

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

**FOR  
THE LONG-TERM CARE (LTC) FUND**

**May-June 15, 2014<sup>5</sup>**

*This policy is effective immediately upon adoption and supersedes all previous Long-Term Care ("LTC") Fund policies.*

**I. PURPOSE**

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

This document sets forth the investment policy ("Policy") for the LTC Fund. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent action while managing the LTC Fund. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the LTC Fund.

CalPERS Long-Term Care Program ("Program") offers long-term care benefits as an option to members. It is not a public employer provided benefit and is entirely funded by enrollee premiums. The Long-Term Care Fund was established to administer and finance the Program, which is directed by CalPERS Board of Administration ("Board").

**II. STRATEGIC OBJECTIVE**

The LTC Fund shall be managed to accomplish the following:

- A. Invest in an asset allocation mix with targets and ranges based on a periodic asset liability management review.
- B. Achieve the highest total rate of return reasonably possible within prudent levels of risk and liquidity for the LTC Fund's liabilities.
- C. Maintain significant diversification to temper losses from market volatility.
- D. Ensure that the asset class policy ranges approved by the Committee are adhered to, and that any rebalancing is performed efficiently and prudently.

- E. Maintain adequate liquidity to meet cash needs.

### III. RESPONSIBILITIES

- A. In addition to the Committee's responsibilities outlined in the CalPERS Total Fund Statement of Investment Policy, the Committee is also responsible for approving asset classes for investment and approving a policy target allocation, permissible range, and benchmark for each asset class.
- B. CalPERS Investment investment Staff staff ("Staff") is responsible for the following:
1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
  2. Providing individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, Policy targets and ranges.
  3. Managing the asset class allocations of the LTC Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
  4. Creating internally managed funds and soliciting externally managed funds or asset allocation services to be used in the composition of the LTC Fund.
  5. Overseeing **external managers** secured to provide investment or asset allocation services for the LTC Fund.
  6. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
  7. Reporting ~~internally~~ to the Committee no less than annually concerning the implementation of this Policy. This report shall include, but is not limited to, the current market value and asset class allocations compared to the Policy targets and ranges.
  8. Monitoring the 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, or sooner if deemed necessary. 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 action.

- C. The **General Pension Consultant** (“Consultant”) is responsible for monitoring, evaluating, and reporting to the Committee no less than annually on the LTC Fund performance relative to the benchmark and Policy.
- D. External Managers (“Manager”) are responsible for aspects of portfolio management as set forth in each Manager’s contract with CalPERS and ~~may~~ shall fulfill the following duties:
1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
  2. Manage the asset class allocations of the LTC Fund within Policy ranges approved by the Committee.
  3. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
  4. Cooperate fully with CalPERS staff, Custodian, and Consultant concerning requests for information.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The benchmark for the LTC Fund is specified in the CalPERS Total Fund Investment Benchmarks Policy, Appendix 5, Investment Benchmarks Tables.

#### V. INVESTMENT APPROACHES AND PARAMETERS

##### A. Philosophy and Approach

The LTC Fund 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. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

##### B. Strategic Asset Allocation Process

- ~~\_\_\_\_\_ A comprehensive aAsset aAllocation sStrategy analysis shall be completed at least every three years and will be presented to the Committee for review and approval of the Policy target asset allocations and ranges. The Chief Investment Officer (“CIO”) may recommend a more frequent analysis if expected returns, risks or liability values have substantially changed since the prior analysis. The CIO may also recommend to the Committee changes in the Policy asset allocation targets and ranges.~~ periodically that follows the schedule and process as described in the

CalPERS Total Fund Investment Policy, Section II, Asset Allocation Strategy and Appendix 1, Reporting to the Investment Committee, Investment Office Staff – Asset Allocation. As further described in CalPERS Total Fund Investment Policy in Section II, Asset Allocation Strategy, Investment Approaches & Parameters, Implementation, Item B, the schedule may be altered to accommodate pending Board actions.

C. Fund Structure/Parameters

Staff shall manage the LTC Fund in accordance with the approved strategic asset allocation. CalPERS may employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for each asset class.

D. Policy Asset Class Allocation Targets and Ranges

The Committee shall approve Policy asset class allocation targets and ranges expressed as a percentage of total assets. The Committee shall set Policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.

The Statement of Investment Policy for the LTC Fund Policy asset class allocation targets and permissible ranges are as follows:

Asset Class	LTC Fund	
	Policy Allocation	Policy Range
U.S Inflation Linked Bonds	6%	+/- 2%
U.S. Nominal Bonds	61%	+/- 5%
Global Equity	15%	+/- 4%
Global Public Real Estate	12%	+/- 4%
Commodities	6%	+/- 2%
Expected Return	4.51%	
Expected Risk	6.96%	
Return/Risk	0.65%	

*Approved by the Committee, April 16, 2012.*

<u>Asset Class</u>	<u>LTC Fund</u>	
	<u>Policy Target</u>	<u>Policy Range Relative to Target</u>
<u>Global Equity</u>	<u>15%</u>	<u>+/- 4%</u>
<u>U.S. Fixed Income</u>	<u>61%</u>	<u>+/- 5%</u>
<u>Treasury-Inflation Protected Securities (TIPS)</u>	<u>6%</u>	<u>+/- 2%</u>
<u>Commodities</u>	<u>6%</u>	<u>+/- 2%</u>
<u>Real Estate Investment Trusts (REITs)</u>	<u>12%</u>	<u>+/- 4%</u>
<u>Liquidity</u>	<u>0%</u>	<u>+ 2%</u>
<u>Total</u>	<u>100%</u>	

E. Rebalancing and Policy Changes

Adherence to the Policy asset class allocation targets and ranges shall be monitored by staff. Compliance with asset class allocation targets and ranges along with investment performance results will be reported to the Committee no less than annually.

Asset class allocations shall be managed to be within Policy ranges. ~~Cash in the portfolio will be held within a range of 0 — 1%.~~ Allocations may temporarily deviate from Policy ranges due to extreme market volatility and will be reported as set forth above. If an asset class allocation exceeds the Policy range, staff shall return the asset class allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Changes in ~~Policy~~ asset class allocations may be achieved by the movement of capital between asset classes through the trading of pooled funds or through the use of derivatives. The intent is for ~~Policy~~ asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns. Upon adoption of significant policy changes, a reasonable time period will be allowed to transition to the new asset class allocations.

F. Target Tracking Error

The LTC Fund will be managed within a target forecast annual tracking error as described in the CalPERS Total Fund Investment Policy, Section

II. ~~G.~~ Asset Allocation Strategy, Investment Approaches & Parameters, Implementation, ~~Item G.~~ Target Tracking Error.

G. ~~F.~~ Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the LTC Fund are defined in the policy governing each asset class or external investment manager guidelines.

All transactions involving derivatives are governed by the CalPERS Total Fund Investment Policy, Section V, Global Derivatives and Counterparty Risk Policy.

**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 CalPERS Custodian.

**VII. 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](#)

**Long-Term Care**

Approved by the Policy Subcommittee	June 15, 2011
Adopted by the Investment Committee	August 15, 2011
Approved by the Investment Committee	May 14, 2012
Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy	December 3, 2013
Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”	May 15, 2014
Administrative changes to reflect the Policy Glossary of Terms Update Project	May 15, 2014
Approved by the Investment Committee	June 15, 2015

**The Long-Term Care Fund was previously Attachment D of the Affiliate Fund Policy. The dates below reflect the revision history of the Affiliate Fund Policy:**

Affiliate Fund Policy

Approved by the Policy Subcommittee:	August 18, 2008
Adopted by the Investment Committee:	September 15, 2008
Revised by the Investment Committee:	December 15, 2008
Admin changes made due to Policy Review Project:	June 16, 2009
Admin changes due to adoption of Benchmark Policy:	September 28, 2009