

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
SUPPLEMENTAL INCOME PLANS**

~~February 17, 2009~~ August 13, 2012

This policy is effective immediately upon adoption and supersedes all previous Supplemental Income Plans policies.

I. PURPOSE

This document sets forth the investment policy ("Policy") for the California Public Employees' Retirement System ("CalPERS") Supplemental Income Plans ("SIP" or "the SIP") and guidelines for the business needs and legal requirements applicable to the SIP program. Under the SIP, CalPERS administers various deferred compensation and defined contribution plans for employees of participating public agencies, schools and the State of California.¹ The Policy provides criteria against which results will be measured, and serves as a review document to guide ongoing operations and oversight. The Policy is also intended to ensure the Investment Committee (~~the~~ "Committee") is fulfilling its fiduciary responsibilities in the management of the SIP.

The Committee intends this Policy to be a dynamic document and will review it from time to time. The Policy will be modified periodically to reflect the changing nature of the SIP. In addition, the Committee has delegated to the CalPERS Staff certain authority that pertains to the ongoing management and administration of the SIP.

All of CalPERS SIP investment activities are designed and executed in order to serve the best interests of the Participants and beneficiaries of the SIP. All transactions will be for the sole economic benefit of CalPERS SIP Participants and beneficiaries and for the sole purpose of providing benefits to them.

The purpose of this Policy is to provide assurance to Participants that managers, consultants, and other entities selected by CalPERS take prudent and careful action while administering and managing the SIP. Under the SIP, Participants have an efficient and convenient method of setting aside and accumulating supplemental retirement savings over their period of employment. Overall investment plan and available individual investment options under the SIP will be designed to help Participants achieve their long-term retirement income goals by

¹ As of ~~October 12, 2007~~ July 1, 2012, the ~~SIP Division~~ Customer Services and Support Branch administers the CalPERS 457 Deferred Compensation Plan (the "457 Plan"), the Supplemental Contributions Program (the "SCP"), and the State Peace Officers' and Firefighters' Defined Contribution Plan (the "POFF")."

providing a diversified range of alternatives. Since SIP Participants' needs represent a wide range of investment time horizons, risk tolerances and return expectations, an appropriate range of investment options will be available while avoiding an overly complex fund line-up.

II. STRATEGIC OBJECTIVE

The investment options offered in the SIP will be broadly diversified, ~~to minimize the effect of short term losses within any mix of investments self directed by Participants.~~ The SIP objective is to provide Participants with supplemental income during retirement. The SIP will accomplish this objective by:

- ~~A. Educating Participants and providing information to allow them to make informed decisions about their need to supplement retirement income.~~
- ~~B.A. Providing appropriate asset allocation funds as default investment options.~~
- B. Offering a variety of high quality investment options based on age, risk tolerance and specific retirement income goals and objectives, so Participants may construct well-diversified portfolios should they not choose the default funds.
- C. Self-directed brokerage option for participants wanting additional options.
- ~~D. Administering the SIP to promote Participant investment practices consistent with achieving long term retirement income goals.~~

III. RESPONSIBILITIES

- A. CalPERS Investment Staff ("Staff") is responsible for the following:
 - ~~1. All aspects of SIP administration, including selecting and monitoring a Third-Party Administrator, as well as m~~Selecting, monitoring, analyzing, and evaluating performance of each fund relative to an appropriate benchmark;
 - 2. Establishing the fund line-up using internally and externally managed funds, including the default fund offerings;
 - ~~3.~~3. Creating internally managed portfolios as fund offerings;
 - ~~3.4.~~3.4. Directing cash contributions and rebalancing asset allocation funds as set forth in policy approved by the Committee;
 - ~~4.5.~~4.5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations;

- ~~5.6.~~ Setting, adjusting, or modifying the fees and premiums paid by participating employers and Participants as deemed necessary, advisable or appropriate to meet administrative needs of the SIP;
- 6. Reporting to the Committee at least annually on the investment performance of the SIP; and,
- 7. Monitoring implementation of, and compliance with, the Policy.

B. CalPERS Deputy Executive Officer – Customer Services and Support Branch (“DEO – CSS”) is responsible for

- 1. Educating Participants and providing information to allow them to make informed decisions about their need to supplement retirement income;
- 2. Administering the SIP to promote Participant investment practices consistent with achieving long-term retirement income goals; and,
- ~~B.3.~~ Selecting and overseeing a Third-Party Administrator for the SIP is responsible for:

- 1.a. Recordkeeping, marketing, and processing transactions;
- 2.b. Receiving payroll contributions, rollovers and transfers from other retirement plans;
- 3.c. Processing distributions; and,
- d. Monitoring and reviewing transactions at the plan and Participant level and reporting unusual transaction activity to Staff. Information from the Third-Party Administrator’s Participant recordkeeping database shall be used to identify short-term and disruptive trading practices, and track specific fund trading violations of the SIP’s Excessive Short-Term Trading policy as set forth under Section V of the Policy.

- C. Internal and External Manager(s) (“Manager(s)”) are responsible for aspects of portfolio management as set forth in their respective investment management contracts, guidelines or policies and shall fulfill the following duties:
 - 1. Communicate with Staff as needed regarding investment strategy and investment results. The Manager(s) are expected to perform their duties in accordance with the objectives of each fund and to

monitor, analyze, and evaluate performance relative to the agreed upon benchmark; and,

2. Cooperate fully when Staff, SIP's custodian, the Third-Party Administrator and the consultant(s) request information.

D. The SIP Participants may, if authorized by the applicable plan, choose to self-direct their investments, rather than accepting the default investment option. Individual accounts are established for each Participant and allow the Participants to exercise control over the assets in their accounts. In addition, Participants have the independence and authority to select those investment options they deem suitable to meet their retirement income goals and investment objectives, subject to certain investment and trading restrictions that may be adopted, from time to time, under the SIP program.

E. The Independent Investment Consultant is responsible for monitoring, evaluating, and reporting to the Committee, at least quarterly, about the internally and externally managed fund performance relative to the benchmarks and Policy guidelines.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The benchmark for the ~~Supplemental Income Plans (SIP)~~ is specified in the ~~Benchmarks Modification and Benchmark Details~~ Policy. The objective is for SIP funds to meet or exceed ~~outperform~~ the appropriate benchmark ~~and perform above the universe median~~.

V. EXCESSIVE SHORT-TERM TRADING

The overall investment plan and the available individual investment options under the SIP are designed to help Participants achieve their long-term retirement income goals. Excessive short-term or disruptive trading of the funds is counter-productive to the long-term investment design of the SIP. To achieve a balance between the right of individual Participants to self-direct their investments, and the right of all Participants to enjoy appropriate growth of their assets in proportion to the risk they bear and at reasonable cost through investment in prudently managed investment funds, the SIP will employ administrative and procedural measures to restrain the use of excessive short-term or disruptive trading strategies by individual Participants that may occur at the expense of other Participants and result in the dilution of Participant value in the funds. Specifically, Staff in coordination with external managers ~~SIP~~ will take the following steps:

- A. Perform monitoring, on a monthly basis, of all trades by Participants in both internally and externally managed SIP funds to identify [Roundtrip](#)

Trades. An exempt transaction will not be counted as one of the legs of a Roundtrip Trade.

- B. Provide written notice to a Participant who, within a 90-calendar day period, has completed two or more Roundtrip Trades to explain the long-term focus of the SIP and to request that the Participant cease from engaging in this type of trading.
- C. Provide written notice to a Participant who, within a 180-calendar day period following the initial written request to Participant, performs one or more Roundtrip Trades to describe trading restrictions that will be employed by SIP if Participant continues to engage in this type of trading.
- D. If Participant completes a Roundtrip Trade following receipt of the SIP's second written request to Participant, SIP will direct the Third-Party Administrator to restrict Participant from trading back into the fund for a 90-calendar day period following the completion of the Roundtrip Trade. Trades out of the fund will be allowed at any time.
- E. Confer with the CalPERS Legal Office regarding the suitability of other measures used singly or in combination with one another as may be reasonably necessary to further address Roundtrip Trades, or other excessive short-term or disruptive trading by a Participant in contradiction of the Policy.

VI. APPROACHES AND PARAMETERS

- A. The SIP will offer default asset allocation funds to provide Participants appropriate diversified funds providing a mix of investments allocated among different investment classes in pre-established proportions suited to specific investors' time horizons.
- B. The core fund line-up of investments will be specifically designed and managed to offer funds that allow for appropriate growth of Participants' assets in light of the risk taken. This approach results in a compact line-up of institutionally managed, core investment options that span the risk-return spectrum, but avoid duplication, allowing Participants to diversify among investment asset classes.

VII. CALCULATIONS AND COMPUTATIONS

The Third-Party Administrator, Managers, consultants, and other entities selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS custodian.

VIII. GLOSSARY OF TERMS

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

Approved by the Policy Subcommittee:	October 12, 2007
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Asset Class Glossary: Other (Non-PERF) Investment Portfolios
Policy: Supplemental Income Plans
~~February 17, 2009~~ August 13, 2012

Exempt Transaction

Any transaction that is initiated for purposes of depositing employer payroll contributions, processing a distribution or any administrator-initiated transaction (e.g., processing a Qualified Domestic Relations Order (QDRO), mapping assets from terminated funds, etc.). An Exempt Transaction will not be counted for purposes of determining whether a Participant has engaged in any short-term or disruptive trading under SIP's Excessive Short-Term Trading Policy.

Participant

An individual that takes part in, or contributes to, one of the CalPERS Supplemental Income Plans.

Roundtrip Trade

Within a 30-calendar day period, a Participant purchases shares of an investment fund, subsequently sells shares of that same investment fund and then purchases back shares of the same investment fund, in any order (i.e., in/out/in or out/in/out), regardless of whether each leg of the Roundtrip Trade is made sequentially (i.e., purchases and sales are made in other investment funds in between each leg of the Roundtrip Trade). An Exempt Transaction will not be counted as one of the legs of a Roundtrip Trade.