CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
OPPORTUNISTIC PROGRAM

August 17, 2009

This Policy is effective upon adoption.

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 investment policy ("Policy") for the Opportunistic Program ("Program"). The design of the 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 the Policy assures sufficient flexibility in making investment decisions.

The Program enables greater investment in assets perceived to be substantially undervalued, and the Policy specifies guidelines to manage the concurrent risks. The Program also permits the establishment of innovative portfolios.

II. STRATEGIC OBJECTIVE

The Program shall be managed to accomplish the following:

A. Outperform the program benchmark, and

B. Invest prudently and in a diversified manner.

III. RESPONSIBILITIES

A. The Investment Committee is responsible for review and approval of the Policy and corresponding delegation of authority.

B. The Chief Investment Officer (CIO) and the Senior Investment Officers (SIOs) are collectively responsible for the Program including:

1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Clear assignment of investment management responsibility for each Program asset.

3. Reporting to the Committee annually, and more frequently if needed, about Program investments, returns, risks, and activity.

4. 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. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

5. Providing recommendations on Policy revisions to the Committee.

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

Monitoring, evaluating, and reporting periodically, to the Committee, on the performance of the Program.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The benchmark for the Policy on Opportunistic Investments is specified in the Benchmark Modification and Benchmark Details Policy.

The performance objective is to outperform the Program benchmark over rolling three-year periods, net of all Program costs and fees.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Allocation

The market value of Program investments shall not exceed 3% of the Total Fund. A violation of this limit shall be restored in a timely manner not to exceed three months, with the exact time period primarily dependent on transaction costs and liquidity.

B. Any transfer of assets between a Program account and another CalPERS account requires CIO pre-approval of all terms of the transfer.

C. Leverage

The Program shall be managed in compliance with the leverage policy. The use of recourse debt in the Program is prohibited. For each Program investment, the maximum potential loss shall be the amount of the investment.

D. Permitted Instruments

Any asset not prohibited by this policy is permitted. Typically, all investable public and private securities or assets are permitted.

E. Prohibited Instruments

The following investments are prohibited:

1. Tobacco company investments,

2. Uncovered options; and,

3. Any investment prohibited by CalPERS Insider Trading Policy or Restricted Company list.

F. Diversification Guidelines

The market value of Program non-publicly traded investments (excluding fixed income securities) shall not represent more than 1.5% of the Total Fund.

The market value of any Program strategy or type of asset shall not exceed 2% of the Total Fund.

The aggregate market value of Program assets of a single country other than the United States shall not exceed 1% of the Total Fund.

G. Risk Monitoring

Staff shall generate monthly estimates of both realized and forecast Program risks relative to benchmark.

H. External Manager Investment Guidelines

Program investments may be managed internally, or by external managers, or by a combination of internal and external managers.

1. Manager Selection

   a. Managers retained in the Program shall have demonstrated expertise in their assigned mandate.

   b. The selected managers shall be registered, or appropriately exempt from registration, with the Securities and Exchange Commission.

c. Managers shall be selected in accordance with the applicable California laws and regulations, and CalPERS policy.

2. Investment Manager Guidelines

Program Managers shall operate under guidelines that describe their investment philosophies and approaches, representative portfolio characteristics, permissible and restricted securities and procedures, benchmark and performance objectives. Manager guidelines shall not conflict with any CalPERS investment policy.

Implementation of this Program shall comply at all times with the Manager guidelines and all CalPERS investment policies.

VI. DERIVATIVES AND LEVERAGE

A. Strategies

The Program shall be managed in compliance with the derivatives policy. Financial futures contracts, forward contracts, swaps, options, combinations of these derivatives, exchange traded funds, and structured notes may be used in the Program to take investment positions or to hedge investment exposures.

B. Justification

Derivatives have several advantages over securities including:

1. Minimizing transaction costs,

2. Increasing the speed of transactions, and thus the ability to respond quickly to volatile capital markets, and

3. Minimizing disruption of CalPERS portfolios.

C. Risks

Any use of derivatives in the Program shall be in compliance with all CalPERS policies. Guidelines intended to mitigate key derivative risks are described below:

1. Pricing risk,

2. Liquidity risk; and,

3. Counterparty risk.

   Liquidity and counterparty risk shall be managed by adherence to the Policy diversification guidelines (V.F) and to the following:

   a. Non-exchange traded derivative agreements shall be made only with counterparties for which CalPERS has an executed International Swaps and Derivatives Association (ISDA) agreement.

   b. Counterparty creditworthiness, for non-exchange traded derivatives, shall be at a minimum of “A3” as defined by Moody’s, “A-” by S&P and “A-“ by Fitch. The use of counterparties holding a split rating with one of the ratings below A3/A- is prohibited. The use of unrated counterparties is prohibited unless the counterparty is a wholly owned affiliate of a parent company that guarantees payment and meets the above credit standards.

   c. Contracts on all non-exchange traded instruments shall be settled quarterly or more frequently.

   d. Program exposures to an individual counterparty for non-exchange traded derivatives, is limited to 0.5% of the Total Fund, at inception of positions.

   e. Any entity acting as counterparty shall be regulated in either the United States or the United Kingdom.

4. Exchange-traded derivatives used in the Program shall be traded on an exchange regulated by the SEC, CFTC (Commodity Futures Trading Commission) or the FSA (Financial Services Authority) of the United Kingdom.

VII. 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.

VIII. GLOSSARY OF TERMS

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

Approved by the Investment Policy Subcommittee:	June 15, 2009
Adopted by the Investment Committee:	August 17, 2009
Admin changes due to adoption of Benchmark Policy:	September 29, 2009