PRECISION FIDUCIARY ANALYTICS

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Presentation by J. Ben Vernazza CPA/PFS TEP emeritus
To CalPERS Investment Committee May 14, 2018
Regarding Item 6 On the Agenda – Revision of the Total Fund Policy
Presented during item 8 on the Agenda – Public Comment

On April 11, 2017, I presented a letter to the CalPERS Board of Governance which said: "By omitting a plan to manage uncompensated risk (UCR), this IPS (Investment Policy Statement) causes every fiduciary responsible for risk management (CalPERS board members) to be in breach of their fiduciary duties." http://precisionfiduciary.com/calpers-breach/

My purpose today is to reaffirm in even stronger terms that the current revision of the Total Fund Policy puts you further into your breach. You, as trustees, face dire circumstances as is outlined in our recent article in the AICPA June 2017 *Tax Adviser - Uncompensated Risk: The Orphan of Modern Portfolio Theory* www.precisionfiduciary.com/orphan/

In June 2015, and again in September 2016, I made a presentations to this board showing that if all California Public Pension Plans (collectively with ¾ of $1 Trillion) were to reduce UCR to gain 1 basis point (1/100 of 1%) additional yearly return, the yearly benefit would be $75 million each year, which over 12 years, at a target rate of 7.5%, would accumulate to $1.5 billion. I said "*A procedural process to prudently and reasonably reduce UCR needed to be in place*."

During fall of 2016 through the winter of 2017 we did a detailed study of 5 county public pension plans and found that all five were in breach of their duty to prudently and reasonably reduce uncompensated risk. They left between19 basis points to as much as 44 basis points on the table by not reducing uncompensated risk. http://precisionfiduciary.com/5county/

We then did a comparison with CalPERS and found that during the same time period CalPERS left 40 basis points on the table compared to a reasonable UCR portfolio. For CalPERS that meant leaving $1.2 billion each year which, over 12 years, at a target rate of 7.5%, could accumulate to $19 billion dollars. A maximum Uncompensated Risk removal portfolio could have meant twice that. http://precisionfiduciary.com/calpers5county/

Significant dire circumstances are outlined in our recent presentation to the Professional Fiduciary Association of California (PFAC) made up of licensed and regulated fiduciaries by the State of California: 1) statute of limitations does not start to run until a breach is cured, 2) retirement plan fiduciaries are exposed to joint and several liability, 3) E&O insurance policies usually don't cover breach of fiduciary duties, and more -- http://precisionfiduciary.com/dire/

3rd Restatement Trust Law at http://precisionfiduciary.com/restatement/

Are there any questions? Thank you. J. Ben Vernazza CPA/PFS TEP emeritus