

**Mission statement of McKinleyville Community Services District:**  
“Provide McKinleyville with safe and reliable water, wastewater, lighting, open space, parks and recreation, library services, and other appropriate services for an urban community in an environmentally and fiscally responsible manner.”

**NOTICE IS HEREBY GIVEN THAT A MEETING OF THE  
MCKINLEYVILLE COMMUNITY SERVICES DISTRICT BOARD OF DIRECTORS  
AUDIT AND FINANCE COMMITTEE MEETING  
WILL BE HELD  
FRIDAY, JULY 22, 2022 AT 3 P.M.**

**LOCATION: MCSD District Office Conference Room  
1656 Sutter Road  
McKinleyville, CA 95519**

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## **MEETING AGENDA**

1. Introductions, Call to Order, & Flag Salute
2. Public Comment
4. Section 115 Trust – Review Purpose of a Trust and Potential Benefits to the District
  - Attachment 1 – Introduction to California Employers Pension Prefunding Trust
  - Attachment 2 – California Employers Pension Prefunding Trust Fact Sheet

**Posted 5:00 pm on July 20, 2022**

*Pursuant to California Government Code Section 54957.5, this agenda and complete packet are available for public inspection on the web at [McKinleyvillecsd.com](http://McKinleyvillecsd.com) or upon request at the MCSD office, 1656 Sutter Road, McKinleyville.*

*McKinleyville Community Services District will, on request, make agendas available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Individuals who need this agenda in an alternative format or who need a disability-related modification or accommodation in order to participate in the meeting should contact the Board Secretary at (707) 839-3251. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements for accommodations.*

# **McKinleyville Community Services District**

## **AUDIT & FINANCE COMMITTEE**

July 22, 2022

TYPE OF ITEM: **INFORMATIONAL**

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**ITEM: 3** Introduction to Section 115 Trust and Discussion About Potential Benefits to the District

**PRESENTED BY:** Nicole Alvarado, Finance Director

**TYPE OF ACTION:** None

### **Recommendation:**

Staff recommends the Committee review the information provided, discuss and take public comment.

### **Discussion:**

A Section 115 Trust is a special account used to prefund pension or OPEB liabilities. Monies held within the Trust are irrevocably restricted for this purpose and are allowed a wider array of investment options which may lead to higher returns over a long period of time. The District maintains two investment accounts (currently held by CalTrust) which are reserved for unfunded pension and OPEB liabilities, the pension reserve's current balance is approximately \$2 million and the OPEB reserve's current balance is approximately \$2.9 million. The District's unfunded liabilities for the pension is \$2.3 million and \$10 million for OPEB.

### **Alternatives:**

Take Action

### **Fiscal Analysis:**

A Section 115 Trust can be a valuable financial tool when incorporated into the District's long term financial strategy however, current market conditions must be taken into account when determining the appropriate amount of monies to deposit into the Trust. In addition, the Committee should be cognizant that monies placed into the Trust are irrevocably restricted for the purpose of satisfying pension or OPEB liabilities.

### **Exhibits/Attachments:**

Attachment 1 – Introduction to California Employers Pension Prefunding Trust

Attachment 2 – California Employers Pension Prefunding Trust Fact Sheet

# California Employers Pension Prefunding Trust (CEPPT)

McKinleyville Community Services District

July 19, 2022

# Employer Pension Cost Considerations

- Normal cost
  - Ongoing perpetual cost
  - Increases with payroll
- Unfunded accrued liabilities (UAL)
  - Currently exist for most agencies
  - Will reoccur if plan experience is negative
- Overall cost trends
  - Likely to increase for 10 years due to unfunded liabilities
  - Likely to decrease with PEPRA but increase with payroll

## District's CalPERS Pension Plans Summary

Plan	Funded Status (6/30/2020)	Unfunded Liability (7% Interest)	UAL Payment 2022-23	UAL Payment 2027-28	UAL Payment Increase	Normal Cost 2022-23
<a href="#">Miscellaneous</a>	71.60%	\$2,510,986	\$198,091	\$256,000	\$57,909	\$116,036
<a href="#">Miscellaneous PEPRA</a>	87.30%	\$24,684	\$4,019	\$710	(\$168,389)	\$43,128
<b>Total</b>	<b>71.94%</b>	<b>\$2,535,670</b>	<b>\$202,110</b>	<b>\$256,710</b>	<b>(\$110,480)</b>	<b>\$159,164</b>

## Pay Down Your Miscellaneous Pension Debt Faster and Save

Amortization Schedule \$2,510,986 (Page 15 of Valuation)	Total Paid Over Amortization Schedule	Interest Paid Over Amortization Schedule	Payment Increase Due to Shorter Amortization	Total Interest Savings Over Amortization Schedule
Variable Payment 23 Years	\$4,486,372	\$1,947,673	--	--
Level Payment 15 Years	\$4,041,954	\$1,503,255	\$71,373	\$444,418
Level Payment 10 Years	\$3,494,305	\$955,606	\$151,339	<b>\$992,067</b>

# Tools to Proactively Manage Pension Costs

- Make up for past underperformance by sending Additional Discretionary Payments (ADP's) of Unfunded Accrued Pension Liability (UAL)
  - Yes you should do this
- Establish a pension contribution prefunding Section 115 trust fund to improve your future capacity to pay these volatile costs
  - Yes you should also do this

# Pension Contribution Investment Tools

Portfolios	CalPERS Pension	CalPERS 115 CEPPT Trust Strategy 1	CalPERS 115 CEPPT Trust Strategy 2	LAIF
Expected Return	6.8%	5.0%	4.0%	~1%
Risk	11.4%	8.2%	5.2%	Lowest
Optimal Investment Time Horizon	Long-Term	2-10 Years		1-24 Months
Liquidity	No	Yes		Yes



## Pension Contribution Prefunding 115 Trust Purpose

- Grow assets for future pension contributions
- Earn higher yields than LAIF and County Treasury
- Retain liquidity on your assets
- Stabilize future budgets
- Create a contingency reserve for difficult times ahead
- Invest over shorter time horizon and less risky than your pension system

# You Control the Funding Policy

- Choose your preferred portfolio option or use both
- Contributions are always voluntary and never required
- Decide if and when to seek reimbursement for every pension dollar contributed to Pension and regain liquidity
- Benefit from CalPERS investment economies of scale without giving up control of your money

# District's CEPPT Purpose #1

- Build a rainy-day contingency reserve fund
- Will likely outperform LAIF and earn more interest
- Will allow for greater budgetary stability

Plan	3 Months Pension Cost
<u>Miscellaneous</u>	\$78,532
<u>Miscellaneous PEPRA</u>	\$53,057
<b>Total</b>	<b>\$131,589</b>

## District's CEPPT Purpose #2

- Prefund future pension costs in advance
  - Normal Costs which will exist in perpetuity
    - \$159,164 Approximately
  - Unfunded Liability when it exists
    - \$2,535,670 Approximately
      - Including Additional Discretionary Payments (ADPs)
- Take advantage of time and compounding interest
- Use this approach to dollar cost average ADP's
  - Mitigate market timing risk
  - Mitigate large lump sum single contribution risk

# Compounding Interest Model

Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10	11
Nominal Expected Compounded Annualized Rate of Investment Return	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Cumulative Expected Compounded Rate of Investment Return	5%	10%	16%	22%	28%	34%	41%	48%	55%	63%	71%
Required Investment Principal Contribution Needed to Generate \$1	\$0.95	\$0.91	\$0.86	\$0.82	\$0.78	\$0.75	\$0.71	\$0.68	\$0.64	\$0.61	\$0.58

# Estimated Normal Cost Prefunding Scenario

Fiscal Year	Normal Cost	Investment Duration (Years)											
		1	2	3	4	5	6	7	8	9	10	11	
2022-23	\$159K	\$152K											
2023-24	\$164K	\$156K	\$148K										
2024-25	\$168K	\$160K	\$152K	\$145K									
2025-26	\$173K	\$164K	\$157K	\$149K	\$142K								
2026-27	\$177K	\$169K	\$161K	\$153K	\$146K	\$139K							
2027-28	\$182K	\$174K	\$165K	\$157K	\$150K	\$143K	\$136K						
2028-29	\$187K	\$178K	\$170K	\$162K	\$154K	\$147K	\$140K	\$133K					
2029-30	<b>\$192K</b>	<b>\$183K</b>	<b>\$175K</b>	<b>\$166K</b>	<b>\$158K</b>	<b>\$151K</b>	<b>\$144K</b>	<b>\$137K</b>	<b>\$130K</b>				
2030-31	\$198K	\$188K	\$179K	\$171K	\$163K	\$155K	\$148K	\$141K	\$134K	\$127K			
2031-32	\$203K	\$194K	\$184K	\$176K	\$167K	\$159K	\$152K	\$144K	\$138K	\$131K	\$125K		
2032-33	\$209K	\$199K	\$189K	\$180K	\$172K	\$164K	\$156K	\$148K	\$141K	\$135K	\$128K	\$122K	

# CEPPT Portfolio Details

Asset Classification	Benchmark	CEPPT Strategy 1	CEPPT Strategy 2
Global Equity	MSCI All Country World Index	40% ±5%	14% ±5%
Fixed Income	Bloomberg U.S. Aggregate Bond Index	47% ±5%	73% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg Capital Global Real: US TIPS Index	5% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%

# CEPPT/CERBT Investment Returns Outperform Benchmarks

Periods Ended May 31, 2022

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$13,674,698,747	-0.10%	-5.87%	-7.18%	-5.84%	8.61%	7.13%	8.00%	5.37%
Benchmark		-0.16%	-5.95%	-7.33%	-6.03%	8.35%	6.85%	7.66%	4.96%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,839,218,667	-0.05%	-6.26%	-7.43%	-5.95%	6.59%	5.89%	6.62%	6.91%
Benchmark		-0.08%	-6.30%	-7.51%	-6.07%	6.41%	5.66%	6.30%	6.64%
CERBT Strategy 3 (Inception January 1, 2012)	\$797,106,117	-0.12%	-6.09%	-6.46%	-4.98%	5.11%	4.87%	5.25%	5.32%
Benchmark		-0.13%	-6.09%	-6.48%	-5.01%	4.97%	4.68%	4.94%	5.04%
<b>CERBT Total</b>	<b>\$16,311,023,531</b>								
CEPPT Strategy 1 (Inception October 1, 2019)	\$52,944,723	0.01%	-5.77%	-7.94%	-7.00%	-	-	-	4.50%
Benchmark		-0.07%	-5.83%	-8.06%	-7.23%	-	-	-	4.46%
CEPPT Strategy 2 (Inception January 1, 2020)	\$22,584,829	0.10%	-5.76%	-8.07%	-7.34%	-	-	-	0.82%
Benchmark		0.09%	-5.80%	-8.14%	-7.42%	-	-	-	0.68%
<b>CEPPT Total</b>	<b>\$75,529,552</b>								

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.



# CEPPT/CERBT Consistently Low Fee Rate History

Fiscal Year	CERBT	CEPPT
2007-2008	2.00 basis points	-
2008-2009	6.00 basis points	-
2009-2010	9.00 basis points	-
2010-2011	12.00 basis points	-
2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points

# Advantages of the CEPPT & CERBT

- **Investment policy and management services by CalPERS**
  - Unmatched resources and economies of scale
  - Most broadly diversified portfolios
  - No socially conscious divestment
- **Lowest total participation cost**
  - Not-for-profit make us always the least expensive option
  - Least volatile way to save money and net better returns
- **Excellent customer service**
  - 98% retention rate of more than 600 clients over 14 years
- **Simple administration**
  - Join or leave at anytime and zero costs
- **GASB compliance**
  - Already have a PLR for CERBT
  - Getting a PLR for CEPPT once IRS opens the process again
  - No audit findings

# 618 Prefunding Program Employers

598 CERBT and 72 CEPPT

- State of California
- 157 Cities or Towns
- 10 Counties
- 81 School Employers
- 32 Courts
- 337 Special Districts and other Public Agencies
  - (102 Water, 37 Sanitation, 34 Fire, 25 Transportation)

# CEPPT Contracting Documents

## Governing Body

[Contract Agreement](#)

[Delegation of Authority  
to Request Disbursements](#)

## Agency

[Funding Policy](#)

# Next Steps

## Continue Pay-As-You-Go Option

- Most expensive approach
- Rely 100% on current & future operating budget
- Increasing pension costs may stress future budget

## Setup CEPPT Option

- ✓ Higher investment income than LAIF/Treasury
- ✓ Stabilize future cash flow & reduce budget dependency
- ✓ Rainy day fund
- ✓ Voluntary contributions & retain liquidity

# Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Matt Goss	Outreach & Support Program Manager	<a href="mailto:Matthew.Goss@calpers.ca.gov">Matthew.Goss@calpers.ca.gov</a>	(916) 795-9071	(916) 382-6487
Karen Lookingbill	Outreach & Support Manager	<a href="mailto:Karen.Lookingbill@calpers.ca.gov">Karen.Lookingbill@calpers.ca.gov</a>	(916) 795-1387	(916) 501-2219
Jasper Jacobs	Outreach & Support Analyst	<a href="mailto:Jasper.Jacobs@calpers.ca.gov">Jasper.Jacobs@calpers.ca.gov</a>	(916) 795-0432	(916) 717-3886
Colleen Cain-Herrback	Administration & Reporting Program Manager	<a href="mailto:Colleen.Cain-Herrback@calpers.ca.gov">Colleen.Cain-Herrback@calpers.ca.gov</a>	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	<a href="mailto:Robert.Sharp@calpers.ca.gov">Robert.Sharp@calpers.ca.gov</a>	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
<a href="mailto:CEPPT4U@calpers.ca.gov">CEPPT4U@calpers.ca.gov</a> – Questions & Document Submittal	<a href="http://www.calpers.ca.gov/CEPPT">www.calpers.ca.gov/CEPPT</a>
<a href="mailto:CERBTACCOUNT@calpers.ca.gov">CERBTACCOUNT@calpers.ca.gov</a> – Online Record Keeping System	

# CEPPT Strategy 1



May 31, 2022

## Objective

The CEPPT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

## Strategy

The CEPPT Strategy 1 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. 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 CEPPT Strategy 2, this portfolio has a higher allocation to equities than bonds. 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:

CEPPT Strategy 1	Annual Expense Ratio
\$52,944,723	0.25%

## Composition

### Asset Class Allocations and Benchmarks

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

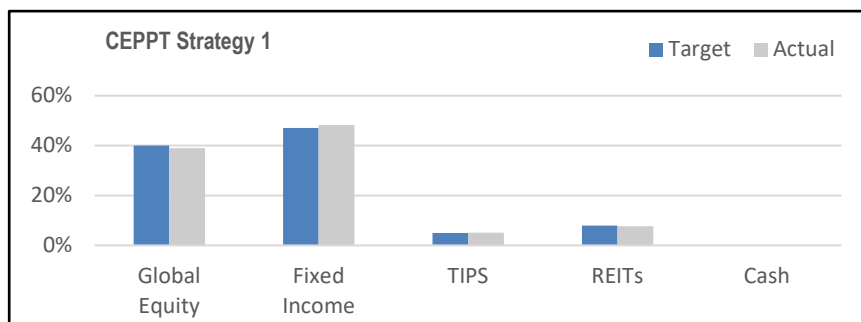
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	40%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	47%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+ 2%	91-Day Treasury Bill

## Portfolio Benchmark

The CEPPT 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 temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



## CEPPT Strategy 1 Performance as of May 31, 2022

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (October 1, 2019)
Gross Return <sup>1,3</sup>	0.01%	-5.77%	-7.94%	-7.00%	-	-	-	4.50%
Net Return <sup>2,3</sup>	-0.01%	-5.82%	-8.14%	-7.22%	-	-	-	4.26%
Benchmark Return	-0.07%	-5.83%	-8.06%	-7.23%	-	-	-	4.46%
Standard Deviation <sup>4</sup>	-	-	-	-	-	-	-	-

\* Returns for periods greater than one year are annualized.

<sup>1</sup> Gross returns are net of SSGA operating expenses.

<sup>2</sup> Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

<sup>3</sup> Expenses are described in more detail on page 2 of this document.

<sup>4</sup> Standard deviation is based on gross returns and is reported for periods greater than 3 years.

May 31, 2022

## General Information

### Information Accessibility

The CEPPT Strategy 1 portfolio consists of assets managed internally by CalPERS and/or by external managers. Since it is not a mutual fund, a prospectus is not available and daily holdings are not published. CalPERS provides a quarterly statement of the employer's account and other information about the CEPPT. For total market value, detailed asset allocation, investment policy and performance information, please visit our website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

### Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CEPPT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CEPPT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, and Treasury Inflation-Protected Securities.

### Custodian and Record Keeper

State Street Bank serves as custodian for the CEPPT. Northeast Retirement Services serves as recordkeeper.

### Expenses

CEPPT 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 expenses, the greater reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, 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 unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

## What Employers Own

Each employer invested in CEPPT Strategy 1 owns units 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 CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations.

An investment in the portfolio is not a bank deposit, nor is it insured or 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 "CEPPT Principal Investment Risks" located at [www.calpers.ca.gov](http://www.calpers.ca.gov).

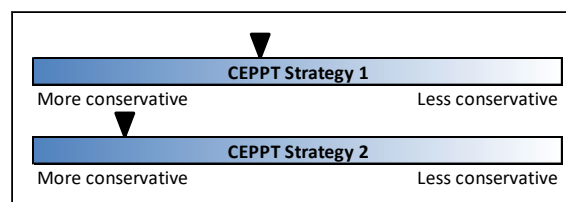
## Fund Performance

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](http://www.calpers.ca.gov) and follow the links to California Employers' Pension Prefunding Trust.

## CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk 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
Global Equity	40%	14%
Fixed Income	47%	73%
Treasury-Inflation Protected Securities	5%	5%
Real Estate Investment Trusts	8%	8%





# CEPPT Strategy 2



May 31, 2022

## Objective

The CEPPT Strategy 2 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

## Strategy

The CEPPT Strategy 2 portfolio is invested in various asset classes that are passively managed to an index. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. 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 CEPPT Strategy 1, this portfolio has a lower allocation to equities and a higher allocation to bonds. Historically, funds with a lower percentage of equities have displayed less price volatility and, therefore, this portfolio may experience comparatively 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:

CEPPT Strategy 2	Annual Expense Ratio
\$22,584,829	0.25%

## Composition

### Asset Class Allocations and Benchmarks

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

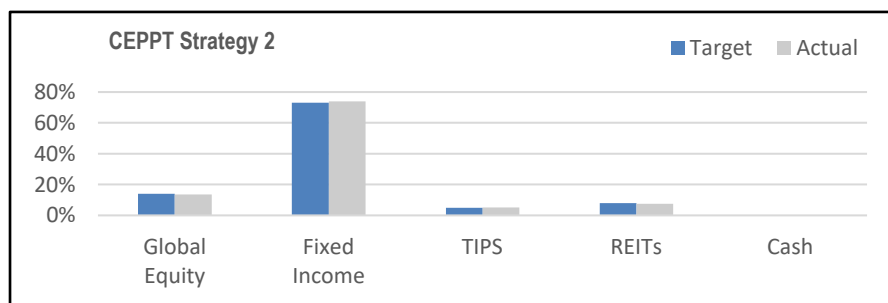
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	14%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	73%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (Net)
Cash	-	+ 2%	91-Day Treasury Bill

### Portfolio Benchmark

The CEPPT 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 temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



## CEPPT Strategy 2 Performance as of May 31, 2022

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return <sup>1,3</sup>	0.10%	-5.76%	-8.07%	-7.34%	-	-	-	0.82%
Net Return <sup>2,3</sup>	0.08%	-5.81%	-8.26%	-7.55%	-	-	-	0.59%
Benchmark Return	0.09%	-5.80%	-8.14%	-7.42%	-	-	-	0.68%
Standard Deviation <sup>4</sup>	-	-	-	-	-	-	-	-

\* Returns for periods greater than one year are annualized.

<sup>1</sup> Gross returns are net of SSGA operating expenses.

<sup>2</sup> Net returns are net of SSGA operating expenses, investment management, administrative and recordkeeping fees.

<sup>3</sup> Expenses are described in more detail on page 2 of this document.

<sup>4</sup> Standard deviation is based on gross returns and is reported for periods greater than 3 years.

# CEPPT Strategy 2



May 31, 2022

## General Information

### Information Accessibility

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### Portfolio Manager Information

The CalPERS Board, through its Investment Committee, directs the CEPPT investment strategy based on policies approved by the Board of Administration. State Street Global Advisors (SSGA) manages all underlying investments for CEPPT, which include: Global Equity, Fixed Income, Real Estate Investment Trusts, and Treasury Inflation-Protected Securities.

### Custodian and Record Keeper

State Street Bank serves as custodian for the CEPPT. Northeast Retirement Services serves as recordkeeper.

### Expenses

CEPPT 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 expenses, the greater reduction of investment return. Currently, CEPPT expense ratios are 0.25%. This equates to \$2.50 per \$1,000 invested. The expenses consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, 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 unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

## What Employers Own

Each employer invested in CEPPT Strategy 2 owns units 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 CEPPT fund is a trust fund dedicated to prefunding employer contributions to defined benefit pension plans for eligible state and local agencies. CEPPT is not, however, a defined benefit plan. There is no guarantee that the portfolio will achieve its investment objectives or provide sufficient funding to meet employer obligations.

An investment in the portfolio is not a bank deposit, nor is it insured or 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 "CEPPT Principal Investment Risks" located at [www.calpers.ca.gov](http://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](http://www.calpers.ca.gov) and follow the links to California Employers' Pension Prefunding Trust.

## CEPPT Strategy Risk Levels

CalPERS offers employers the choice of one of two investment strategies. Projected risk levels among risk 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
Global Equity	40%	14%
Fixed Income	47%	73%
Treasury-Inflation Protected Securities	5%	5%
Real Estate Investment Trusts	8%	8%

