Attachment 4

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

September 15, 2008

This policy is effective immediately upon adoption and supersedes all previous Alternative Investment Management (AIM) Program policies.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Alternative Investment Management (AIM) Program ("Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the Program. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

II. STRATEGIC OBJECTIVE

To maximize risk-adjusted rates of return while enhancing the CalPERS' position as a premier alternative investment manager is the strategic objective of the Program.

The Program shall be managed to accomplish the following:

A. Enhance CalPERS' long-term total risk-adjusted return;

B. Enhance CalPERS' reputation as a premier alternative investment manager and "investor of choice" within the private equity community;

C. Hedge against long-term liabilities; and

D. Provide diversification to the CalPERS' overall investment program.

III. RESPONSIBILITIES

A. CalPERS' Investment Staff ("Staff") is responsible for the following:

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1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Reporting to the Committee annually and more often if needed about the performance of the Program. Staff will also report monthly to the Committee regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.

3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of guidelines and Policies to the Committee at its next meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

4. Evaluating and selecting Alternative Investments.

5. In managing this Program, Staff will work cooperatively with the External Resources it has retained as part of the spring-fed pool. Their primary purpose shall be to serve as an extension of Staff. Staff may also use outside experts, as appropriate, to provide specialized expertise in various disciplines, on a one time basis.

6. Each investment will be supported by a prudent person opinion rendered by one of the External Resources in the Spring Fed Pool.

B. The General Pension Consultant ("Consultant") is responsible for:

Monitoring, evaluating, and reporting quarterly, to the Committee, on the performance of the Program relative to the benchmark and Policy.

C. The General Partner ("General Partner") is responsible for:

All aspects of portfolio management as set forth in each General Partner's limited partnership agreement or contract with CalPERS.

IV. PERFORMANCE OBJECTIVES AND BENCHMARKS

A. Long-Term Performance Objective

The long-term expected performance objective of the Program shall be the 10-year rolling average for the total return of the CalPERS Custom

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Wilshire 2500 Index plus a 300 basis point risk premium. The performance objective is net of fees and expenses.

Use of the CalPERS Custom Wilshire 2500 Index reflects the opportunity cost of investing in Alternative Investments versus publicly traded common stocks. The 10-year rolling average smoothes short-term volatility, is intended to cover at least one complete market cycle, and is consistent with the anticipated average term of the partnership investments.

B. **Short-Term Performance Objective**

In order to address differences between the long-term performance objective and young or immature partnership investments, CalPERS shall use a short-term performance objective more appropriate to immature partnership investments as a monitoring device. The Program partnership performance shall be compared to Venture Economics Information Services ("Venture Economics") young fund median returns by vintage year. "Young fund and short-term" shall be defined as the first five years of each individual partnership and the partnership composite portfolio. Exceeding the Venture Economics young fund universe median return, or ranking in the top 50% of the sample universe over the most recent five years is the short-term performance objective.

The short-term performance objective addresses characteristics of young or immature partnership investments that differ from the long-term rolling ten-year CalPERS Custom Wilshire 2500 Index plus 3% performance objective.

These different characteristics include young partnerships with a shorter time frame, reduced liquidity, and a low number of realizations in the early years. Another characteristic unique to young or immature partnership investments includes the "J-curve effect," which results in low or negative returns due to payment of annual management fees during a period when investments are typically carried at cost and returns have not yet been realized. Partnership investments require time to achieve realizations. Venture capitalists require time to build companies and develop value, and turnaround/corporate restructuring managers also require time to implement strategic, financial, and managerial improvements.

V. INVESTMENT APPROACHES AND PARAMETERS

A. **Approach**

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments Direct Investments

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(including "Independently Sourced Investments" and "Co Investments") and New Vehicles.

a. Investment opportunities will be classified as partnership investments when decision-making and management discretion is granted to outside managers.

b. Investment opportunities shall be classified as direct investments if CalPERS retains discretion and manages the investment internally or through its external resource(s).

c. New Vehicles shall include innovative structures that provide a means to access investment opportunities, exploit CalPERS' strengths, and achieve the maximum risk-adjusted rates of return. New Vehicles may include partnerships and direct investments or both.

2. "Top down" strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing. Based on these assessments, the Staff shall proactively seek out the most attractive investment opportunities, while maintaining appropriate diversification.

3. Depending on the form and character of the investment, the Program sets minimum standards for each investment.

B. **Specific Risk Parameters**

There are specific risks associated with investments that shall be monitored and mitigated by CalPERS. Each segment of the alternative investment market contains uncertainties that are unique to it. CalPERS shall manage the following major categories of uncertainties commensurate with the expected return as an investment proposal is considered:

1. Financial: Alternative investments may employ a greater use of leverage (borrowing), which may lead to a greater volatility in returns.

2. Operating and Business: Certain investments may entail above average operating and business risk.

3. Liquidity: Alternative investments lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited. The ability to negotiate specific "exit"

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rights (e.g., registration rights, puts and calls) are generally applicable only to Direct Investments.

4. Structural: CalPERS negotiates and structures specific fundamental rights and protections, which include mechanisms for taking remedial action. These basic protections include where appropriate advisory committee participation and specific termination provisions in partnership transactions; and anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.

5. Valuation: Partnerships and co-investments shall be evaluated to determine if the general partner employs an appropriate valuation discipline. For direct investments, the Staff shall review valuations to determine if they are reasonable.

The portfolio shall reduce risk through appropriate diversification by geography, industry, vintage year and investment strategy.

C. **Investment Selection**

1. The Program shall consider any appropriate investment opportunity with the potential for returns superior to traditional investment opportunities. Investments can be in any industry or geography and may include, but are not limited to:

   a. Buyouts or Corporate Restructuring

   b. Expansion Capital

   c. Venture Capital

   d. Distressed Securities

   e. Turnarounds

   f. Special Situations

2. Staff shall develop and maintain selection guidelines for Alternative Investments to include the following:

   a. Minimum requirements with respect to the following:

      (1) General Partner's relevant investment experience and specific qualifications;

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(2) General Partner's ability to work together;

(3) General Partner's ability to dedicate sufficient time and attention to the undertaking;

(4) Basic investment vehicle terms;

(5) Investment goals and objectives; and

b. Performance criteria

c. Due Diligence process

d. Legal constraints or requirements

e. Reporting requirements

f. Quality control processes including, but not limited to, investment monitoring and risk control

g. Other relevant parameters that may apply

D. **Investment Parameters**

Alternative Investments may operate under a limited partnership agreement, limited liability company (LLC), or other similar legal structure.

All legal structures shall include specific, written investment guidelines. The guidelines shall outline the fund's investment philosophy and approaches, representative portfolio characteristics, permissible and restricted procedures, and a performance objective commensurate with the investment risk to be incurred.

Implementation of this Program shall comply at all times with the applicable CalPERS investment policies.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value which shall be recorded by CalPERS' Custodian.

VII. GLOSSARY OF TERMS

Key words used in the policy are defined in CalPERS' Master Glossary of Terms.

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Asset Class Glossary: Alternative Investments Management
Policy: Alternative Investment Management Program
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Advisory Committee
A group of investors in the partnership whose primary functions are to address certain partnership-related issues. Based on the roles and responsibilities outlined in limited partnership agreement, the Advisory Board may review conflicts of interest, approve valuation policies, review operating budgets, vote on partnership term extensions, and perform other duties as deemed appropriate.

Alternative Investments
Investments that are privately-held and illiquid. These investments are often structured as limited partnerships with strategies of investing in venture capital, growth equity, buyouts, mezzanine financing, and other investments that are not based on public market activities.

Buyout
The purchase of all or part of the stock or assets of a company through the use of debt and equity. The company may be privately or publicly owned.

CalPERS Custom Wilshire 2500 Index
The Wilshire 2500 Index, excluding Real Estate Investment Trusts (REITs) and tobacco stocks, and with dividends reinvested. The Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, excluding REITs and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

Co Investment
A direct investment into a portfolio company by limited partners alongside the general partner and generally done so on similar terms.

Corporate Restructuring (Buyouts)
Investments in the form of equity and/or debt of a public or private company designed to restructure the current capital structure of the company, including debt and equity buybacks, exchange offers and refinancings. Related terms include leveraged buyouts, management buyouts, employee buyouts, and buy-and-build strategies.

Direct Investment
An investment in which CalPERS has ownership interest in a company.

Distressed Securities
Debt or equity securities of companies that are in financial distress. These securities tend to trade at significant discounts and attract investors that perceive a turnaround.

Due Diligence
The process of checking and verifying information as well as ensuring that sufficient analysis has been conducted before making an investment recommendation.

Expansion Capital (Growth Equity)
Investment in an established company for the purpose of growing its business.

External Resource(s)
Includes management consultants, accountants, industry specialists, traditional pension fund consultants, investment bankers, or industry experts.

General Partner
The manager of a limited partnership. The general partner has full responsibility and complete discretion for investing the capital. The general partner also bears personal liability for any lawsuits that arise from the investment's activities, but is often broadly indemnified by the limited partners.

Independently Sourced Investment
A type of direct investment which is sourced through contacts other than the general partners with which CalPERS is invested.

Limited Partnership
The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund.

Management Fee
The fee paid to the General Partner to manage the fund.

New Vehicle
An investment in a fund where CalPERS partners with a firm that has a distinctive competitive advantage in an industry, geographic region or investment style. New Vehicles shall be limited to investments in fund of funds or separate account investments.

New/Emerging Management Team
A new general partnership that raises a first or secondtime institutional fund. This may include funds being raised by an established General Partner that is targeting a new strategy or has hired a new management team.

Partnership Investment
An investment in a Limited Partnership.

Prudent Person Opinion
An opinion from an External Resource that the proposed investments is a prudent

investment consistent with Article XVI Section 17(c) of the California Constitution and Section 20151(c) of the California Government Code.

Return
A measure of the total performance of an investment over a designated time period. The return calculation for private equity is typically based on the internal rate of return, net of all fees and expenses.

Risk
A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as "standard deviation", which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Special Situations
A term used to describe non-traditional investment strategies that are typical in private equity. Such non-traditional investment strategies include, but are not limited to, mezzanine strategies, active minority positions, governance strategies, sector-specific strategies, and other strategies that may use unconventional instruments such as debt arrangements, collateralizations, corporate joint ventures, credit enhancements, leasing, off-balance sheet financings, etc.

Term
The duration of the partnership or direct investment.

Transaction
An agreement between a buyer and a seller to exchange an asset for payment. A transaction often takes the form of a partnership, co-investment, or direct investment.

Turnarounds
Investments in companies experiencing financial and/or operating issues. These companies may or may not be insolvent.

Venture Capital
The financing of rapidly-growing companies that do not have access to public equity or debt financing. Early-stage venture capital may involve financing a company during its initial years when assets may be limited and when there may be no revenues. Late-stage venture, sometimes referred to as growth equity or expansion capital, may involve financing a company that has established products or services and revenues.

Vintage Year
The year in which the first capital drawdown of the partnership occurs.