CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
MONITORING EXTERNALLY MANAGED PORTFOLIOS

April 21, 2008

This Policy is effective immediately upon adoption and supersedes all previous Manager Monitoring – Externally Managed 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 objectives, responsibilities and criteria ("Policy") for Monitoring Externally Managed Portfolios ("Program"). This Policy applies to external equity and external fixed income managers. It does not apply to External Managers in the Corporate Governance, Risk Managed Absolute Return Strategies, Alternative Investment Management, and Real Estate programs or any other investment made via an investment in a Limited Liability Company or Limited Partnership. 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 the implementation of investment strategies of external investment manager portfolios.

II. STRATEGIC OBJECTIVE

The strategic objective is to monitor each externally managed portfolio to ensure achievement of strategic return and risk objectives.

III. RESPONSIBILITIES

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

1. Reporting to the Committee at least annually and more if needed about the performance of the Program.

2. Monitoring and evaluating the External Managers and reporting recommendations, if any, directly to the Committee as needed, but not less than annually.

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

4. ~~Recommending action with respect to the External Manager(s) retained to implement the Program, in accordance with the Policy or with respect to changes in the External Manager's contractual guidelines, or regarding any other aspect the Staff considers pertinent.~~

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

~~Monitoring and evaluating the External Managers and reporting recommendations, if any, directly to the Committee on a quarterly basis, in accordance with the terms of its contract.~~

C. ~~The External Manager(s) ("External Manager(s)") is responsible for aspects of portfolio management as set forth in each External Manager's contract with CalPERS and shall fulfill the following duties:~~

1. ~~Communicate with Staff as needed regarding investment strategy 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.~~

D. ~~Special project consultants may be hired to provide specific advice concerning various issues pertaining to the implementation of the Program. These issues include the following:~~

1. ~~Investment research on topical issues;~~

2. ~~Investment policy;~~

3. ~~External manager research; and,~~

4. ~~Performance measurement and analysis.~~

~~Consultants may also be used to monitor and report organizational changes at investment firms.~~

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IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The benchmark for the Monitoring Externally Managed Portfolios Policy is specified in the Benchmark Modification and Benchmark Details Policy.

V. INVESTMENT APPROACHES AND PARAMETERS

Specific investment approaches and parameters for each externally managed program are outlined in policy.

A. EXTERNAL MANAGER EVALUATION

1. The ongoing evaluation of external investment managers includes both qualitative and quantitative reviews of the firms. Qualitative monitoring involves reviewing the following organizational aspects:

   a. Ownership;

   b. Staffing;

   c. Growth;

   d. Client service;

   e. Investment approach;

   f. Business risk; and,

   g. Regulatory issues.

2. Quantitative monitoring requires analysis of the implementation of the investment approach:

   a. Investment style,

   b. Performance; and,

   c. Portfolio risk.

Staff shall develop and maintain specific watchlist criteria detailing the qualitative and quantitative factors to evaluate External Managers.

As determined by Staff through its evaluation and monitoring of External Managers if significant events occur which will likely affect long-term

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overall performance, the External Manager shall be placed on Watchlist Status or considered for Dismissal.

Watchlist Status - Indicates a level of concern which shall be unique to each situation. This level of concern can range from minor to major deficiencies. Watchlist Status shall consist of a period of time to assess the capabilities and quality of an external manager's operations and include more frequent contact with the firm to monitor the conditions that led to the Watchlist Status. External managers placed on Watchlist Status shall be requested to submit a plan of action to address the deficiencies and shall typically remain on Watchlist Status for performance-related issues or organizational changes for up to one year to ensure that outstanding issues are resolved. External managers who do not correct outstanding issues in a timely manner shall be considered for Dismissal.

Dismissal - Staff shall proceed with Dismissal of an External Manager if adequate improvement in the areas outlined in the plan of action has not been made; however, Staff may recommend Dismissal for any reason upon thirty days' notice to the External Manager.

Staff shall keep the Committee fully informed of all situations where an External Manager may be dismissed, including concerns about performance, key personnel changes, organization changes or legal issues.

From time-to-time, external managers may not incur Watchlist Status (because performance slightly exceeds the benchmark), but may not have met their performance objective (expected excess return over the benchmark) as specified in their Investment Management Guidelines. In cases where the benchmark return is surpassed, but expected excess return has not been earned during a significant period of time (three years), Staff may place the firm on Watchlist Status.

VI. CALCULATIONS AND COMPUTATIONS

Not applicable

V. GLOSSARY OF TERMS

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

Approved by the Policy Subcommittee:	August 11, 1999
Adopted by the Investment Committee:	October 18, 1999
Revised by the Policy Subcommittee:	October 6, 2000
Approved by the Investment Committee:	November 13, 2000
Revised by the Policy Subcommittee:	December 10, 2004

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Approved by the Investment Committee: February 14, 2005

Name Change to Monitoring Externally Managed Portfolios
Revised by the Policy Subcommittee: March 17, 2008
Approved by the Investment Committee: April 21, 2008
Administrative changes made due to Policy Review Project: June 16, 2009
Admin changes due to adoption of Benchmark Policy: November 23, 2009

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~~Asset Class Glossary: Equities~~
~~Policy: Monitoring Externally Managed Portfolios~~
~~November 13, 2012~~

~~Dismissal~~
~~Termination of the investment management contract with CalPERS, by requesting that the external investment manager resign or recommending contract termination to the Investment Committee.~~

~~External Manager~~
~~An asset management firm retained by CalPERS to manage a portfolio of securities for a fee. The external manager usually has full discretion to manage CalPERS' assets, consistent with investment management guidelines provided by CalPERS and fiduciary responsibility.~~

~~Limited Liability Company~~
~~An alternative structure to a Limited Partnership. It is often described as a hybrid between a corporation and a partnership because it offers limited liability like a corporation and single taxation on income like a partnership.~~

~~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.~~

~~Watchlist Status~~
~~Indicates a level of concern, the degree of which shall be unique to each situation with the parameters specified in the relevant policy.~~