

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

**FOR
PUBLIC EMPLOYEES' HEALTH CARE FUND**

April 15, 2013

This policy is effective immediately upon adoption.

I. PURPOSE

The California Public Employees' Retirement System ("CalPERS") Total Fund Statement of Investment Policy, which was 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 Public Employees' Health Care Fund ("Health Care Fund"). The Health Care Fund was established to fund the self-funded health benefit plans administered by CalPERS that rely upon cash flows from premiums and investment income to fund health benefit payments. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent action while managing the Health Care Fund. Additionally, use of this policy assures sufficient flexibility in managing investment [risks](#) and [returns](#) associated with this Program.

II. STRATEGIC OBJECTIVE

The Health Care Fund shall be managed to accomplish the following:

- A. Provide stability of principal, while avoiding large losses.
- B. Enhance returns within prudent levels of risk.
- C. Maintain liquidity to meet cash needs.

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 benchmarks.
 - 2. Reporting internally to the Committee concerning the implementation of this Policy.

3. Overseeing external managers secured to provide investment services for the Health Care Fund.
 4. Creating internally-managed funds and soliciting externally-managed funds or asset allocation services to be used in the composition of the Health Care Fund.
 5. Monitoring the implementation of and compliance with Policy. Staff shall report concerns, problems, material changes, and all violations of guidelines and policies at the next Committee meeting. All events deemed materially important will be reported to the Committee immediately. These reports shall include explanations of any violations and appropriate recommendations for corrective action.
- B. CalPERS Health Staff is responsible for:
1. Providing guidance for the strategic objective of the Health Care Fund.
- C. The [General Pension Consultant](#) (“Consultant”) is responsible for:
1. Monitoring, evaluating, and periodically reporting to the Committee on the Health Care Fund’s performance relative to the benchmark and Policy.
- D. External Managers (“Manager”) are responsible for aspects of portfolio management as set forth in each Manager’s contract with CalPERS and may fulfill the following duties:
1. Communicate with CalPERS staff, as needed, regarding investment strategies 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.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

- A. The benchmark for the Health Care Fund is specified in the Statement of Investment Policy for Benchmarks.
- B. The fund will be invested to meet the returns of its benchmark by investing primarily in investment grade debt instruments.

V. INVESTMENT APPROACHES AND PARAMETERS**A. Philosophy and Approach**

The Health Care Fund shall be managed in accordance with the CalPERS Total Fund Statement of Investment Policy and in a manner consistent with the respective investment policy governing each asset class. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

B. Fund Structure

When Health Care Fund is invested with other CalPERS administered trust assets, the Custodian shall employ a [unitized fund structure](#) to maintain separate and distinct historical records and to produce individual [net asset values \(NAV's\)](#) for the Health Care Fund.

C. Restrictions, Prohibitions and Authorized Securities

Restrictions, prohibitions and authorized securities of the Health Care Fund are defined in the policy governing each asset class or external investment manager guidelines.

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:

April 15, 2013

Asset Class Glossary: Other (Non-PERF) Investment Portfolios
Policy: Public Employees' Health Care Fund

April 15, 2013

General Pension Consultant

An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

Net Asset Value - NAV

The Net Asset Value or NAV is a term used to describe the value of an entity's assets less the value of its liabilities.

Return

A measure of the total performance of an investment over a designated time period.

Risk

A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as standard deviation, which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.

Unitized Fund Structure

Unitized Fund Structure allows multiple participants to contribute to a pool of assets while maintaining historical records and producing individual Net Asset Values (NAVs) for each participant. Each participant's share in the portfolio is separately accounted for using a system that accounts for each class of shares' proportional entitlement to the portfolio's Total Net Assets. The system maintains all of the funds' holdings at the fund level, and maintains the fund prices at the class level.