CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
GLOBAL DERIVATIVES AND COUNTERPARTY RISK

October 14, 2013

This policy is effective immediately upon adoption and supersedes all previous Derivatives policies.

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 Global Derivatives and Counterparty Risk. The design of this Policy ensures that investors, managers, consultants or other participants selected by CalPERS take prudent and careful action while managing the Policy. Additionally, use of this Policy assures sufficient flexibility in managing investment risk and returns associated with this Policy.

The Policy is intended to provide a strategic framework for governance of the use of derivatives and derivatives strategies by the CalPERS Investment Office across both internally and externally managed portfolios. The policy is intended to ensure that CalPERS has effective operational, risk management and compliance controls when using derivatives within the investment process.

II. STRATEGIC OBJECTIVE

The strategic objective of this Policy is to outline the issues that must be addressed for each derivatives strategy, whether internally or externally managed, in regard to guidelines, development of procedures and operational requirements.

III. POLICY SCOPE

A. Benefit Plans/Trusts Covered under the Policy

This Policy applies to the use of derivatives by CalPERS within the following Defined Benefit, Health Care and Defined Contribution Benefit Plans/Trusts:

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1. Public Employees' Retirement Fund ("PERF")

2. Legislators' Retirement System ("LRS")

3. Judges' Retirement System I ("JRS I")

4. Judges' Retirement System II ("JRS II")

5. Long Term Care ("LTC") Fund

6. Health Care Fund ("HCF")

7. Contingency Reserve Fund ("CRF")

8. California Employers' Retiree Benefit Trust ("CERBT") Fund

9. Supplemental Income Program Defined Contribution ("SIP DC") Funds

    a. CalPERS 457

    b. State Peace Officers' and Firefighters Supplemental Plans ("POFF")

    c. Supplemental Contribution Program ("SCP")

    d. Placer County 457/401K

B. All sections of this Policy shall apply to the use of derivatives by Investment Staff ("Staff") and external managers ("Managers") operating under Investment Management Agreements (IMAs).

C. The following shall apply to application of the Policy for investments through Registered/Commingled Funds or private investments made through Limited Liability Entities only:

1. Staff must exercise thorough due diligence in assessing the scope of each Limited Liability Entity or Registered/Commingled Fund Manager's use of derivatives, their purpose, experience of the fund Manager's staff in managing these positions, inherent leverage and the Manager's systems, controls and operations in determining appropriateness of these entities for CalPERS investment.

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2. Staff shall evaluate periodically (no less than annually) for any changes in the use of derivatives at each Limited Liability Entity or Registered/Commingled Fund to reaffirm the appropriateness of these investments at inception.

3. Limited Liability Entity or Registered/Commingled Fund managers may be required to provide information to Staff on derivatives trading activities within each entity in order for CalPERS to comply with applicable aggregation or position limit regulations and reporting requirements.

IV. RESPONSIBILITIES

A. Staff is responsible for the following:

1. Monitor the implementation of and compliance with the Policy including due diligence and oversight of derivatives activities by External Managers, Limited Liability Entities, or Registered/Commingled Fund vehicles.

2. Monitor derivatives and counterparty risk exposures.

3. Immediately report concerns, problems, material changes and all violations of Guidelines and Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

4. Evaluate the use of derivatives across CalPERS to ensure the appropriate investment risk controls are in place.

5. Develop internal guidelines and procedures for the use, control and compliance of derivatives.

6. Provide input to the Derivatives and Counterparty Risk Committee regarding the content and guidelines contained in the Policy and the Investment Office Derivatives and Counterparty Risk Procedures Manual.

7. Use derivative products in a prudent manner in line with established policies, procedures and guidelines.

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B. The Investment Office Derivatives and Counterparty Risk Committee is responsible for the following:

1. Act as a standing committee to provide oversight on the use of derivatives and counterparty risk by CalPERS Investment Office including the development and approval of the Investment Office Derivatives and Counterparty Risk Procedures Manual.

2. Provide updates and guidance to the Operating Committee and the Investment Strategy Group regarding policy issues and matters that are likely to have a significant impact on derivatives markets and the implementation of derivatives strategies within the Investment Office.

C. The General Board Consultant ("Consultant") is responsible for monitoring, evaluating and reporting periodically to the Committee on the performance of portfolios to ensure that any derivative use does not have a long-term harmful effect on the portfolio.

D. The External Manager is responsible for all aspects of portfolio management as set forth in each External Manager's IMA with CalPERS and shall fulfill the following duties:

1. Operate under IMAs.

2. Communicate with Staff as needed regarding investment strategy and investment results.

3. Cooperate fully with CalPERS Staff, Custodian and General Board Consultant concerning requests for information.

V. PERFORMANCE OBJECTIVE AND BENCHMARK

Not Applicable.

VI. INVESTMENT APPROACHES AND PARAMETERS

A. Derivatives Terminology

A derivative is broadly defined as a financial instrument whose value, usefulness and marketability, is derived from or linked to the value of an underlying security, commodity, or index that represents either direct ownership of an asset or the direct obligation of an issuer, otherwise known as the cash market instrument.

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Generally, there are five main categories of derivatives identified by the assets from which they are derived:

1. Currency derivatives

2. Interest rate derivatives

3. Credit derivatives

4. Commodity derivatives

5. Equity derivatives

A derivative position can be expressed using a number of different financial instruments, each of which has a unique regulatory, risk and documentation context:

1. A futures contract

2. A cleared derivative

3. An over-the-counter ("OTC") derivative

4. A hybrid instrument that embeds a derivative in a debt instrument

Derivatives under this Policy include, without limitation:

1. Futures contracts

2. Options

3. Options on futures contracts

4. Forward contracts

5. Swap agreements

6. Security based swap agreements

7. Swap contracts with embedded options

8. Instruments or contracts intended to manage transaction or currency exchange risk in purchasing, selling or holding investments.

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Spot Foreign Exchange transactions with settlement date up to T+5 shall be exempt from this Policy.

Cash transactions in any asset class are not derivatives. Derivatives, as defined in this Policy, shall not be construed to include a broad range of securities, such as Collateralized Mortgage Obligations (CMOs) and convertible bonds.

B. Derivatives Application Permitted

Derivatives may be used to efficiently manage the Total Fund portfolio or individual sub portfolios risk and return characteristics.

C. Derivatives Application Not Permitted

Derivative applications may only be used to invest in asset classes that are consistent with CalPERS Total Fund Statement of Investment Policy and Asset Allocation Strategy Policy asset categories, implementation strategies, and risk-return characteristics.

D. Derivatives Control Procedures

Staff shall adopt documented control procedures that cover the following areas:

1. Accounting and Performance measurement for derivatives.

2. Risk Management – procedures for evaluating the use of derivatives and monitoring market risk exposure, liquidity needs, and counterparty risk limits.

3. Operational Risk – procedures that establish a process for evaluating operational activities associated with derivatives to ensure the use of proper systems, controls, staffing, and staff qualifications.

4. Regulatory Compliance – procedures for ensuring compliance with any regulations in conjunction with derivatives activities undertaken by CalPERS.

E. Derivatives Risk Limitations

Staff should reference the Investment Office Derivatives and Counterparty Risk Procedures Manual, Asset Allocation Strategy Policy, Leverage Policy and asset class investment policies for additional limitations specific to their portfolios inclusive of cash and derivatives instruments.

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Managers should reference their IMA including Investment Guidelines for risk limitations specific to their portfolio or to the asset class or trust for which they are managing investments.

VII. CALCULATIONS AND COMPUTATIONS

Not Applicable

VIII. GLOSSARY OF TERMS

There are no Master Glossary of Terms contained in this Policy.

Adopted by the Investment Committee October 14, 2013

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