CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
TERMINATED AGENCY POOL

June 11, 2012

This Policy will be implemented within a reasonable time frame upon adoption.

I. PURPOSE

The California Public Employees' Retirement System ("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 Terminated Agency Pool ("Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by 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 the Program.

The Program shall be managed to maximize the likelihood that assets will be adequate to fund all Program liabilities through the life of the Program. Program liabilities refer to benefit payments and Program expenses.

II. STRATEGIC OBJECTIVES

The Program shall be managed to match projected future benefit payments and to minimize the likelihood of underfunding. The Program will be structured to:

A. Cash flow match the assets to the forecasted liabilities across the maturity continuum for at least 30 years;

B. Maintain adequate liquidity to meet cash flow needs of up to one year;

C. Provide inflation protection to remaining assets after 30-year liability matching and near-term cash needs are met; and,

D. Ensure that Program rebalancing and restructuring is performed efficiently and prudently on an annualized basis.

E. Reevaluate the asset allocation when a material change occurs in assets and liabilities from the addition of a new terminated agency.

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 this Policy.

B. CalPERS Actuarial Staff is responsible for the following:

1. Providing a forecast of liabilities annually.

2. Recalculating pool liabilities when new agencies are added to the Program.

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

1. All aspects of portfolio management including monitoring, rebalancing, analyzing, and evaluating performance, which is defined as maximizing the likelihood that assets meet or exceed forecasted liabilities.

2. Ensuring the efficiently accomplishes the Strategic Objectives.

3. Providing structure recommendations to the Committee.

4. Managing the structure as approved by the Committee, in accordance with Policy.

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

6. Creating internally managed funds to be used in the composition of the Program.

7. Reporting to the Committee annually, and more if needed, about the performance of the Program. This report shall include, but not be limited to, the current market value of assets and an analysis of the adequacy of the current Program structure compared to forecasted Program liabilities.

8. 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. These reports shall include explanations of any violations and appropriate recommendations for corrective action.

D. The General Pension Consultant ("Consultant") is responsible for monitoring, evaluating, and reporting annually to the Committee on the Program relative to the Policy.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

A. The performance objective is to maximize the likelihood that assets will be adequate to fund Program liabilities over the long-term.

B. Cash flow is expected to meet or exceed forecasted Program liabilities.

C. Assets shall be invested to protect the Program against inflation.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Philosophy and Approach

Program assets shall be invested to maximize the likelihood that assets will be adequate to fully fund Program liabilities over the long-term. This will be achieved by applying a three-step allocation process: (1) Use U.S. Treasury Securities to cash flow match the forecasted liabilities out to 30 years, (2) commit 5% of the assets into cash holdings, and (3) place the remaining assets into direct inflation-linked securities. Policy allocation will be revised in response to changes in pool liabilities as provided by Actuarial Staff including the addition of new employers. Portfolio components are classified according to functional objectives:

Portfolio Component	Functional Objective
Cash Flow Matching	Match the timing and values of investment cash flows with forecasted liabilities using U.S. Treasury Securities in Separate Trading of Registered Interest and Principal of Securities (STRIPS).
Liquidity	Provide liquidity to fund liabilities for up to one year by investing in cash or cash equivalents.
Assets in Excess of Cash Flow Matching & Liquidity	Provide inflation hedging at low risk by investing in Treasury Inflation-Linked Securities (TIPS) and/or Inflation Swaps.

B. Policy Asset Allocation Targets and Ranges

The Committee shall approve Policy asset 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 allocation targets.

The Program policy asset allocation targets and permissible ranges are as follows:

Asset Class	**Terminated Agency Pool**	
	Policy Allocation	**Policy Range**
US Treasury Securities	49%	± 10%
Direct Inflation Linked Securities	46%	± 15%
Cash	5%	± 5%

C. Program Structure/Parameters

CalPERS Custodian may employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values for all investments.

D. Program Review

A comprehensive asset allocation analysis shall be completed at least every three years and will be presented to the Committee for review and approval of the Policy target asset allocations and ranges. The Chief Investment Officer may recommend a more frequent analysis if expected returns, risks or liabilities have substantially changed since the prior analysis.

Whenever there is a material change of funded status a review of asset allocation shall occur as soon as practical. A material increase in assets and liabilities from the addition of a new terminated agency would also cause an immediate review of the asset allocation.

E. Rebalancing

The Investment Office and Actuarial Office will collaborate to monitor the funded status of the Program and rebalance the recommended portfolio annually. Rebalancing involves adjusting the Cash Flow Matching portfolio component to match the updated forecasted liabilities as provided by the Actuarial Staff.

F. Restrictions, Prohibitions and Authorized Securities

Use of Swaps will be in accordance with CalPERS policy on the use of derivatives. Authorized securities for each portfolio component are indicated in the following table.

Portfolio Component	Authorized Securities
Cash Flow Matching	U.S. Treasury Coupon STRIPS
Liquidity	Cash Cash Equivalents
Assets in Excess of Cash Flow Matching & Liquidity	Treasury Inflation-Linked Securities (TIPS) Inflation Swaps

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 TERMS

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

Adopted by the Investment Committee: May 14, 2012