

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

**FOR  
EMERGING EQUITY MARKETS PRINCIPLES**

**July 11, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Emerging Equity Markets Principles policies.*

**I. PURPOSE**

The California Public Employees' Retirement System ("CalPERS") Investment Beliefs Policy and Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for Emerging Equity Markets Principles ("Principles"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while evaluating emerging equity markets investments. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with emerging equity markets investments.

This policy applies to CalPERS emerging markets equity portfolios. The policy is not applicable to corporate governance emerging market funds which are addressed in the Corporate Governance Program Policy.

**II. STRATEGIC OBJECTIVE**

The strategic objective is to delineate a principles based approach to investing in emerging equity markets by CalPERS to control risk and enhance return, and to improve practices in emerging markets.

**III. RESPONSIBILITIES**

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

1. Review written policies and procedures of the Managers concerning compliance with the Policy.

- ~~2. Monitor reports from the Managers and CalPERS custodian to ensure the equity markets program is in compliance with this Policy.~~
  - ~~3. Report no less than annually to the Committee on the implementation, application of the Principles to the emerging markets portfolio, and results of this Policy.~~
- ~~B. The **General Pension Consultant** is responsible for monitoring, evaluating, and reporting no less than annually, to the Committee on the implementation and results of this policy.~~
- ~~C. The **External Manager** ("Manager") is responsible for aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall fulfill the following duties:~~
- ~~1. Responsible for country market and stock selection in accordance with this Policy and their guidelines.~~
  - ~~2. Responsible for reporting no less than annually to Staff on the application of the Principles to the emerging markets portfolio managed for CalPERS.~~

#### ~~IV. PERFORMANCE OBJECTIVE AND BENCHMARK~~

~~Not applicable.~~

#### ~~V. EMERGING EQUITY MARKETS PRINCIPLES~~

~~CalPERS believes the following principles delineate important considerations for its investments in emerging equity markets. However, CalPERS recognizes that emerging markets countries and companies are in different developmental stages and that CalPERS internal and external portfolio managers will need to exercise their best judgment after taking all relevant factors, principles, and trends into account. CalPERS requires managers to consider these principles among the decision factors employed in the investment process but does not necessarily require managers to invest in accordance with each individual principle. By adopting the Principles, CalPERS strives to influence emerging market countries and companies by advancing a dialogue about important issues of concern to institutional and other investors and to provide guidance in making investment decisions.~~

~~CalPERS emerging markets managers shall evaluate their investment in emerging markets according to the following Principles:~~

~~A. **Political Stability** — Progress toward the development of basic democratic institutions and principles, including such things as: (1) a strong and impartial legal system; and (2) respect and enforcement of property and shareowner rights. Political stability encompasses:~~

- ~~1. **Political risk:** internal and external conflict; corruption; the military and religion in politics; law and order; ethnic tensions; democratic accountability; bureaucratic quality.~~
- ~~2. **Civil liberties:** freedom of expression, association and organization rights; rule of law and human rights; free trade unions and effective collective bargaining; personal autonomy and economic rights.~~
- ~~3. **Independent judiciary and legal protection:** an absence of irregular payments made to the judiciary; the extent to which there is a trusted legal framework that honors contracts, clearly delineates ownership and protects financial assets.~~

~~B. **Transparency** — Financial transparency, including elements of a free press necessary for investors to have truthful, accurate and relevant information. Transparency encompasses:~~

- ~~1. **Freedom of the press:** structure of the news delivery system in a country; laws and their promulgation with respect to the influence of the news; the degree of political influence and control; economic influences on the news; the degree to which there are violations against the media with respect to physical violations and censorship.~~
- ~~2. **Monetary and fiscal transparency:** the extent to which governmental monetary and fiscal policies and implementation are publicly available in a clear and timely manner, in accordance with international standards.~~
- ~~3. **Stock exchange listing requirements:** stringency of stock exchange listing requirements with respect to frequency of financial reporting, the requirement of annual independent audits, and minimal financial viability.~~
- ~~4. **Accounting standards:** the extent to which U.S. GAAP or IAS is used in financial reporting; whether the country is a member of the International Accounting Standards Council.~~

~~**C. Productive Labor Practices** — No harmful labor practices or use of child labor. In compliance, or moving toward compliance, with the International Labor Organization (ILO) Declaration on the Fundamental Principles and Rights at Work. Productive Labor Practices encompasses:~~

- ~~1. ILO ratification: whether the convention is ratified, not ratified, pending ratification or denounced.~~
- ~~2. Quality of enabling legislation: the extent to which the rights described in the ILO convention are protected by law.~~
- ~~3. Institutional capacity: the extent to which governmental administrative bodies with labor law enforcement responsibility exist at the national, regional and local level.~~
- ~~4. Effectiveness of implementation: evidence that enforcement procedures exist and are working effectively; evidence of a clear grievance process that is utilized and provides penalties that have deterrence value.~~

~~**D. Corporate Social Responsibility and Long-term Sustainability** — Includes Environmental sustainability. In compliance, or moving toward compliance, with the Global Sullivan Principles of Corporate Social Responsibility.~~

~~**E. Market Regulation and Liquidity** — Little to no repatriation risk. Potential market and currency volatility are adequately rewarded. Market regulation and liquidity encompasses:~~

- ~~1. Market capitalization~~
- ~~2. Change in market capitalization~~
- ~~3. Average monthly trading volume~~
- ~~4. Growth in listed companies~~
- ~~5. Market volatility as measured by standard deviation~~
- ~~6. Return/risk ratio~~

~~F. **Capital Market Openness** — Free market policies, openness to foreign investors, and legal protection for foreign investors. Capital market openness encompasses:~~

- ~~1. Foreign investment: degree to which there are restrictions on foreign ownership of local assets, repatriation restrictions or unequal treatment of foreigners and locals under the law.~~
- ~~2. Trade policy: degree to which there are deterrents to free trade such as trade barriers and punitive tariffs.~~
- ~~3. Banking and finance: degree of government ownership of banks and allocation of credit; freedom financial institutions have to offer all types of financial services; protectionist banking regulations against foreigners.~~

~~G. **Settlement Proficiency/Transaction Costs** — Reasonable trading and settlement proficiency and reasonable transaction costs. Settlement proficiency/transaction costs encompasses:~~

- ~~1. Trading and settlement proficiency: degree to which a country's trading and settlement is automated; success of the market in settling transactions in a timely, efficient manner.~~
- ~~2. Transaction costs: the costs associated with trading in a particular market, including stamp taxes and duties; amount of dividends and income taxes; capital gains taxes.~~

~~H. **Appropriate Disclosure** — On environmental, social, and corporate governance issues~~

## ~~VI. APPLICATION OF EMERGING EQUITY MARKETS PRINCIPLES~~

~~A. These Principles will be posted on the CalPERS website.~~

~~B. CalPERS emerging markets managers are required to consider each of CalPERS Principles, from a holistic or aggregate risk perspective, when making investments in emerging markets.~~

~~C. These Principles will be contained in the emerging markets managers' investment management guidelines, along with the United Nations Principles for Responsible Investment (PRI).~~

- ~~D. CalPERS emerging markets managers will report annually to CalPERS on the incorporation of CalPERS Principles in the management of the CalPERS portfolio. The annual report would include the following:~~
- ~~1. A list of the data sources used in evaluating each of CalPERS Principles in each emerging market country in which the manager invests;~~
  - ~~2. A description of how CalPERS Principles are incorporated in the manager's investment process; and~~
  - ~~3. A report of any countries that are cause for concern due to one or more of CalPERS Principles, along with a rationale for any investments made or held in those countries.~~
- ~~E. For all of CalPERS international investment managers that are permitted to invest in emerging markets, the emerging markets investment universe is limited to countries included in the FTSE All Emerging Index. Investments in countries outside this benchmark or in so-called "frontier markets" are not permitted.~~

## ~~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 CalPERS SPECIFIC TERMS~~

~~*Italicized* terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Terms.~~

<del>Approved by the Policy Subcommittee</del>	<del>October 12, 2007</del>
<del>Adopted by the Investment Committee</del>	<del>November 13, 2007</del>
<del>Administrative changes made due to Policy Review Project</del>	<del>June 16, 2009</del>
<del>Administrative changes to update template format:</del>	<del>December 24, 2013</del>
<del>Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually" and to clarify Staff and External Manager reporting responsibilities</del>	<del>July 11, 2014</del>
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