

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

**FOR  
SUPPLEMENTAL INCOME PLANS**

~~August 13, 2012~~ June 17, 2013

*This policy is effective immediately upon adoption and supersedes all previous Supplemental Income Plans policies.*

**I. PURPOSE**

This document sets forth the investment policy ("Policy") for the California Public Employees Retirement System ("CalPERS") Supplemental Income Plans ("SIP" or "the SIP") and guidelines for the business needs and legal requirements applicable to the SIP program. Under the SIP, CalPERS administers various deferred compensation and defined contribution plans for employees of participating public agencies, schools and the State of California.<sup>1</sup> The Policy provides criteria against which results will be measured, and serves as a review document to guide ongoing operations and oversight. The Policy is also intended to ensure the Investment Committee ("Committee") is fulfilling its fiduciary responsibilities in the management of the SIP.

The Committee intends this Policy to be a dynamic document and will review it from time to time. The Policy will be modified periodically to reflect the changing nature of the SIP. In addition, the Committee has delegated to the CalPERS Staff certain authority that pertains to the ongoing management and administration of the SIP.

All of CalPERS SIP investment activities are designed and executed in order to serve the best interests of the [Participants](#) and beneficiaries of the SIP. All transactions will be for the sole economic benefit of CalPERS SIP Participants and beneficiaries and for the sole purpose of providing benefits to them.

The purpose of this Policy is to provide assurance to Participants that managers, consultants, and other entities selected by CalPERS take prudent and careful action while administering and managing the SIP. Under the SIP, Participants have an efficient and convenient method of setting aside and accumulating supplemental retirement savings over their period of employment. Overall investment plan and available individual investment options under the SIP will be designed to help Participants achieve their long-term retirement income goals by

---

<sup>1</sup> As of July 1, 2012, the Customer Services and Support Branch administers the CalPERS 457 Deferred Compensation Plan (the "457 Plan"), [the Placer County 401\(k\) Plan](#), the Supplemental Contributions Program (the "SCP"), and the State Peace Officers' and Firefighters' Defined Contribution Plan (the "POFF") (collectively the "SIP").

providing a diversified range of alternatives with materially different risk and return characteristics. Since SIP Participants' needs represent a wide range of investment time horizons, risk tolerances and return expectations, an appropriate range of investment options will be available while avoiding an overly complex fund line-up that might confuse the average Participant.

## **II. STRATEGIC OBJECTIVE**

~~The investment options offered in the SIP will be broadly diversified. The SIP objective is to provide Participants with supplemental income during retirement. The SIP will accomplish this objective by:~~

- ~~A. Providing appropriate asset allocation funds as default investment options.~~
- ~~B. Offering a variety of high quality investment options based on age, risk tolerance and specific retirement income goals and objectives, so Participants may construct well-diversified portfolios should they not choose the default funds.~~
- ~~C. Self-directed brokerage option for participants wanting additional options.~~

The SIP objective is to help provide Participants with supplemental income during retirement consistent with the Participants' individual circumstances, goals, time horizons and risk tolerance. For the self-directed plans under the SIP, the Committee intends to accomplish this objective by offering the following three tiers of options:

- A. Tier I will include customized Target Retirement Date Funds which are designed for Participants who do not wish to make active asset allocation decisions. The asset allocation of each Target Date Retirement Fund will change over time based on a Participant's expected time frame for entering retirement. In addition to offering Participants an all-in-one solution for retirement investing, these Target Date Retirement Funds will serve as the designated "default" option for investment of contributions by Participants who do not provide affirmative instruction on how to invest their contributions. CalPERS will develop the Target Retirement Date Funds and manage them in accordance with the Statement of Investment Policy for the Supplemental Income Plans Target Retirement Date and POFF Funds. Customization of the Target Retirement Date Funds will be based on CalPERS member demographic data, pension retirement income as the primary retirement income source, and average retirement age among all membership classifications.
- B. Tier II will include a Core fund lineup for Participants who wish to actively design their own asset allocation based on their individual circumstances, goals, time horizons and risk tolerance. The Core funds are intended to

offer an appropriate range of investment alternatives with materially different risk and return characteristics, which are style neutral, passively managed and provide exposure to major asset classes that are highly correlated with the market and bear lower fees. The Core investment fund lineup will include the following major asset classes:

1. U.S. Equity;
2. International Equity;
3. U.S. Short-Term Fixed Income;
4. U.S. Fixed Income;
5. Cash Equivalent; and
6. Inflation Hedging/Real Asset.

C. Tier III is the Self-directed brokerage window, which is available for employers that contract for this optional plan service. The Self-directed brokerage window, if elected by participating SIP employers, offers Participants a wide array of investment options in addition to the Core menu, if desired. It is generally designed for investors who have investing experience, are comfortable choosing from a wide variety of investments and understand how to research and evaluate a wide variety of investments on their own. The investments available under the Self-directed brokerage window are not endorsed, monitored, or selected by the CalPERS staff or the Committee.

For the POFF, with employer only contributions and where Participants do not self-direct the investment, a moderate risk asset allocation fund will be the investment fund as specified in accordance with the Statement of Investment Policy for the Supplemental Income Plans Target Retirement Date and POFF Funds.

### **III. RESPONSIBILITIES**

To assist the Committee in fulfilling the management and administration responsibilities of the SIP, including selecting investment fund options consistent with the Policy's Strategic Objective, those involved will have the following responsibilities.

- A. CalPERS Investment Staff ("Staff") is responsible for the following:
  1. Selecting, monitoring, analyzing, and evaluating performance of each investment fund relative to an appropriate benchmark. The ongoing monitoring and evaluation of investment options will be a regular and disciplined process in accordance with established Investment Office Policies and procedures;
  2. Establishing the fund line-up using internally and externally managed funds, including the default fund offerings;

3. Creating internally managed portfolios as fund offerings, as appropriate;
4. Directing cash contributions and rebalancing asset allocation funds as set forth in policy approved by the Committee;
5. Identifying ~~opportunities~~ fund line up considerations and making recommendations to the Committee consistent with pertinent delegations;
- ~~6. Setting, adjusting, or modifying the fees and premiums paid by participating employers and Participants as deemed necessary, advisable or appropriate to meet administrative needs of the SIP;~~
6. Reporting to the Committee at least annually on the investment performance of the investment fund options for ~~of~~ the SIP; and,
7. Monitoring implementation of, and compliance with, the 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 actions.

D.B. CalPERS Deputy Executive Officer – Customer Services and Support Branch (“DEO – CSS”) is responsible for:

1. Providing guidance for the strategic objectives of the SIP funds. ~~Educating Participants and providing information to allow them to make informed decisions about their need to supplement retirement income;~~
2. ~~Administering the SIP to promote Participant investment practices consistent with achieving long-term retirement income goals; and~~
3. ~~Selecting and overseeing a Third-Party Administrator for:~~
  - a. ~~Recordkeeping, marketing, and processing transactions;~~
  - b. ~~Receiving payroll contributions, rollovers and transfers from other retirement plans;~~
  - c. ~~Processing distributions; and,~~

~~d. Monitoring and reviewing transactions at the plan and Participant level and reporting unusual transaction activity to Staff. Information from the Third-Party Administrator's Participant recordkeeping database shall be used to identify short term and disruptive trading practices, and track specific fund trading violations of the SIP's Excessive Short-Term Trading policy as set forth under Section V of the Policy.~~

- C. Internal and External Manager(s) ("Manager(s)") are responsible for aspects of portfolio management as set forth in their respective investment management contracts, guidelines or policies and shall fulfill the following duties:
1. Communicate with Staff as needed regarding investment strategy and investment results. The Manager(s) are expected to perform their duties in accordance with the objectives of each fund and to monitor, analyze, and evaluate performance relative to the agreed upon benchmark; ~~and,~~
  2. Cooperate fully when Staff, SIP's custodian, the Third-Party Administrator and the consultant(s) request information; and,
  3. Provide the fund fact sheets for the SIP investment fund options that include the fund's investment objective, strategy, exposures, risks, performance history, fees and expenses, and other material investment characteristics to help inform and educate the Participants and employers.
- D. The SIP Participants may, if authorized by the applicable plan, choose to self-direct their investments, rather than accepting the default investment option. Individual accounts are established for each Participant and allow the Participants to exercise control over the assets in their accounts. In addition, Participants have the independence and authority to select those investment options they deem suitable to meet their retirement income goals and investment objectives, subject to certain investment and trading restrictions that may be adopted, from time to time, under the SIP program.
- E. The Independent Investment Consultant is responsible for monitoring, evaluating, and reporting to the Committee, at least quarterly, about the internally and externally managed fund performance relative to the benchmarks and Policy guidelines.

**IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

The benchmark for each of the SIP investment options is specified in the Benchmarks Policy. The objective is for each investment option under the SIP funds to meet or exceed to track its respective ~~the appropriate~~ benchmark.

**V. EXCESSIVE SHORT-TERM TRADING**

The overall investment plan and the available individual investment options under the SIP are designed to help Participants achieve their long-term retirement income goals. Excessive short-term or disruptive trading of the funds is counter-productive to the long-term investment design of the SIP. To achieve a balance between the right of individual Participants to self-direct their investments, and the right of all Participants to enjoy appropriate growth of their assets in proportion to the risk they bear and at reasonable cost through investment in prudently managed investment funds, the SIP will employ administrative and procedural measures to restrain the use of excessive short-term or disruptive trading strategies by individual Participants that may occur at the expense of other Participants and result in the dilution of Participant value in the funds. Specifically, Staff in coordination with external managers will ~~take the following steps:~~ monitor all Participant trades to identify excessive short-term or disruptive trading. If such trading is identified, Staff will provide written notification to the Participant to explain the long-term focus of the SIP and to request that the Participant cease from engaging in this type of trading.

If after written notification, the Participant continues excessive short-term or disruptive trading, Staff will confer with the CalPERS Legal Office regarding the suitability of other measures used singly or in combination with one another as may be reasonably necessary to further address excessive trades, or other excessive short-term or disruptive trading by a Participant in contradiction of the Policy.

To avoid the need to monitor Participant trading while ensuring equitable treatment for all Participants, external managers may employ fair value pricing practices. Fair value pricing adjusts security prices when significant events occur after the closing of the local market. This price adjustment attempts to eliminate the potential profit a short-term trading strategy would seek to extract from the funds and therefore discourages the practice.

- A. ~~Perform monitoring, on a monthly basis, of all trades by Participants in both internally and externally managed SIP funds to identify Roundtrip Trades. An exempt transaction will not be counted as one of the legs of a Roundtrip Trade.~~
- B. ~~Provide written notice to a Participant who, within a 90-calendar day period, has completed two or more Roundtrip Trades to explain the long-~~

~~term focus of the SIP and to request that the Participant cease from engaging in this type of trading.~~

- ~~C. Provide written notice to a Participant who, within a 180-calendar day period following the initial written request to Participant, performs one or more Roundtrip Trades to describe trading restrictions that will be employed by SIP if Participant continues to engage in this type of trading.~~
- ~~D. If Participant completes a Roundtrip Trade following receipt of the SIP's second written request to Participant, SIP will direct the Third-Party Administrator to restrict Participant from trading back into the fund for a 90-calendar day period following the completion of the Roundtrip Trade. Trades out of the fund will be allowed at any time.~~
- ~~E. Confer with the CalPERS Legal Office regarding the suitability of other measures used singly or in combination with one another as may be reasonably necessary to further address Roundtrip Trades, or other excessive short-term or disruptive trading by a Participant in contradiction of the Policy.~~

## **VI. APPROACHES AND PARAMETERS**

### A. Philosophy and Approach

The SIP 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. Upon adoption of significant Policy changes, a reasonable time period will be allowed to transition to the new Policy. ~~The SIP will offer default asset allocation funds to provide Participants appropriate diversified funds providing a mix of investments allocated among different investment classes in pre-established proportions suited to specific investors' time horizons.~~

### B. Strategy Process

A comprehensive strategy analysis shall be completed at least every three years and will be presented to the Committee for review and approval of the Policy. The CIO may recommend a more frequent analysis if expected returns, risks or liability value have substantially changed since the prior analysis. ~~The core fund line-up of investments will be specifically designed and managed to offer funds that allow for appropriate growth of Participants' assets in light of the risk taken. This approach results in a compact line-up of institutionally managed, core investment options that span the risk-return spectrum, but avoid duplication, allowing Participants to diversify among investment asset classes.~~

**C. Fund Structure**

When SIP 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 SIP.

**D. Restriction, Prohibitions and Authorized Securities**

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

**VII. CALCULATIONS AND COMPUTATIONS**

The Third-Party Administrator, Managers, consultants, and other entities 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 Policy Subcommittee:	October 12, 2007
Adopted by the Investment Committee:	December 17, 2007
Revised by the Policy Subcommittee:	December 15, 2008
Approved by the Investment Committee:	February 17, 2009
Admin changes made due to Policy Review Project:	June 16, 2009
Admin changes due to adoption of Benchmark Policy:	September 29, 2009
Approved by the Investment Committee:	August 13, 2012
<u>Approved by the Investment Committee:</u>	<u>June 17, 2013</u>

Asset Class Glossary: Asset Allocation  
Policy: Supplemental Income Plans  
August 13, 2012 June 17, 2013

**Exempt Transaction**

~~Any transaction that is initiated for purposes of depositing employer payroll contributions, processing a distribution or any administrator-initiated transaction (e.g., processing a Qualified Domestic Relations Order (QDRO), mapping assets from terminated funds, etc.). An Exempt Transaction will not be counted for purposes of determining whether a Participant has engaged in any short-term or disruptive trading under SIP's Excessive Short-Term Trading Policy.~~

**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.

**Participant**

An individual that takes part in, or contributes to, one of the CalPERS Supplemental Income Plans.

**Roundtrip Trade**

~~Within a 30-calendar day period, a Participant purchases shares of an investment fund, subsequently sells shares of that same investment fund and then purchases back shares of the same investment fund, in any order (i.e., in/out/in or out/in/out), regardless of whether each leg of the Roundtrip Trade is made sequentially (i.e., purchases and sales are made in other investment funds in between each leg of the Roundtrip Trade). An Exempt Transaction will not be counted as one of the legs of a Roundtrip Trade.~~

**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.