



Small improvement from 6/30/22 to 6/30/2023 even though return was slightly lower than 6.8% assumed return.

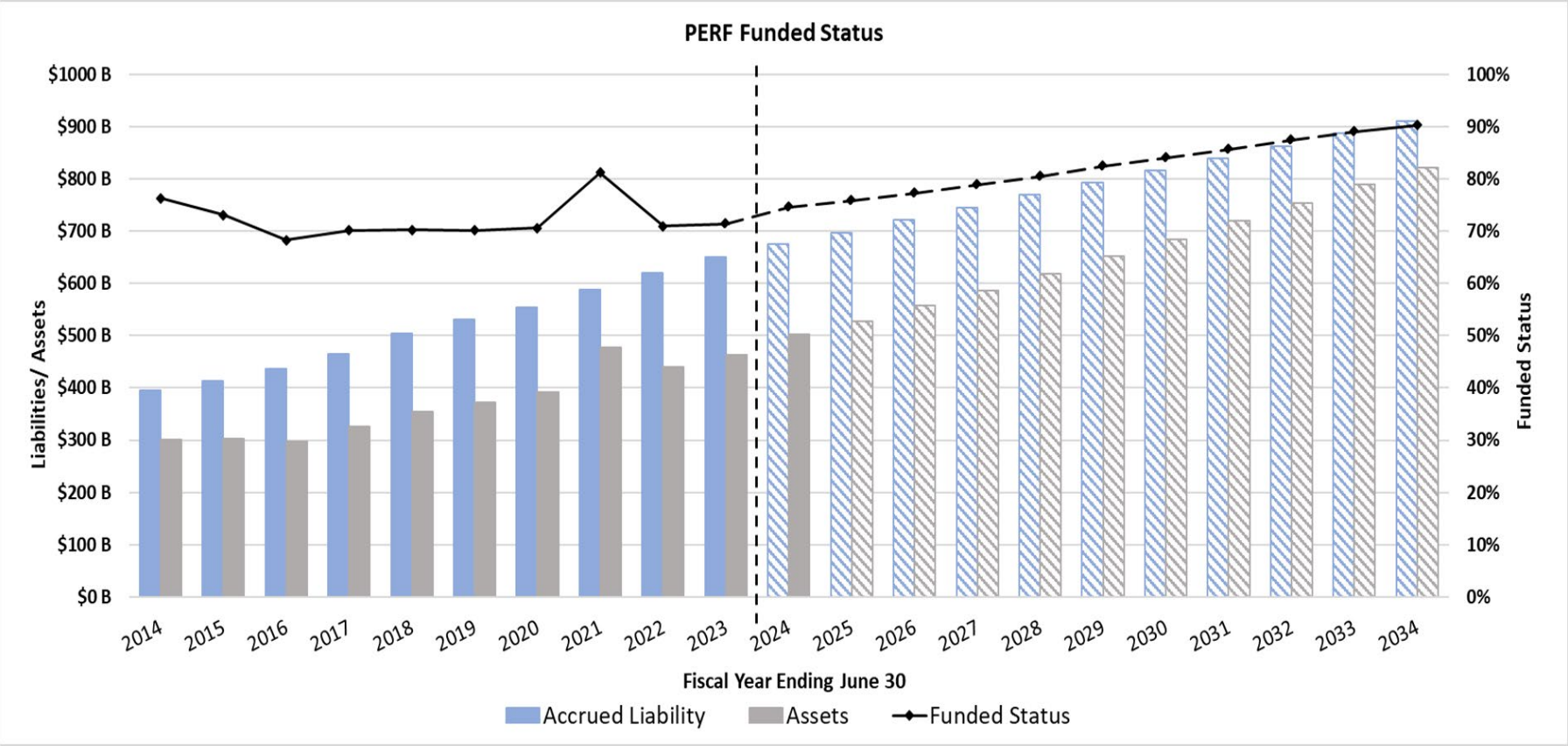
Increases in funded status as of 6/30/2024 are primarily due to the 9.5% investment return last year.

Employer Contribution Requirements



Projected contributions reflect the impact of the 9.5% investment return for the year ending June 30, 2024. This resulted in decreases to the previous projections.

Past and Projected Funded Status



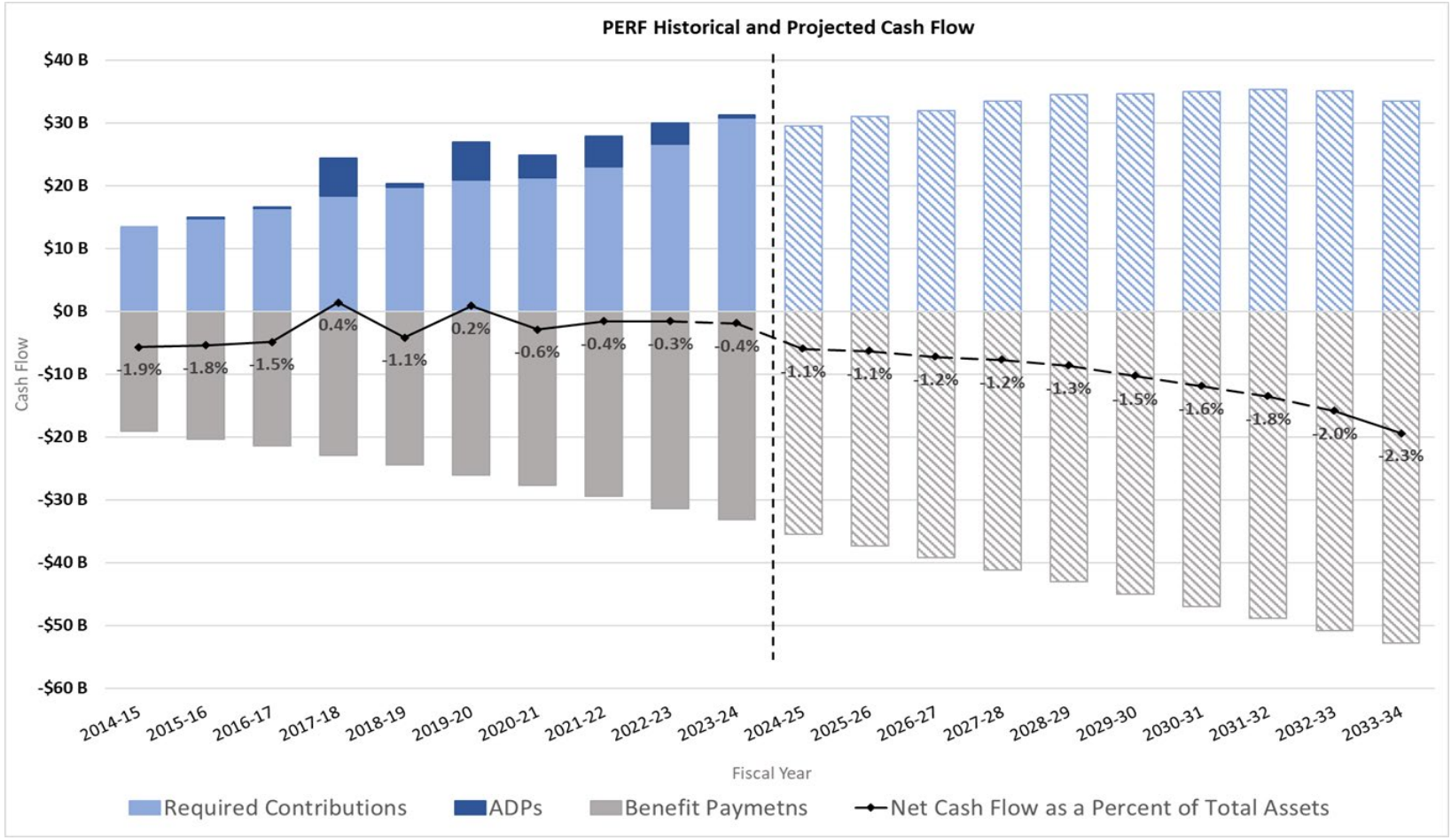
Volatile Funded Status due to uneven investment performance and assumption changes.

Projected improvement in funded status much better than improvement over last 10 years.

Past and Projected Cash Flow

Benefit payments are expected to continue increasing while contributions are expected to level off and then decrease over the next 10 years.

Negative cash flow is expected to grow over the next 10 years. However, this is neither unexpected nor a serious concern with regard to liquidity needs.



Savings Due to PEPRA

Plan Type	% PEPRA Members 6/30/2024	% PEPRA Payroll 6/30/2024	Estimated Cost Savings to Date	Estimated Cost Savings Next 10 Years
State	58%	47%	$1.7 billion	$8.0 billion
Schools	66%	54%	$1.1 billion	$4.3 billion
Public Agencies	65%	55%	$3.0 billion	$14.2 billion

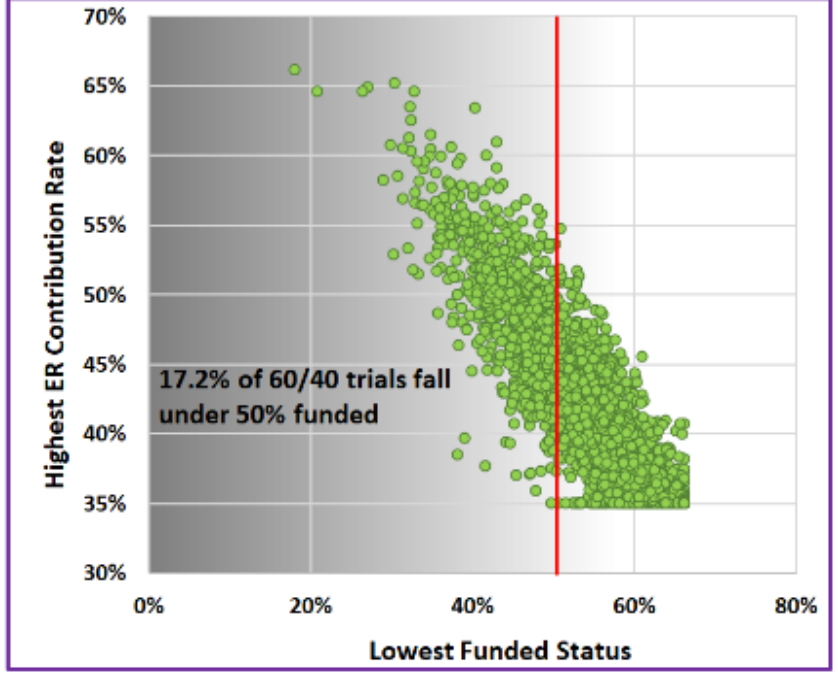
Assuming a level active population, PEPRA membership is expected to increase from about 63% today to 90% over the next 10 years.

Investment Risk Trade-Offs

60% /40% Portfolio

Median Employer Contribution Rate	30.3%
Median Funded %	78.8%

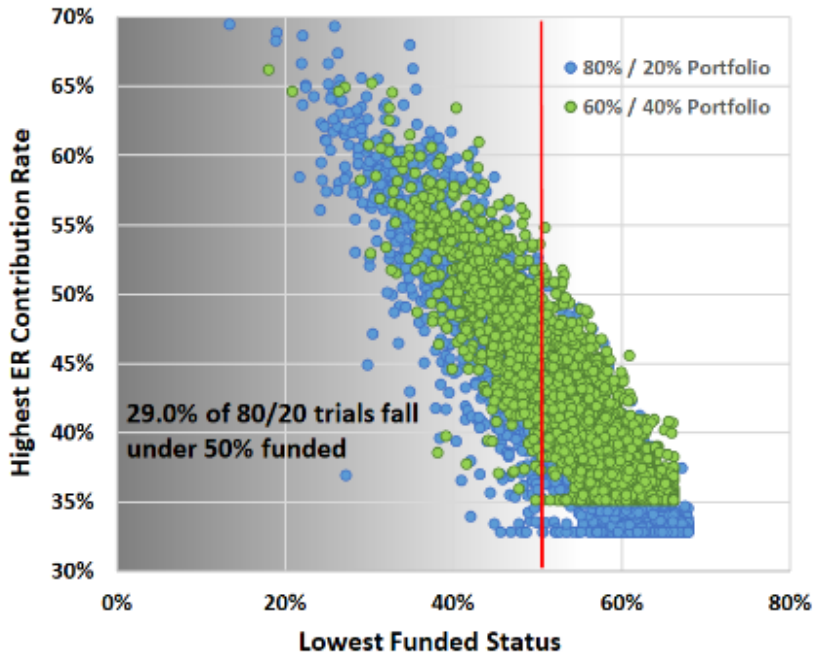
Advantage 60/40 Portfolio



80% /20% Portfolio

Median Employer Contribution Rate	28.4%
Median Funded %	79.9%

Advantage 80/20 Portfolio



Results based on 5,000 trials of simulated investment returns under the two portfolios over a 20-year period.

The 2023-24 Return Triggered a Risk Mitigation Event

Excess Investment Return	Reduction in Discount Rate	Reduction in Expected Investment Return
If the actual investment returns exceed the discount rate by:	*Then the discount rate will be reduced by:*	*And the expected investment return will be reduced by:*
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

Upon the occurrence of a Funding Risk Mitigation Event, the Board shall be notified of the Event and a discussion seeking committee direction will occur.

Board Policy Changed in April

- No longer an automatic reduction to the discount rate
- Direction is to notify the Board of such events
- The Board direction comes after the discussion
- Discussed at the Finance and Administration Committee in September

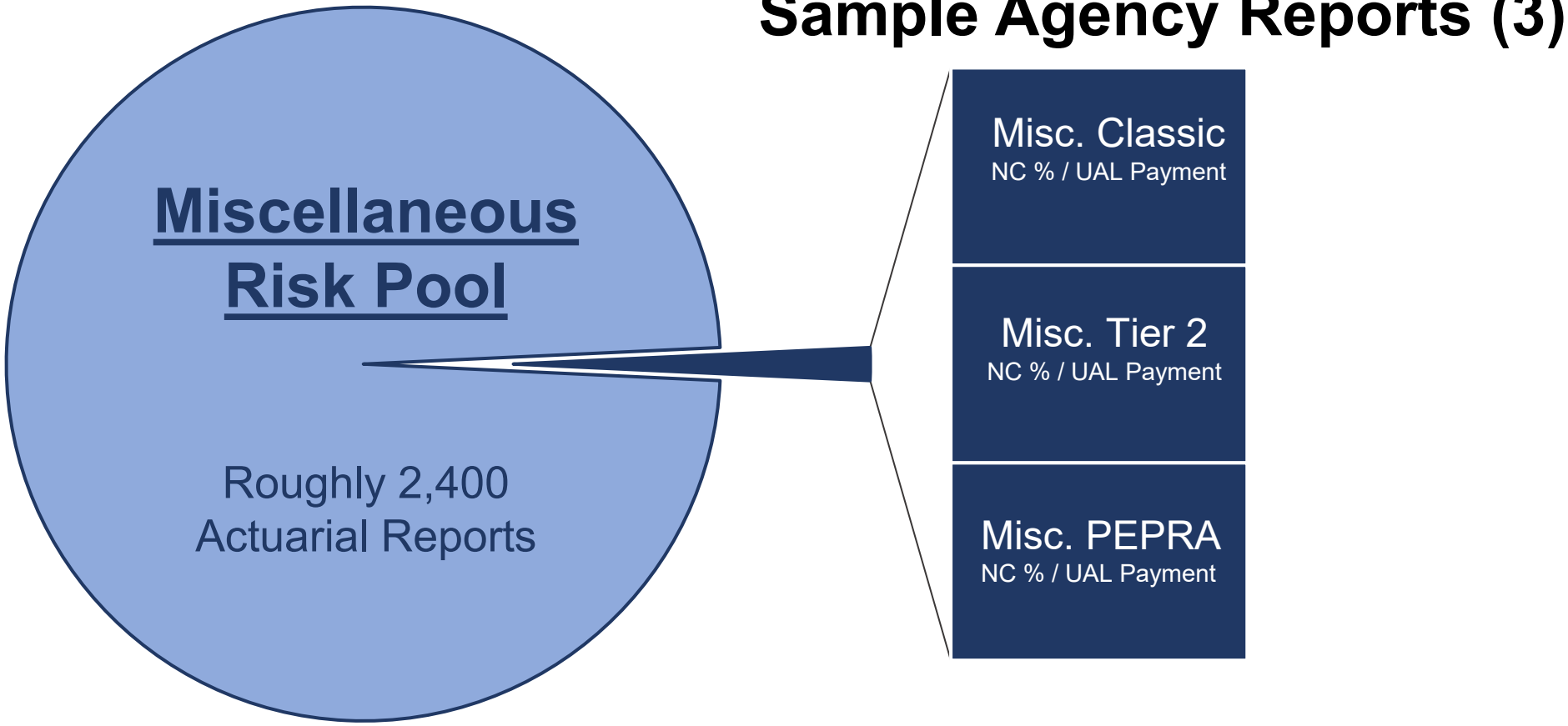
Key Considerations

- Next year CalPERS will be in a full blown ALM cycle year
- Asset returns continue to be volatile

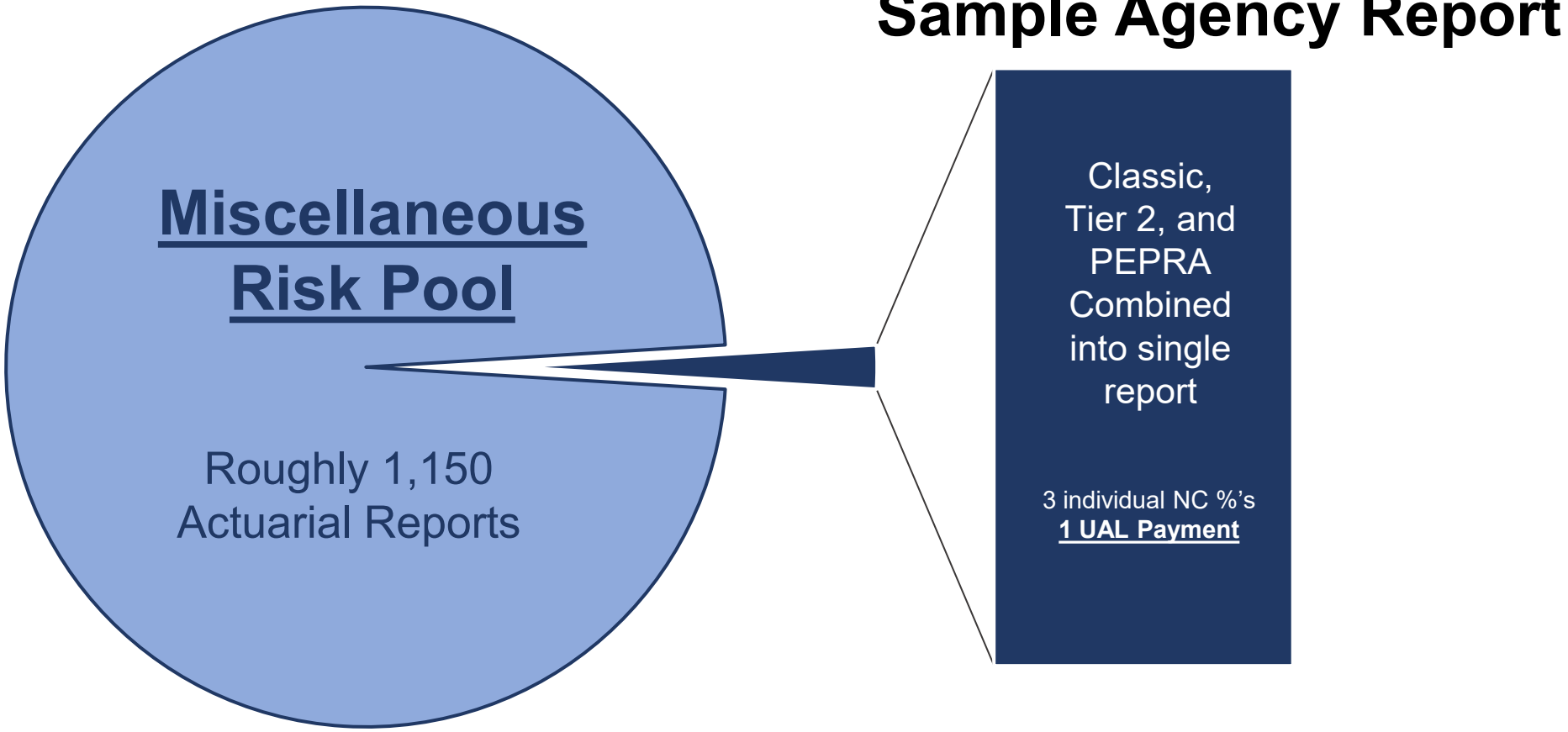
Combining Reports for Agencies in the Risk Pools

Current Approach	New Approach (July 1, 2024 reports)
Plans in risk pools share actuarial gains/losses to reduce contribution volatility	No change
Separate actuarial reports are produced for each active benefit tier (e.g., Classic, PEPRA)	Combined reports will be produced with most of the results provided in total (not separated by benefit tier)
Funded status / required contributions are provided for each active benefit tier	Normal cost %'s will be provided by benefit tier. Funded status and required UAL payments will be provided only in total (i.e., Classic and PEPRA combined)

Current Approach



Proposed Approach



Asset Liability Management (ALM) Timeline

2024

November

- ALM Concepts & Framework
- *ALM Strategy Session**

July

- ALM Concepts & Framework

2025

January

- Board Education Day

February

- ALM Workshop

March

- ALM Concepts & Framework
- *ALM Strategy Session**

June

- ALM Concepts & Framework
- *ALM Strategy Session**

September

- 1st Reading Proposed Actuarial and Investment Objectives
- *ALM Strategy Session**

November

- Final Approval of Proposed Actuarial and Investment Objectives
- Affiliate Funds Capital Market Assumptions

2026

March

- Affiliate Funds Final Approval of Strategic Asset Allocation
- *PERF Implementation Plan**

June

- *Affiliate Funds Implementation Plan**

Stakeholder Engagement Throughout Cycle

Risk Considerations and Tradeoffs

Risk Considerations		Tradeoffs	
ALM Central to Mission	Target lower investment risk for more consistent contribution rates and stable funding ratios	**Contribution & Funding**	Target higher investment returns, leading to lower expected total contributions over time
	Use more conservative return assumptions, generally leading to the probability of higher contributions today	**Discount Rate**	Use more aggressive return assumptions, generally leading to the probability of higher contributions tomorrow
Business Model Investment Governance, Organization, Process, & Reputation	Adhere more closely to industry norms and proven approaches to reduce risk of failures	**Innovation**	Make greater use of innovative / non-standard approaches, with potential for upside
	Run fewer, simpler, more scalable strategies, reducing management and oversight burden	**Complexity**	Run more complex, less scalable strategies to target incremental value add
	More use of external managers to maximize breadth of expertise we can access	**Internal vs External**	More use of internal staff and supporting infrastructure, to internalize skillsets and reduce costs
	Minimize costs (and the risk of paying something that doesn't deliver on expectations)	**Costs**	Maximize after-cost returns (i.e., expensive strategies that generate higher net returns)
Portfolio Exposure of Assets to the Market	Target lower and shorter markdowns in portfolio value, improving consistency	**Drawdown**	Accept higher and longer markdowns to increase long term expected returns
	More closely track benchmarks, external indices, and peer returns, reducing risk of behavioral mistakes	**Benchmark Relative**	Accept greater divergence from external reference points in pursuit of long- term outcomes
	Maintain more excess liquidity to improve ability to dynamically respond to opportunities	**Liquidity**	Make fuller use of available liquidity today to harvest premiums from illiquid strategies
Sustainability Institutional Priority	Minimize climate risk impact on portfolio by excluding companies/ industries with stranded asset risk	**Climate Change**	Manage climate risk impact by seeking to generate returns through awareness of climate-related risks and opportunities across assets (e.g. transition solutions)
	Seek to drive change by withdrawing capital from companies not fully aligned with CalPERS' values	**Values Alignment**	Leverage CalPERS' ownership positions and peer leadership to drive change through engagement

Questions?