



# Plan Benchmarks and IPS Update

Investment Staff | December 2019

# Strategic Asset Allocation (SAA) Study

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- From June to November of 2019, an **SAA Study** was undertaken to determine if any changes should be made to the State's investment portfolio framework to better meet objectives.
- The key **SIC Goal** of the study was to maintain or improve probability of achieving a 100% funding of the plan liability in 20 years subject to 3 **Risk Constraints**:
  1. Limit the probability of funding level falling below 50% over the next 5 years to 15%.
  2. Limit the probability of 2% absolute increase in the employer contribution rate to ~25% of payroll over the next 10 years.
  3. Within 90% confidence, maintain at least 3x the annual benefit payment amount in assets with daily/weekly liquidity profile in a recessionary scenario.

# SAA Final Recommendation

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- In the November 20, 2019 SIC Meeting, NEPC and the Investment Staff presented three final mixes for the SIC to consider for the updated SAA:
  - **Mix E:** Introduces Emerging Markets Debt (EMD) at 2%.
  - **Mix EC:** Introduces EMD at 2% and increases the CPC Program allocation by 2%.
  - **Mix ECO:** Introduces EMD at 2%, increases the CPC Program allocation by 2%, and introduces an Equity Options mandate of 2% to the Income Category.
- Each mix drew from a reduction to Core Bonds & Cash and included the following actions:
  - Eliminate unfunded Commodity target allocation of 1% in favor of an increase to TIPS.
  - Disaggregate Core Bonds into Investment Grade Corporate Credit and Securitized Credit mandates.
- NEPC and the Investment Staff recommended adopting **Mix ECO**.
  - The new allocation weights outlined in **Mix ECO** can be found on page 5.

# Benchmark Updates

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- The Investment Staff made appropriate updates to the plan's **Strategic Benchmark**, which is used to measure overall manager performance. The goal of these changes was to improve the comparability of the **Strategic Benchmark** and **Mix ECO**.
- Key **Strategic Benchmark** changes included:
  - The addition of a benchmark for EMD (50% JPM EMBI Global Diversified Index + 50% JPM GBI-EM Global Diversified Index).
  - The introduction of a benchmark for equity options (CBOE Put-Write Index).
  - The disaggregation of the Core Bonds benchmark (Bloomberg Barclays Aggregate Index) to an Investment Grade Corporates benchmark (Bloomberg Barclays US Corporate Index) and a Securitized Credit benchmark (Bloomberg Barclays US Securitized MBS/ABS/CMBS Index).
  - The elimination of the Bloomberg Barclays Commodities Index.
- Additionally, the **Strategic Benchmark's** weights for individual asset class allocation **Component Benchmarks** were updated to match the asset allocation targets for **Mix ECO**.

# NEW BENCHMARK *(as of 1/1/2020)*

		Current Target	Current Allocation	Mix ECO	Benchmark
Growth	US Equities	22.0%	15.9%	12.7%	MSCI ACWI (net)
	Int'l Equities	13.3%	9.2%	7.6%	
	Emerging Int'l Equities	4.7%	5.1%	4.7%	
	Global Equity	0%	15%	15%	
	<b>Global Equity</b>	<b>40%</b>	<b>45%</b>	<b>40%</b>	
	Private Equity	11.25%	6.96%	11.25%	ILPA All Funds Index 1Q Lag
	Non-Core Real Estate	2.25%	1.78%	2.25%	NFI-ODCE Index, 1Q Lag + 2.5%
	Opp. Private Credit	1.5%	0.6%	1.5%	ILPA Distressed Index 1Q Lag
	<b>Private Growth</b>	<b>15%</b>	<b>9%</b>	<b>15%</b>	
	<b>TOTAL GROWTH</b>	<b>55%</b>	<b>54%</b>	<b>55%</b>	
Income	Equity Options	0.0%	0.0%	2.0%	CBOE Put Index
	Liquid Credit	2.8%	3.9%	2.8%	50% BofA US HY Index / 50% CS LL Index
	EMD (Blended)	0%	0%	2.0%	50% JPM EMBI Global Div./ 50% JPM GBI-EM Global Div.
	HY Infrastructure	1%	1%	1%	Alerian MLP Index
	REITs	1%	1%	1%	MSCI US REIT index
	Private Credit	3.2%	1.7%	3.2%	S&P/LSTA Leveraged Loan Index + 3%
	<b>TOTAL INCOME</b>	<b>8%</b>	<b>8%</b>	<b>12%</b>	
Stability	Long Treasuries	4%	4%	5%	Barclays Long Treasury Index
	Systematic Trend	4%	4%	5%	CSLABT18 Index
	<b>CPC</b>	<b>8%</b>	<b>8%</b>	<b>10%</b>	
	Core Real Estate	3.6%	4.5%	3.6%	NFI-ODCE Index, 1Q Lag
	Private Infrastructure	2.4%	2.0%	2.4%	CPI + 4%, 1 Month Lag
	TIPS	1%	2%	2%	Bloomberg Barclays 1-10 Year TIPS Index
	Commodities	1%	0%	0%	Bloomberg Barclays Commodity Index
	<b>Inflation Protection</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	
	Core Bonds	11.5%	11.8%	0.0%	Bloomberg Barclays US Aggregate Bond Index
	IG Corp. Credit (Core Bonds)	0%	0%	3.25%	Bloomberg Barclays US Corporate Index
	Securitized Credit (Core Bonds)	0%	0%	3.25%	Bloomberg Barclays US Securitized MBS/ABS/CMBS Index
	Absolute Return	6.5%	7.0%	6.5%	HFRI FoF Index
	Strategic Cash	3%	3%	2%	BofA ML 0-1 Year US Treasury Index
	<b>Volatility Protection</b>	<b>21%</b>	<b>22%</b>	<b>15%</b>	
	<b>TOTAL STABILITY</b>	<b>37%</b>	<b>38%</b>	<b>33%</b>	
Other	Short-Term Cash	0%	0%	0%	
	Russell Overlay	0%	0%	0%	
	<b>Total Cash</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	



# IPS Updates

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- The Investment Staff and NEPC made appropriate updates to the plan's **Investment Policy Statement (IPS)** to reflect new asset allocation targets as outlined in **Mix ECO**.
  - The updated IPS includes language describing the roles of the new allocations added in **Mix ECO** within the context of their respective Functional Buckets.
- The updated IPS also incorporated new **Component Benchmarks** and weights for the **Strategic Benchmark**.