

OTHER POST-EMPLOYMENT BENEFITS IRREVOCABLE TRUST

Asset Allocation Committee

January 6, 2016

Agenda & Meeting Notes

Attendees: Aaron S. Brown, Amber Casolari, Beth Gomez, Gustavo Segura, and Dwight Tate

HANDOUTS:

- Most Recent Performance Reports associated with each asset allocation strategy
- Certification of OPEB Funding Policy & GASB 43/45
- Actuarial Valuation

AGENDA:

Purpose:

- ❖ To select an asset allocation strategy for the Irrevocable Trust administered by CalPERS-California Employers Retirement Benefit Trust program.
- ❖ The Committee will not be making investment decisions. Rather, the Committee will be making financial/budget decisions by selecting from there (3) asset allocation strategies available through CalPERS-CERBT, considering:
 - What can we afford?
 - Actuarial valuation assumptions
 - Lower rate of return = equals greater liability = higher minimum annual payment
 - Higher rate of return = equals lower liability = lower minimum annual payment
 - ◆ Mitigated by our minimum fixed contribution amount
 - What is our risk tolerance?
 - What level of risk are we willing to assume?
 - ◆ Our risk tolerance for sustaining losses
- ❖ To periodically evaluate asset allocation strategies performance
- ❖ To periodically evaluate costs associated with the OPEB Irrevocable Trust
- ❖ To engage and communicate information to our constituency groups

*The Asset Allocation Committee is not charged with making investment decisions.

NOTES:

Committee reviewed and selected among three Asset Allocation Strategies offered by CalPERS
– California Employers’ Retiree Benefit Trust

- a. Selection weighed by two criteria: affordability and risk tolerance
 - i. Affordability measured in terms of the cost to fund our OPEB liability as measured by periodic actuarial valuations. The current long-term expected rate of return for all three asset allocation strategies exceeds the 5% assumed rate of return in the actuarial valuation.
 - ii. Risk tolerance will be evaluated in terms of what level of risk we are willing to assume regarding potential loss of principal vs. the potential return on investment. Each asset allocation strategy has its own risk level. The higher expected level of return, the higher the risk level.

Brown, Aaron

Subject: RE: OPEB Irrevocable Trust – Asset Allocation Committee

From: Brown, Aaron

Sent: Thursday, December 10, 2015 4:14 PM

To: Casolari, Amber <Amber.Casolari@rcc.edu>; Segura, Gustavo <Gustavo.Segura@mvc.edu>; Gomez, Beth <Beth.Gomez@norcocollege.edu>; DWIGHT TATE <dud2@sbcglobal.net>

Cc: Burke, Michael <Michael.Burke@rccd.edu>

Subject: OPEB Irrevocable Trust – Asset Allocation Committee

Colleagues,

Thank you for volunteering to serve on the OPEB Irrevocable Trust – Asset Allocation Committee. It is anticipated that the committee will only need to meet once or twice per year.

The committee's primary task at the first meeting will be to select among three asset allocation strategies offered by CalPERS – California Employers' Retiree Benefit Trust (CERBT), the District's OPEB Irrevocable Trust administrator. This needs to be done as soon as possible in order to begin funding the irrevocable trust.

Attached you will find the most recent performance reports associated with each asset allocation strategy in addition to the "Certification of OPEB Funding Policy & GASB 43/45 Reporting Compliance" document that will need to be completed. The Committee will not be selecting individual investments and will not be making "investment decisions" in the traditional sense. Rather, it will be selecting among the three preset asset allocation strategies available within the CalPERS – CERBT program. Dr. Burke has referred to this as the "Goldilocks Approach" ...this one's too hot...this one's too cold...this one's just right.

The Committee will need to make the selection by weighing two criteria, affordability and risk tolerance. Affordability will be measured in terms of the cost to fund our OPEB liability as measured by periodic actuarial valuations. In short, the lower the rate of return of the asset allocation strategy selected, the higher the minimum annual payment (cost) to fund the OPEB liability, and vice versa. Our most recent actuarial valuation (attached) assumed a 5% rate of return. The current long-term expected rate of return for all three asset allocation strategies exceeds the 5% assumed rate of return in the actuarial valuation.

Risk tolerance will be evaluated in terms of what level of risk are we willing to assume regarding potential loss of principal vs. the potential return on investment. Each asset allocation strategy has its own risk level. In general, the higher expected level of return, the higher the risk level.

Please keep in mind that we will be funding the irrevocable trust with approximately \$250,000 per year.

Subsequent meetings will be held to evaluate asset allocation strategy performance.

Thank you and I look forward to seeing you at our scheduled meeting.

Aaron

October 31, 2015

Objective

The objective of the CERBT Strategy 1 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 2 and Strategy 3, this portfolio consists of a higher percentage of equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

\$4,622,116,990.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	57%	± 2%	MSCI All Country World Index IMI (net)
Fixed Income	27%	±2%	Barclays Capital Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 2%	Barclays Capital Global: US TIPS Index
Real Estate Investment Trusts ("REITs")	8%	± 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 2%	S&P GSCI Total Return Index

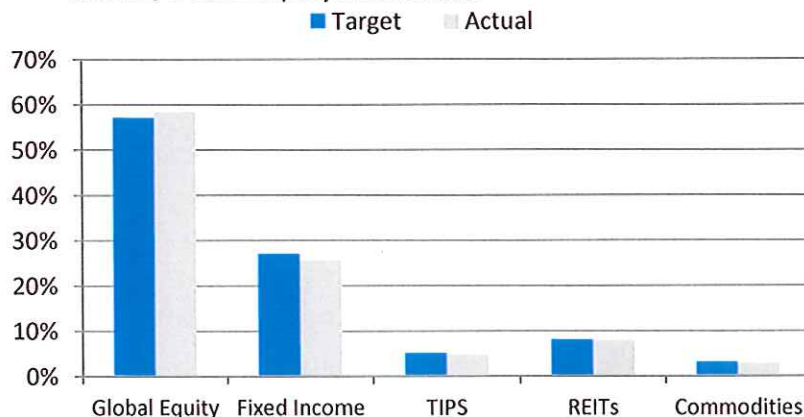
¹ Allocations approved by the Board at the October 2014 Investment Committee meeting

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 1 Performance as of October 31, 2015

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (June 1, 2007)
Returns before expenses ¹	4.82%	-1.84%	-1.30%	-0.15%	7.31%	7.32%	3.86%
Benchmark returns	4.84%	-1.85%	-1.30%	-0.38%	6.99%	7.14%	3.42%

*Returns for periods greater than one year are annualized.

¹ See the Expense section of this document.



General Information

Information Accessibility

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or external advisors. Since it is not a mutual fund, a prospectus is not available nor is information available from a newspaper source. This summary is designed to provide descriptive information. CalPERS provides a quarterly statement of the employer's account and other information about the CERBT. For total market value, detailed asset allocation, investment policy and current performance information, including performance to the most recent month-end, please visit our website at: www.calpers.ca.gov.

Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. Under that direction, CalPERS Investment staff manages fixed income, treasury inflation-protected securities and commodities assets; and State Street Global Advisors (SSgA) manages the global equity and real estate investment trust assets.

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSgA to manage the global equity and real estate trust assets, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 1 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between actual health care premiums for payment of future benefits provided to retirees should CERBT assets not be sufficient to cover future obligations.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

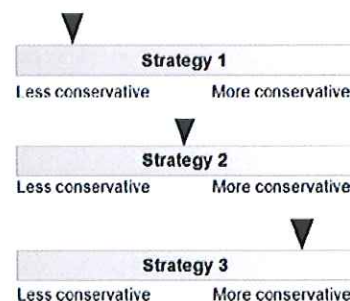
Fund Performance

Performance data shown on page 1 represents past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an employer's units, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than historical performance data shown. For current performance information, please visit www.calpers.ca.gov and follow the links to California Employer Retirees' Benefit Trust.

CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	57%	40%	24%
Fixed Income	27%	39%	39%
Treasury Inflation-Protected Securities	5%	10%	26%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	3%	3%



Objective

The objective of the CERBT Strategy 2 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 2 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 1 and Strategy 3, this portfolio consists of a moderate allocation of equities, bonds, and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience comparatively less fluctuation of value compared to CERBT Strategy 1 but more fluctuation of value compared to CERBT Strategy 3. Employers that seek a moderate approach to investing may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was **\$4,622,116,990**.

Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 2 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	40%	± 2%	MSCI All Country World Index IMI (net)
Fixed Income	39%	± 2%	Barclays Capital Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	10%	± 2%	Barclays Capital Global: US TIPS Index
Real Estate Investment Trusts ("REITs")	8%	± 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 2%	S&P GSCI Total Return Index

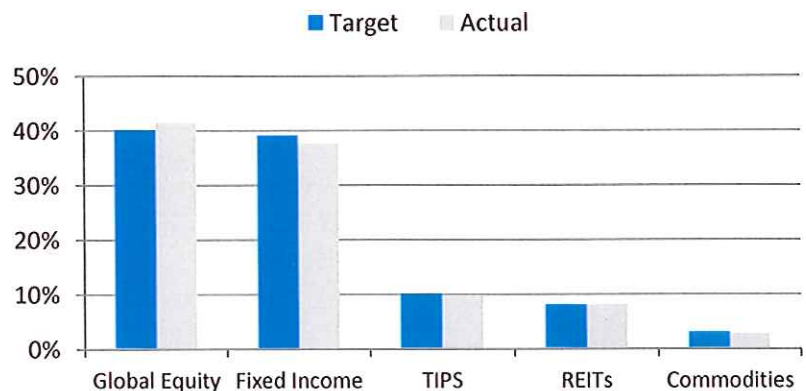
¹ Allocations approved by the Board at the October 2014 Investment Committee meeting

Portfolio Benchmark

The CERBT Strategy 2 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 2 Performance as of October 31, 2015							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (October 1, 2011)
Returns before expenses ¹	3.58%	-1.35%	-0.78%	-0.16%	5.68%	-	8.18%
Benchmark returns	3.59%	-1.29%	-0.68%	-0.23%	5.38%	-	7.99%

*Returns for periods greater than one year are annualized.

¹ See the Expense section of this document.

General Information

Information Accessibility

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Portfolio Manager Information

The CalPERS Investment Committee and Board of Administration directs the investment strategy and investments of the CERBT. Under that direction, CalPERS Investment staff manages fixed income, treasury inflation-protected securities and commodities assets; and State Street Global Advisors (SSgA) manages the global equity and real estate investment trust assets.

Custodian and Record Keeper

State Street Bank serves as custodian for the CERBT. Northeast Retirement Services serves as record keeper.

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSgA to manage the global equity and real estate trust assets, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per share. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or market conditions. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

What Employers Own

Each employer choosing CERBT Strategy 2 owns a percentage of this portfolio, which invests in pooled asset classes managed by CalPERS and/or external advisors. Employers do not have direct ownership of the securities in the portfolio.

Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

The CalPERS CERBT Fund provides California government employers with a trust through which they may prefund retiree medical costs and other post-employment benefits. CERBT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives nor provide sufficient funding to meet these employer obligations. Further, CalPERS will not make up the difference between actual health care premiums for payment of future benefits provided to retirees should CERBT assets not be sufficient to cover future obligations.

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), CalPERS, the State of California or any other government agency.

There are risks associated with investing, including possible loss of principal. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. For more information about investment risks, please see the document entitled "CERBT Principal Investment Risks" located at www.calpers.ca.gov.

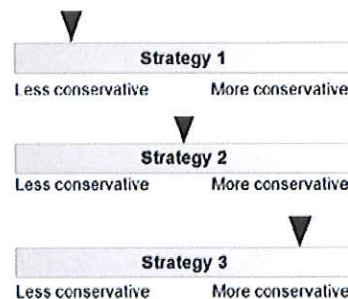
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CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	57%	40%	24%
Fixed Income	27%	39%	39%
Treasury Inflation-Protected Securities	5%	10%	26%
Real Estate Investment Trusts	8%	8%	8%
Commodities	3%	3%	3%



Objective

The objective of the CERBT Strategy 3 portfolio is to seek returns that reflect the broad investment performance of the financial markets through capital appreciation and investment income. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 3 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with CERBT Strategy 1 and Strategy 2, this portfolio consists of a lower percentage of equities than bonds, and other assets. Historically, funds with a lower percentage of equities have displayed less price volatility and therefore, this portfolio may experience less fluctuation of value. Employers that seek greater stability of value, in exchange for possible lower investment returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes, in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end, the aggregate total of assets under management for all CERBT Strategies was

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Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 3 portfolio consists of the following asset classes and corresponding benchmarks:

Asset Class	Target Allocation ¹	Target Range	Benchmark
Global Equity	24%	± 2%	MSCI All Country World Index IMI (net)
Fixed Income	39%	± 2%	Barclays Capital Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	26%	± 2%	Barclays Capital Global: US TIPS Index
Real Estate Investment Trusts ("REITs")	8%	± 2%	FTSE EPRA/NAREIT Developed Liquid Index (net)
Commodities	3%	± 2%	S&P GSCI Total Return Index

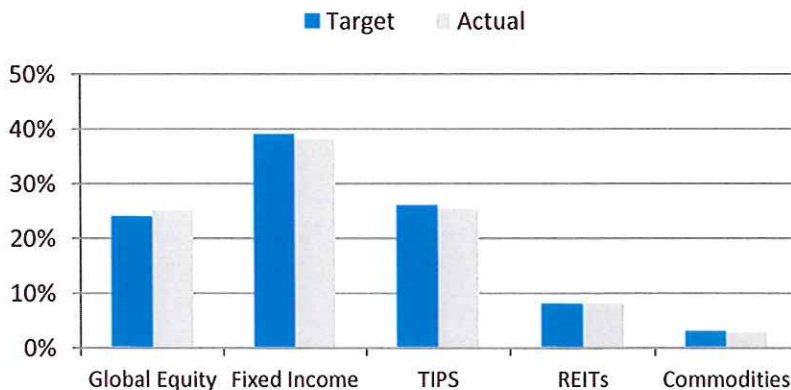
¹ Allocations approved by the Board at the October 2014 Investment Committee meeting

Portfolio Benchmark

The CERBT Strategy 3 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



CERBT Strategy 3 Performance as of October 31, 2015							
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* January 1, 2012)
Returns before expenses ¹	2.41%	-1.03%	-0.52%	-0.41%	4.04%	-	5.76%
Benchmark returns	2.42%	-0.95%	-0.40%	-0.49%	3.65%	-	5.46%

*Returns for periods greater than one year are annualized.

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What Employers Own

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Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value also changes with market conditions.

Principal Risks of the Portfolio

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