

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

**FOR  
MULTI-ASSET CLASS PARTNERS PROGRAM**

**OCTOBER 15, 2012**

*This Policy is effective immediately 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 Multi-Asset Class Partners Program ("MAC" or "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 this Program.

**II. STRATEGIC OBJECTIVE**

The Program has two strategic objectives, each linked to the development of relationships with external investment managers (the "MAC Partners"):

- A. The Program is intended to provide a total rate of return in excess of the CalPERS target rate of return over a market cycle with lower volatility and downside risk than the CalPERS strategic asset allocation.
- B. The Program should facilitate meaningful information transfer from the MAC Partners to Staff to help Staff develop scalable, sustainable, and efficient methods of increasing the likelihood of meeting CalPERS investment return goals over the long term.

**III. RESPONSIBILITIES**

- A. 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. Reporting to the Committee no less than annually, and more often as necessary or appropriate, about the Program's composition and performance.
  3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of the Policy at the next Committee meeting, or sooner if deemed necessary. Staff will also report material concerns, problems or changes related to the Policy and Program to the Committee as appropriate. These reports shall include explanations of any violations and appropriate recommendations for corrective action.
  4. Evaluating, selecting, and monitoring the performance of MAC Partners.
- B. The General Pension Consultant ("Consultant") is responsible for monitoring, evaluating, and reporting periodically to the Committee on the performance of the Program relative to appropriate benchmarks and this policy and other applicable CalPERS policies.
- C. MAC Partners are responsible for aspects of portfolio management as set forth in each Partner's agreement with CalPERS and shall further fulfill the following duties with respect to knowledge transfer:
1. Communicating with Staff as needed regarding investment strategy and investment results. The Investment Manager is expected to monitor, analyze, and evaluate performance relative to any agreed-upon benchmarks.
  2. Complying with information requests by Staff and other parties.
  3. Presenting to Staff and/or the Committee on Program implementation and other topics as identified by Staff on an ad hoc basis.
  4. Educating Staff, including visits to CalPERS offices and extended training sessions with CalPERS Staff on-site at MAC Partner offices.

#### **IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

##### **A. Performance Objectives**

The Program shall pursue the following objectives:

1. Targeted Return

MAC Partners shall generally be expected to outperform the CalPERS target long-term rate of return over a market cycle (approximately five years).

2. Targeted Risk

MAC Partners shall generally be expected to manage Program portfolios with a targeted annualized volatility of no more than, and with lower downside risk than, the CalPERS Total Fund benchmark.

3. Targeted [Liquidity](#)

MAC Partners shall generally be expected to manage Program portfolios entirely through public market assets (equities, fixed income, commodities, and currencies, including through futures and options) which can be convertible to cash within 90 days in ordinary liquidity conditions.

B. Benchmark

The benchmark for the MAC Program is specified in the Benchmarks Policy. Benchmarks for each MAC Partner portfolio shall be established prior to investment and documented in the management agreements with each Partner.

## V. INVESTMENT APPROACHES AND PARAMETERS

A. Investment Approach

The Program is designed to identify and invest with managers who have demonstrated the ability to invest across asset classes to create long-term absolute returns consistent with CalPERS rate of return requirements while effectively managing risk.

MAC Partners may deploy [leverage](#) (including implicit leverage through derivatives), short selling of securities, or both.

Program portfolios should focus on management of total risk and on generation of returns independent of broad market movements. This differs from “benchmark-driven investing,” where risk management and return generation are measured by reference to a broad market benchmark; in such instances, most or all of an investment’s total risk may be broad market risk. This does not prevent MAC Partners from including

significant exposures to broad market risks, but it does place an emphasis on absolute returns, which are the ultimate determinant of whether CalPERS investment goals are met.

The long-term performance and risk parameters of the Program encourage Partners to deploy unique investment strategies and styles; the “knowledge transfer” element requires Partners to help Staff determine whether such approaches can be deployed more broadly across the CalPERS total portfolio to improve the likelihood of meeting CalPERS long-term investment goals. MAC Partners should not construct portfolios which resemble simple adherence to the CalPERS strategic asset allocation.

**B. Investment Selection**

1. Staff shall develop and maintain selection guidelines for prospective MAC Partners. To ensure conformity to the Committee’s risk and return expectations, these criteria shall be subject to review by Staff and the Consultant.
2. The selection process shall use specific criteria with the objective of identifying and selecting MAC Partner(s) that have, but are not limited to, the following characteristics:
  - a. Multiple senior personnel with significant amount of experience managing a broad range of asset classes in diverse market environments.
  - b. Breadth of expertise across many investment strategies.
  - c. Robust qualitative and quantitative disciplines for risk controls.
  - d. Sound qualitative and quantitative processes for portfolio construction.
  - e. Proper alignment of interests with CalPERS.
  - f. Willingness and ability to maintain a high degree of interaction with CalPERS Staff and the Committee, including but not limited to Committee presentations and CalPERS Staff education.
  - g. Commitment to providing CalPERS access to the most senior people within their organization.

h. Other relevant characteristics that may apply.

C. Investment Parameters

MAC Partners shall operate under specific, written investment guidelines and risk parameters. The guidelines and parameters shall outline the Investment Manager's investment philosophy and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, and a performance objective commensurate with the investment risk to be incurred.

While the performance objectives and risk parameters for each MAC Partner are generally expected to be similar to those set forth for the total Program, parameters may be adjusted to reflect the varying investment approaches and attributes of each Partner.

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

D. Investment Structuring

1. The Program shall invest with MAC Partners through legal structures such as limited partnerships or limited liability companies (LLCs) which limit potential CalPERS losses to the amount invested. Such legal structures are important because of the potential for MAC Partners to utilize derivatives and leverage.
2. The negotiation of terms and conditions for investments with MAC Partners shall protect the interests of CalPERS and shall address at a minimum the following issues:
  - a. Alignment of Interests: Vehicle terms including fees shall be negotiated in an effort to align the MAC Partner's interests with CalPERS. The fee structure, performance objective, risk parameters, restrictions on permitted investments, and other relevant terms shall seek to protect CalPERS in the event of adverse performance results, while ensuring that limited liability status is maintained.
  - b. Control of Assets: Vehicle terms shall be negotiated to allow CalPERS to terminate relationships and take control of Program assets as Staff deems appropriate.
  - c. Transparency of Risks and Exposures; Reporting Requirements: Each investment with MAC Partners shall provide complete portfolio and position transparency. In

addition, each MAC Partner will be required to provide financial and investment reports which provide Staff adequate information to properly assess and account for performance, fees, expenses, invested capital, and any other items affecting the investment.

**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.

Multi-Asset Class Partners Program

Adopted by the Investment Committee:

October 15, 2012

Asset Class Glossary: Equities  
Policy: Multi-Asset Class Partners Program  
October 15, 2012

**Leverage**

A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

**Liquidity**

The ability to quickly convert a particular investment into cash at a low transaction cost.