CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
GLOBAL EQUITY

~~December 10, 2012~~October 14, 2013

This Policy is effective immediately upon adoption and supersedes all previous Global Equity 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 the Global Equity 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 this program.

II. STRATEGIC OBJECTIVE

Set of investment beliefs that govern how Global Equity is structured and managed are:

A. Global Equity investment returns will reflect a diversified exposure to global economic growth.

B. Global Equity is managed from the perspective of relative return and risk as compared to the overall strategic benchmark for the asset class.

C. Forecasted tracking error is the primary risk attribute used to describe the degree of normal volatility~~risk~~ relative to the benchmark. ~~being deployed within the asset class or any individual strategy.~~

D. Global Equity is managed as an overall composite portfolio combining an index-oriented core with actively managed portfolios. Each portfolio has a role such as reducing risk, producing excess return, providing a systematic factor or risk exposure or a combination of these attributes.

E. The size of the Global Equity asset class exposure provides both challenges and opportunities (challenges to make material tactical shifts and opportunities to gain access to intellectual capital to make information advantaged~~informed~~ investment decisions).

F. Global Equity shall consider~~incorporate~~ CalPERS values in investing to influence sustainability issues including governance, risk management, human capital and environmental practices ~~sustainable change in areas such as Environmental, Social, and Governance ("ESG")~~, subject to such influence being consistent with the pursuit of maximizing long-term ~~risk adjusted~~ returns within acceptable risk levels.~~.~~

III. RESPONSIBILITIES

A. CalPERS Investment Staff ("Staff") is responsible for the following:

1. Monitoring external and internal strategies~~managers~~ in the implementation of, and compliance with, the Policy and with investment manager contracts. Staff shall report all violations of Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of any violations and appropriate recommendations for corrective action.

2. Designing and implementing a process for Capital Allocation within the asset class including reporting on all strategies and relationships to provide the basis for assessment of strategies and decisions on capital allocation.

3. Sourcing, researching, selecting, contracting and terminating investment strategies to fulfill the Global Equity mission including transitioning Global Equity Emerging Managers into direct, standard investment manager contracts. Staff anticipates using, where appropriate, an exemption from competitive bidding to contract with selected Emerging Managers who transition out of the Emerging Manager Program.

4. ~~Contracting with investment managers and vendors to achieve~~ Achieving alignment of interests in key aspects of business relationships (e.g. fees, benchmarks, constraints, measures of success).

5. Portfolio management and trading of internal~~ly implemented~~ strategies.

6. ~~Monitoring, analyzing and reporting on all strategies and relationships to provide the basis for assessment of strategies and decisions on capital allocation.~~

7. Reporting to the Committee at least annually, on the structure~~s~~, metrics~~,~~ and plans for the overall Global Equity ~~-~~Portfolio. Global Equity will also report on S~~s~~pecific R~~r~~isk P~~p~~arameters as identified in section V.B. ~~– Specific Risk Parameters.~~

8. Coordinating information with other asset classes (research, relationship information, market intelligence) that contribute to overall Asset Allocation for the total fund.

9. Assuring overall compliance with policy and procedures through interaction with the General Pension Consultant ("Consultant"), Compliance and Internal Audit functions.

B. The Consultant is responsible for providing independent perspective and counsel to the Committee which includes routine communication with each asset class and periodic reviews of processes and procedures.

IV. PERFORMANCE OBJECTIVES AND BENCHMARKS

The primary performance objective for the Program is to obtain the return generated by global public equities as represented by the benchmark. A secondary objective is to utilize active management in an effort to earn a rate of return in excess of the benchmark. The degree of active management deployed is constrained by various~~an overall~~ risk limits for the asset class.

The benchmark for Global Equity is specified in the Benchmarks Policy.

All individual Global Equity strategies have benchmarks that are supportive of the overall asset class objectives. Each~~The~~ strategy benchmark ~~for each strategy category~~ is documented within the Global Equity ~~the Benchmarks Policy, Attachment C: Growth Policies Program Benchmarks or within~~ procedure documents or investment guidelines for ~~smaller,~~ individual strategies. Benchmarks are assigned to appropriately assess relative performance by representing the universe and characteristics of each investment strategy.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Approach

In the management of the overall Global Equity portfolio, investments are made with a specific purpose. Included strategies may be index-oriented (which closely replicate an index selected as the benchmark)~~,~~ or active strategies (which take significant tracking error risk relative to a benchmark). All strategies shall be categorized as "index-oriented" or "active." ~~at the time of their inception.~~

Index-oriented strategies seek to generate a return and risk profile similar to the public equity market segment as defined by the benchmark. Typical attributes of index-oriented strategies are:

1. Investment universe substantially constrained to the assets contained in the underlying benchmark and derivatives thereof.

2. Non-benchmark exposures are limited to those acquired by corporate action, anticipated index reconstitution, effects of CalPERS restricted list activity and derivatives.

3. ~~Absolute~~ F~~f~~orecast tracking error will be monitored and managed as defined in each strategy's guidelines.~~limited to 50 basis points, for each portfolio.~~

Active strategies are deployed with the expectation of earning longer-term rates of return in excess of the relevant benchmark segment. Active strategies result in significant amounts of forecasted tracking error ~~often exceeding 300 basis points~~. The risk taken within active strategies are based on several investment techniques including, but not limited to:

1. Individual stock or security selection.

2. Concentrated security positions enabling company engagement on topics such as business strategy, governance and capital usage.

3. Out of benchmark exposure.

4. Allocation variations to specific factors or parameters such as geographic region, market capitalization segment (large versus small companies), economic sector, industry group, investment style (value versus growth) or fundamental parameters (high quality versus low quality).

5. Substitution such as using derivative instruments.

The analytic framework underlying the active investment techniques may be based on fundamental, quantitative or technical analysis, either individually or in combination.

Each strategy is monitored and evaluated using several criteria:

1. Conformance with all applicable investment guidelines, policies and restrictions.

2. Contribution to overall objectives (e.g. market exposure, excess return generation, specific systematic risk exposures, diversification~~,~~ or proprietary input to the capital allocation process).

3. Stability of investment process and key decision makers (designated role in the overall composite asset class portfolio).

4. Performance versus benchmark (evaluated ~~judged~~ over time, in context of the investment environment and risk attributes).

Managers of active strategies will be encouraged to consider ~~ESG~~ sustainability factors in their process. Staff will survey and encourage broad diversity among CalPERS investment managers in the belief that both diversity and ~~ESG~~ sustainability awareness contribute to long-~~-~~term sustainable competitive advantage.

B. Specific Risk Parameters

Investing in global public equity markets brings attendant risks including market and currency volatility, varying regulatory environments, foreign investor restrictions, liquidity and potential operational issues. Many of these risks are systemic and unavoidable. Specific risk categories and limits include:

1. CalPERS Investment Office Policies – Global Equity shall be managed to comply with all applicable policies established for the Investment Office.

2. Investment Opportunity Set – The primary universe of allowable investment assets within Global Equity shall be publicly traded global equity securities and derivatives thereof as described in the Derivatives Policy. Securities identified as prohibited by the Board shall be excluded from the benchmark. For investment instruments where CalPERS does not have discretionary control (e.g. commingled funds, exchange traded funds), the assets are exempt from divestment. Any future~~potential~~ investment subsequent to adoption of the Policy involving assets identified as being primarily associated with another CalPERS asset class shall only be undertaken upon:

   a. Being reviewed by the Chief Investment Officer ("CIO") and Investment Strategy Group.

   b. Being reviewed by the Committee.

3. Asset Class Tracking Error – The target range for the amount of aggregate forecast tracking error for Global Equity is~~shall be~~ 25 to 50 basis points as measured by the CalPERS Risk Management system.

4. Leverage – Global Equity shall not use borrowed funds on either a recourse or non-recourse basis to increase net exposures.~~,~~

5. Notional Leverage – Notional leverage is created when a derivative position either lacks full collateralization, or when non-cash collateral underlies a derivative exposure. Global equity shall only incur notional leverage through the use of investment grade non-cash collateral and such exposure shall not exceed 10% of the Global Equity market value. Gross market exposure shall not exceed 100% of the Global Equity asset class allocation.

6. Illiquidity – The allocation of assets to investment vehicles or instruments meeting the conditions of illiquidity shall be limited to 15% of the Global Equity asset class exposure at the time of such allocation.

Monitoring of the specific risk parameters is undertaken within the asset class as well as involving Investment Risk Management and Investment Compliance functions. Should any breach of a specific risk parameter be identified, the identifying team shall notify the other monitoring teams, the CIO and the Chief Operating Investment Officer in writing by e-mail. Following identification these steps shall be completed:

1. Activity Hold – Any pending or ongoing activity expected to exacerbate a breach shall be stopped or paused. Activity which mitigates a breach may continue.

2. Analysis – An analysis of the situation shall be completed and include these components:

   a. Cause – The circumstances underlying a breach may include:

      (1) Specific investment action including changes to the allocation of assets within the asset class or overall plan.

      (2) Change in market conditions.

      (3) Change in definitions or model specifications.

b. Risk Assessment – Estimation of the risks associated with a breach.

c. Mitigation Plan – Identification of steps and timetable which may mitigate the risks associated with a breach. These steps may include:

(1) Trading assets.

(2) Continued monitoring of the situation allowing time to elapse and conditions to change.

(3) Modification of the specific risk parameters within the policy document.

d. The Committee shall be apprised of the situation and the complete analysis presented at the next available opportunity. A staff recommendation requesting Committee action shall accompany the analysis.

C. Investment Selection

The Capital Allocation Committee within Global Equity is responsible for the allocation of capital to and from the internal and external strategies forming the pool of applicable alternatives.

The mechanism for sourcing and selecting new external managers shall be the Alternate Solicitation Process which incorporates the Investment Proposal Tracking System ("IPTS") as a solicitation and data collection vehicle. The Alternate Solicitation Process includes a structured due diligence approach~~,~~ and consideration of all the criteria mentioned in the Investment Approaches and Parameters section of this Policy.

Global Equity Emerging Managers shall be selected by advisors and may be transitioned outside of the Emerging Manager Program, into direct, standard investment manager contracts. Staff anticipates using, where appropriate, an exemption from competitive bidding to contract with selected Emerging Managers who transition out of the Emerging Manager Program.

D. Investment Parameters

All investment strategies shall have specific, written guidelines. The guidelines shall outline the investment philosophy and approaches, representative portfolio characteristics, permissible and restricted activities and a performance objective which is commensurate with the strategy's purpose.

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 the 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
Approved by the Investment Committee: October 14, 2013

The following Polices were repealed December 10, 2012:

- Global Equity Policy
- Externally Managed Strategies Policy
- Global Equity Emerging Manager Fund-Of-Funds Policy
- Global Equity Sub-Asset Class Allocation Ranges Policy
- Internally Managed Affiliate Equity Index Funds Policy
- Internally Managed Global Enhanced Equity Strategies Policy
- Internally Managed Global Equity Index Funds Policy
- Manager Development Program I and II (MDP) Policy and Manager Transition Policy
- Monitoring Externally Managed Portfolios Policy

Asset Class Glossary: Global Equity Glossary
Policy: Global Equity
October 14, 2013

Alternative Solicitation Process
A process for identifying and selecting external asset managers utilizing the on-line Investment Proposal Tracking System. This process may target a particular strategy type, or may continuously assess submitted investment proposals and replaces a formal request for proposal.

Asset Allocation
The process of dividing investments among different types of assets to optimize risk and return.

Asset Class Tracking Error
The expected or ex ante annualized standard deviation of the return difference between an asset class and its assigned strategic benchmark as calculated from the Investment Office Risk Management system.

Benchmark
A set of securities with associated weights that provides a passive representation of a market segment. A benchmark's return is often used as a comparative measure of a manager's performance results in an active portfolio.

Capital Allocation
The process of distributing resources among different types of strategies.

Custodian
A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Derivatives
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.

Global Equity Emerging Manager
An external money manager with less than $2 billion in assets under management at the time of initial investment.

Exposure
The amount of funds invested in a particular type of security, sector, industry, or strategy.

Fund
A portfolio specifically managed for CalPERS by an external investment manager or managed internally.

Global Equity Portfolio
Referring to the aggregate of all Global Equity Funds.

Illiquidity
Derives from exposure to assets which may not be readily convertible to cash due to contractual provisions~~, or which may experience a significant price impact to entice their purchase by an external buyer~~. A capital lock-up beyond ~~1~~one year~~, or an adverse price impact of 10% or more~~ is deemed to represent "illiquidity."

Leverage
A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Liquidity
The ability to quickly convert a particular investment into cash at a low transaction cost.

Manager
A professional responsible for managing the securities portfolio of an individual or institutional investor. In return for a fee, the money manager has the fiduciary responsibility to choose and manage investments prudently for their clients. In CalPERS' case, an internal manager is a portfolio manager on the staff, while an external manager is an outside money management firm.

Notional Leverage
Created when a derivative position either lacks full collateralization, or when non-cash collateral underlies a derivative exposure.

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.

Strategy
Broadly refers to or describes an investment product; or, when used in the context of trading, describes a plan of action for constructing a portfolio or an exit strategy. An example of a strategy would be a domestic large cap growth "strategy" or an active or passive "strategy".

Tracking Error
The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.

Volatility
Expected or historical annualized standard deviation of returns. Returns can be total returns or the differential returns between a portfolio and its benchmark.