

CalPERS Investment Policy for Global Fixed Income Program

Effective Date

This Policy is effective [Month DD, YYYY] ~~November 18, 2019~~ and supersedes all previous Global Fixed Income Program investment policies.

Contents

Introduction	2
Strategic Objective	2
Responsibilities	<u>332</u>
Investment Approaches & Parameters	<u>332</u>
Glossary of CalPERS Specific Terms	3
Policy Document History	3
Appendices	3
Appendix 1: Reporting to the Investment Committee	4
Appendix 2: Investment Responsibilities	5
Appendix 3: Investment Constraints/Limitations	6
Appendix 4: Policy Document History	<u>887</u>

Introduction

The California Public Employees' Retirement System (CalPERS) Total Fund Investment Policy, adopted by the CalPERS Investment Committee (Committee), sets forth the CalPERS investment beliefs and overarching investment purposes and objectives with respect to its investment programs. The CalPERS Total Fund Investment Policy specifically covers key areas of investment strategy, including performance objectives, asset allocation strategies, benchmark selection, investment risk management, and derivatives, leverage, and divestment policies, among other elements that are applicable to all asset classes and programs at CalPERS.

This document sets forth the investment policy (Program Policy) for the Global Fixed Income Program (Program). The design of this Program Policy ensures that staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.

This Program Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy (Total Fund Policy). This Program Policy shall also be managed to comply with all applicable Investment Office policies.

Strategic Objective

The Program has ~~three~~ five strategies: ~~Long Treasury, Long Spread, Mortgage-Backed Securities, Investment Grade Corporates, Emerging Markets Sovereign Bonds,~~ and High Yield, each defined as an "Asset Segment" and having the strategic objectives outlined below.

- A. The ~~Long Treasury~~ Segment of the Program has the following strategic objective:
 - To serve as an economic diversifier to equity risk and be a reliable source of liquidity.
- ~~B. The Long Spread Segment of the Program has the following strategic objective:~~
 - ~~• To provide a reliable source of income and an additional source of liquidity.~~
- B. The Mortgage-Backed Securities Segment of the Program has the following strategic objective:
 - To provide a reliable source of income and an additional source of liquidity.
- C. The Investment Grade Corporates Segment of the Program has the following strategic objective:
 - To provide a reliable source of income and an additional source of liquidity.
- D. The Emerging Markets Sovereign Bonds Segment of the Program has the following strategic objective:
 - To provide exposure to economic growth and be a reliable source of income.
- ~~C.E.~~ E. The High Yield Segment of the Program has the following strategic objective:
 - To provide exposure to economic growth and be a reliable source of income.

Responsibilities

Details regarding various levels of responsibility for this Program are provided in Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities, to this Program Policy.

Investment Approaches & Parameters

All investment programs shall have specific written guidelines. The guidelines shall outline the investment approaches, permissible and restricted activities, and a performance objective that is commensurate with the program's purpose.

Staff shall rely on short- or long-term ratings from authorized nationally recognized statistical rating organizations (NRSROs) only. Staff shall maintain and annually update internal ratings for securities that are not rated by any authorized NRSROs.

Investment Constraints/ Limitations

See Appendix 3 for program investment constraints.

Glossary of CalPERS Specific Terms

Italicized terms appearing in the Program Policy are CalPERS-specific in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

Policy Document History

See Appendix 4 for historical details of Investment Committee adoption of and revisions to this Program Policy.

Appendices

See the [Total Fund Investment Policy](#) appendices for overarching reporting requirements and responsibilities for the Investment Committee, staff, ***General Pension Consultant, Private Asset Class Board Investment Consultant, and External Manager***.

Appendix 1: Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee:

- Investment Office staff
- **General Pension Consultant**

Table 1: Investment Office Staff Reporting Responsibilities

Ref #	Report Content	Frequency
1.	Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	No less than annually

Table 2: General Pension Consultant Reporting Responsibilities

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmark and this Program Policy and other applicable CalPERS Policies.	No less than annually

Appendix 2: Investment Responsibilities

The following sections provide details regarding investment related responsibilities for the:

- Investment Office staff
- **General Pension Consultant**
- **External Manager**

Investment Office Staff Responsibilities

1. All aspects of portfolio management, including monitoring, trading, analyzing, evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers.
2. Monitor the internal and external managers in the implementation of, and compliance with, the Program Policy and the Total Fund Policy.
3. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.

General Pension Consultant Responsibilities

1. Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office staff and periodic reviews of processes and procedures.

External Manager Responsibilities

1. Manage the fund in accordance with each manager's contract with CalPERS, the Total Fund Policy, and the Program Policy.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of the fund.

Appendix 3: Investment Constraints/Limitations

The following table provides details regarding investment constraints/limitations related to the following Asset Segments:

- ~~Long-Treasury Segment~~
- ~~Long Spread Segment~~
- Mortgage-Backed Securities Segment
- Investment Grade Corporates Segment
- Emerging Markets Sovereign Bonds Segment
- High Yield Segment

Investment Constraints/Limitations by Global Fixed Income Asset Segment
<p>Long-Treasury Segment</p> <ol style="list-style-type: none"> 1. Interest rate risk will be controlled using duration management. Duration will be maintained at +/-10% of the benchmark. 2. Further restrictions regarding liquidity and use of derivatives are outlined in the Policy-Related Procedures (PRP) for the Global Fixed Income Program.
<p>Long Spread Segment</p> <ol style="list-style-type: none"> 1. Sector Risk will be controlled by sector ranges that specify the degree by which allocations may fluctuate from the benchmark weights. Permitted sector ranges for each strategy will be maintained within +/- 10% of the benchmark weight with a minimum weight of 0%. 2. Further restrictions regarding duration, ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.
<p><u>Mortgage-Backed Securities Segment</u></p> <ol style="list-style-type: none"> 1. <u>Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</u> 2. <u>Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</u>
<p><u>Investment Grade Corporates Segment</u></p> <ol style="list-style-type: none"> 1. <u>Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</u> 2. <u>Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</u>
<p><u>Emerging Markets Sovereign Bonds Segment</u></p> <ol style="list-style-type: none"> 1. <u>Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</u>

2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.

High Yield Segment

1. Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.

~~1.2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program. Restrictions regarding duration, ratings, concentration, out of index bets and use of derivatives are outlined in the PRP for the Global Fixed Income Program.~~

Additional details regarding investment constraints/limitations and risks are outlined in each Program Segment specific written procedures.

Appendix 4: Policy Document History

Table 3: Global Fixed Income Program Policy History

Date	Detail
2015-11-16	<p>Approved by the Investment Committee</p> <p>Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions. The Credit Enhancement Program Policy was consolidated with the Global Fixed Income Program Policy and was repealed on November 16, 2015.</p>
2019-11-18	<p>Approved by the Investment Committee</p> <p>Updates were made to reflect the new asset segments. Administrative changes to migrate policy into an accessible template.</p>
<p><u>[YYYY-MM-DD]</u></p>	<p><u>[Approved by the Investment Committee]</u></p> <p><u>[Description of changes]</u></p>