I. PURPOSE

The California Public Employees’ Retirement System (“CalPERS”) Investment Beliefs Policy and Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee (“Committee”), set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy (“Policy”) for the policy portfolios (“Portfolios”) of the California Employers’ Retiree Benefit Trust (“CERBT”). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Portfolios. Additionally, use of this Policy ensures sufficient flexibility in managing investment risks and returns associated with the CERBT.

The CERBT was established March 1, 2007 for public employers to prefund their retiree health and other post-employment benefit obligations. The CERBT is currently known in statute as the Annuitants’ Healthcare Coverage Fund. There are three separate Portfolios (“Strategy 1”, “Strategy 2”, and “Strategy 3”) for the CERBT, which provide employers a choice of asset allocation strategies.

II. STRATEGIC OBJECTIVE

Each of the CERBT Portfolios shall be managed to accomplish the following:

A. Offer to employers a distinct investment alternative.

B. Invest in an asset allocation mix with targets and ranges based on a periodic asset liability management review.

C. Maintain significant diversification to temper losses from market volatility.

D. Ensure that the asset class policy ranges approved by the Committee are adhered to, and that any rebalancing is performed efficiently and prudently.
E. Maintain adequate liquidity to meet cash needs.

III. RESPONSIBILITIES

A. In addition to the Committee’s responsibilities outlined in the Total Fund Statement of Investment Policy, the Committee is also responsible for approving asset classes for investment and approving a policy target allocation, permissible range, and benchmark for each asset class.

B. CalPERS Investment Staff (“Staff”) is responsible for the following:

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

2. Providing individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, Policy targets and ranges.

3. Managing the asset class allocations of the Portfolios within Policy ranges approved by the Committee, in accordance with Policy guidelines.

4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the Portfolios.

5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.

6. Reporting to the Committee no less than annually concerning the implementation of this Policy. This report shall include, but is not limited to, the current market value and asset class allocations compared to the Policy targets and ranges.

7. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting, or sooner if deemed necessary. All events deemed materially important will be reported to the Committee immediately. These reports shall include explanations of any violations and appropriate recommendations for corrective action.

C. The General Pension Consultant (“Consultant”) is responsible for monitoring, evaluating, and reporting to the Committee no less than annually on the three CERBT Portfolios’ performance relative to the benchmark and Policy.
D. **External Managers** ("Manager") are responsible for aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall fulfill the following duties:

1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
3. Cooperate fully with CalPERS staff, Custodian and Consultant concerning requests for information.

IV. **PERFORMANCE OBJECTIVE AND BENCHMARK**

A. The benchmark for the CERBT is specified in the Benchmarks Policy.

B. CalPERS shall invest the assets of each of the CERBT Portfolios to meet or exceed the individualized benchmark designated in the Policy.

V. **INVESTMENT APPROACHES AND PARAMETERS**

A. Philosophy and Approach

The CERBT Portfolios shall be managed in accordance with the CalPERS Total Fund Statement of Investment Policy and in a manner consistent with the respective investment policy governing each asset class. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

B. Strategic Asset Allocation Process

A comprehensive Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section V.C. Strategic Asset Allocation Process.

C. Fund Structure/Parameters

Staff shall manage the Portfolios in accordance with the approved strategic asset allocation. CalPERS Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for each asset class.

D. Policy Asset Class Allocation Targets and Ranges
The Committee shall approve Policy asset class allocation targets and ranges expressed as a percentage of total assets. The Committee shall set Policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.

There are three separate CERBT Portfolios (“Strategy 1”, “Strategy 2”, and “Strategy 3”). Levels of expected return and risk vary among the Portfolios. The Policy asset class allocation targets and permissible ranges are as follows:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategy 1</th>
<th>Strategy 2</th>
<th>Strategy 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Policy Target</td>
<td>Policy Range Relative to Target</td>
<td>Policy Target</td>
</tr>
<tr>
<td>Global Equity</td>
<td>57% +/- 2%</td>
<td>40% +/- 2%</td>
<td>24% +/- 2%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>27% +/- 2%</td>
<td>39% +/- 2%</td>
<td>39% +/- 2%</td>
</tr>
<tr>
<td>Treasury Inflation-Protected Securities (TIPS)</td>
<td>5% +/- 2%</td>
<td>10% +/- 2%</td>
<td>26% +/- 2%</td>
</tr>
<tr>
<td>Commodities</td>
<td>3% +/- 2%</td>
<td>3% +/- 2%</td>
<td>3% +/- 2%</td>
</tr>
<tr>
<td>Real Estate Investment Trusts (REITs)</td>
<td>8% +/- 2%</td>
<td>8% +/- 2%</td>
<td>8% +/- 2%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0% + 2%</td>
<td>0% + 2%</td>
<td>0% + 2%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

E. Rebalancing

Adherence to the Policy asset class allocation targets and ranges shall be monitored and reported to the Committee no less than annually. This report shall display a comparison between the Portfolios’ asset class allocations and the Policy asset class allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. Allocations may temporarily deviate from Policy ranges due to employer contributions/distributions and/or extreme market volatility and will be reported as set forth above. If an asset class allocation exceeds the Policy range, staff shall return the asset class allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.
Changes in asset class allocations may be achieved by the movement of capital between asset classes through the trading of pooled funds or through the use of derivatives. The intent is for asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Target Tracking Error

The CERBT Portfolios will be managed in a manner which minimizes any Tracking Error.

G. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the CERBT are defined in the policy governing each asset class or external investment manager guidelines.

All transactions involving derivatives are governed by the Global Derivatives and Counterparty Risk Policy.

VI. CALCULATIONS AND COMPUTATIONS

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

VII. GLOSSARY OF CALPERS-SPECIFIC TERMS

*Italicized* terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Terms.

<table>
<thead>
<tr>
<th>California Employers’ Retiree Benefit Trust</th>
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<tbody>
<tr>
<td>Approved by the Policy Subcommittee</td>
</tr>
<tr>
<td>Adopted by the Investment Committee</td>
</tr>
<tr>
<td>Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy</td>
</tr>
<tr>
<td>Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”</td>
</tr>
<tr>
<td>Administrative changes to reflect the Policy Glossary of Terms Update Project</td>
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The California Employers’ Retiree Benefit Trust was previously the Annuitants’ Healthcare Coverage Fund and Attachment A of the Affiliate Fund Policy. The dates below reflect the revision history of the Affiliate Fund Policy:

Affiliate Fund Policy
Approved by the Policy Subcommittee: August 18, 2008
Adopted by the Investment Committee: September 15, 2008
Revised by the Investment Committee: December 15, 2008
Admin changes made due to Policy Review Project: June 16, 2009
Admins changes due to adoption of Benchmark Policy: September 28, 2009

Annuitants’ Healthcare Coverage Fund (Policy consolidated into the Affiliate Fund Policy)
Approved by the Policy Subcommittee: December 15, 2006
Adopted by the Investment Committee: December 18, 2006
Repealed by the Policy Subcommittee: August 18, 2008
Repealed by the Investment Committee: September 15, 2008