

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

**FOR  
TERMINATED AGENCY POOL**

**December 10, 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 minimize the likelihood of the Program becoming underfunded and to immunize against the forecasted liabilities. For the purpose of this Policy, "immunization" is to match cash flows closely for at least the next 30 years and to address inflation risk adequately. Program liabilities refer to benefit payments and Program expenses.

**II. STRATEGIC OBJECTIVES**

The Program shall be managed to closely match the projected future benefit payments and to minimize the likelihood of the Program becoming underfunded. The Program will be utilized to:

- A. Match, to the extent practicable, the cash flows of the assets to the liability cash flows across maturities for at least the next 30 years and across a range of inflation scenarios.
- B. Invest a portion of the program assets in such a way as to ensure that cash flows beyond 30 years can be met across a range of inflation scenarios provided that assets can be reinvested at the lesser of current market returns or the 5<sup>th</sup> percentile of historic market returns.
- C. Maintain adequate liquidity to meet unanticipated cash flow needs.

- D. Invest assets not needed for A, B or C above in a diversified portfolio similar to the regular asset allocation for the rest of the Public Employees' Retirement Fund ("PERF").
- E. Ensure that Program [rebalancing](#) and restructuring is performed efficiently and prudently on an annual basis.
- F. Re-evaluate the asset allocation every three years or as needed if a significant change occurs in assets and liabilities as a result of 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. Monitoring, rebalancing, analyzing, evaluating performance, and any other activities pertaining to portfolio management.
  - 2. Ensuring the Strategic Objectives are efficiently accomplished.
  - 3. Managing the assets of the Program as approved by the Committee, in accordance with the Policy.
  - 4. Creating an internally managed account to hold the assets of the Program.
  - 5. Updating the Committee annually, or more frequently if needed, about the performance of the Program. This update shall include, but is not be limited to, the current market value of assets and an analysis of the adequacy of the current Program allocation to meet the forecasted Program liabilities.
  - 6. Monitoring the implementation and compliance of the Policy. Staff shall report concerns, problems, material changes, and all

violations of Guidelines and Policies at the next Committee meeting, or earlier 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 annually reporting to the Committee on the Program relative to the Policy.

#### **IV. PERFORMANCE OBJECTIVE**

- A. The performance objective is to use the least amount of assets to “immunize” against the Program liabilities while investing the surplus with assets within the rest of the PERF to maximize returns.

#### **V. INVESTMENT APPROACHES AND PARAMETERS**

- A. Approach

A three-step allocation process will be applied: (1) Use U.S. Treasury Securities in Separate Trading of Registered Interest and Principal of Securities (“STRIPS”), Treasury Inflation Protected Securities (“TIPS”) and cash to closely match the forecasted benefit payments, (2) use cash or cash equivalents to provide sufficient liquidity for the forecasted cash flows in the next two years; and (3) keep the remaining surplus invested with the rest of the PERF.

- B. 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 of all investments.

- C. Program Review

A comprehensive asset allocation analysis shall be completed and presented to the Committee for review at least once every three years or sooner if there is a significant change of funded status.

- D. Rebalancing

The Investment Office and Actuarial Office will collaborate to monitor the funded status of the Program and to rebalance the recommended portfolio annually. Rebalancing involves adjusting the portfolio asset allocation to ensure that the cash flow of assets closely match the latest forecasted liabilities as provided by the Actuarial Staff.

E. Restrictions, Prohibitions and Authorized Securities

Authorized securities for the “immunization” and surplus segments are indicated in the following table.

<b>Segment</b>	<b>Authorized Securities</b>
“Immunization”	U.S. Treasury STRIPS U.S. Treasury TIPS Cash or cash equivalents
Surplus	All securities included within the rest of the PERF

**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:

December 10, 2012

Asset Class Glossary: Asset Allocation  
Policy: Terminated Agency Pool

December 10, 2012

**Rebalancing**

The process of modeling a portfolio through an optimizer or other portfolio construction method to generate a trade list that better aligns a portfolio with its investment objective.