

California Public Employees' Retirement System

Total Fund Investment Policy Sections

X. Role of Private Asset Class Board Investment Consultants

Purpose	The Policy defines the roles of the <i>Private Asset Class Board Investment Consultants</i> . Private Asset Class Board Investment Consultant responsibilities are detailed in Appendix 2, Investment Responsibilities.
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California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Appendix 1
Reporting to the Investment Committee

The following tables provide details regarding reporting to the Investment Committee by:

- Investment Office Staff
- **General Pension Consultant**
- Private Asset Class Board Investment Consultants

Investment Office Staff			
Program	Responsible Party	Report Content	Frequency
Total Fund	All Programs	Staff shall report concerns, problems, material changes and all violations to the policy in writing. These reports shall include explanations of any violations and appropriate recommendations for corrective action.	No less than Annually or more frequently if needed
Investment Beliefs	All Programs	Staff shall report investment program strategy and its consistency with the Investment Beliefs.	No less than annually
Asset Allocation	Asset Allocation	Staff shall report asset class allocations relative to their targets and ranges, as well as investment performance results of each asset class and benchmark returns. Allocations may temporarily deviate from policy ranges due to extreme market volatility and will be reported.	Monthly
		Staff shall report program allocations, returns, risks, and activity.	No less than annually
		Staff shall report a comprehensive Asset Allocation Strategy analysis coincident with the review of actuarial methods and assumptions to be presented for review and approval of policy target asset class allocations and ranges.	Every 4 years
		Staff shall present a market valuation-based analysis at the midpoint of the 4-year review cycle, or as needed in response to market conditions or changes impacting the capital market assumptions.	At midpoint of 4-year cycle or as needed
Benchmarks	Asset Allocation	Staff shall report any benchmark changes.	No less than annually

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Investment Office Staff (continued)			
Program	Responsible Party	Report Content	Frequency
Risk Management	Risk Management	Staff shall report CalPERS investment risks and associated returns.	No less than annually
		Staff shall provide input and consulting on the design of risk reports used to measure and monitor risk. Reports should reflect the key risks identified as part of the overall risk framework.	No less than annually
		Volatility – Staff will report on both forecasted total risk and tracking error, measured as one standard deviation for the next year. These measures will be reported for each asset class and the total Fund. In addition, staff will document the accuracy of risk forecasts for the Total Fund. Staff will accomplish this by presenting the history of monthly forecast and realized risk for both total risk and tracking error.	No less than annually
		Leverage – Staff will provide a report of recourse debt, non-recourse debt and notional leverage by asset class and the total Fund. The report will also include capital commitments for the illiquid asset classes.	No less than annually
		Currency Risk – Staff will provide a report summarizing both actual portfolio and benchmark currency exposures of the Total Fund.	No less than annually
		Counterparty Risk – Staff will report on counterparty exposure, summarizing net amounts owed to or due from CalPERS investment counterparties. The report will include credit default swap spreads and credit ratings for use in determining when exposure to individual counterparties is to be limited.	No less than annually
		Concentration Risk – Staff will aggregate exposures across asset classes to create measures of concentration including industries, countries, and security issuer. This information will be presented for both the total fund portfolio and policy benchmark.	No less than annually
		Stress Testing – Staff will be responsible for the specification of stress test and provide a periodic report which estimates the potential loss of market value to the total Fund portfolio if certain economic events or historical scenarios were to occur.	No less than annually
		Liquidity Risk – During times of market stress, staff will report on the risk that assets cannot trade at or near the previous market price because of inadequate trading volume for particular instruments. Liquidity risk may also be evaluated based on capital commitments and debt restructuring requirements.	No less than annually
		Scenario Analysis – Staff will review the impact on total risk and tracking error of proposed new strategies or shifts in existing investments. The risk analysis will be performed at the asset class and Total Fund levels.	No less than annually

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Investment Office Staff (continued)			
Program	Responsible Party	Report Content	Frequency
Leverage	Asset Allocation / Risk Mgmt Unit	Staff shall report recent estimates by asset class on recourse debt, non-recourse debt, and notional leverage. Leverage for the Currency, Credit Enhancement, and Securities Lending Programs shall be reported separately from asset class leverage.	No less than annually
		Staff shall report the amount of debt previously classified as recourse that CalPERS paid in the prior year.	No less than annually
Divestment	Global Governance	Staff shall review and report the results of the divestment process (divestment decisions) along with providing appropriate recommendations to the Committee.	No less than annually
Opportunistic	All Programs	Staff shall report on program investments, returns, risks, and activity.	No less than annually
Plan Level & Asset Class Transition Portfolios	Investment Servicing Division	Staff shall report on the usage of the Transition Portfolios.	No less than annually
Targeted Investments Program	Targeted Investments Program	Document CalPERS total fund investment presence in California via a comprehensive examination of CalPERS California-based investments across asset classes and the resulting ancillary benefits from these investments. The report will assess local jobs created or supported, investments in communities of interest such as low- to moderate-income communities, areas with high unemployment, and rural communities, and the broader economic impacts resulting from CalPERS investments statewide.	Annually
Terminated Agency Pool	Asset Allocation	Staff shall report the current market value of assets and an analysis of the adequacy of the current Program allocation to meet the forecasted Program liabilities.	No less than annually
		Staff shall provide a comprehensive asset allocation analysis at least once every 4 years or sooner if there is a significant change of funded status.	At least once every 4 years

General Pension Consultant		
Program	Report Content	Frequency
Total Fund	Consultant shall report on the effectiveness of the Risk Management and Asset Allocation Programs, as well as use of Benchmarks relative to the policy.	No less than annually
Global Derivatives & Counterparty Risk	Consultant shall report the performance of portfolios to ensure that any derivative use does not have a long-term harmful effect on the portfolio.	No less than annually
Opportunistic	Consultant shall report the performance of the program.	No less than annually

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Private Asset Class Board Investment Consultants		
Program	Report Content	Frequency
Private Asset Classes	Review and provide an opinion letter to the committee on investment policies and delegations of authority.	As needed
	Review and provide an opinion letter to the Committee on strategic and annual plans.	As needed
	Provide a report to the Committee on forecasts of asset class returns for total fund asset allocation purposes.	No less than annually
	Provide a report to the Committee that includes an analysis of market developments, market conditions, and macro level view of market opportunities.	No less than annually
	Provide a report to the Committee regarding investment performance and portfolio risk and attribution analysis; monitor and report on deviations from policy benchmark performance and long-term expected performance.	No less than annually
	Review and provide an opinion letter to the Committee on appropriateness of asset class benchmarks	No less than annually
	Provide an opinion letter to the Committee on investments above staff's delegation of authority.	As needed
	Perform annual review of major asset class sub-component programs and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually
	Perform annual review of the program and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Appendix 2
Investment Responsibilities

The following tables provide details regarding investment related responsibilities for the:

- Investment Committee
- Investment Office Staff
- Actuarial Office Staff
- General Pension Consultant
- Private Asset Class Board Investment Consultants
- External Manager

Investment Committee		
Program	Responsible Party	Responsibility
Total Fund	Investment Committee	Approve adoption of and oversee compliance with Investment Policies designed to achieve CalPERS strategic objectives.
		Review policy recommendations made by Staff.
		Approve asset classes for investment and set a policy target allocation, permissible range, and benchmark for each asset class, expressed as a percentage of total assets.
		Set Total Fund policy benchmarks.

Investment Office Staff		
Program	Responsible Party	Responsibility
Total Fund	All Programs	Periodically review the policies and make recommendations to the Committee regarding new policy development, policy revisions, repeals, and any other aspect that the Staff considers pertinent.
		Engage with other asset class Staff, consultants, and other pertinent parties to seek advice and counsel regarding investment strategy and investment results.
		Develop and maintain up-to-date procedures for the use and compliance with policies.
		Implement and adhere to all policies.
		All aspects of program portfolio management, including investment transactions, use of leverage, and monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
		Manage CalPERS asset class allocations within policy ranges approved by the Committee, in accordance with policy guidelines.
		Modify benchmarks as applicable.
Investment Beliefs	Asset Allocation	Facilitate a periodic review of the Investment Beliefs in conjunction with the Strategic Asset Allocation process.
Asset Allocation	Asset Allocation	Provide recommendations to the Committee concerning the identification of asset classes and selection of asset class benchmarks and policy targets and ranges based on periodic asset liability management (ALM) review.
		Determine adjustments in asset class allocations, and direct rebalancing account activity and fund transfers across asset classes.
		For program tracking errors and CalPERS total fund tracking errors, staff will evaluate forecast values against subsequent realized values over rolling 3 year periods.

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Investment Office Staff (continued)		
Program	Responsible Party	Responsibility
Risk Management	Risk Management	Select, maintain and enhance the risk management tools used by the program to provide analyses that inform and support the investment actions of the entire CalPERS Investment Staff.
		Provide consulting to Investment Office Capital Allocation and Risk Governance Committees regarding investments being contemplated, current investment risks and the attribution of risk and return.
		Provide consulting on the development of Investment Office Policies, Procedures and Guidelines with respect to the measurement, assessment and management of risk.
		Provide consulting on the design of processes and reports used to measure and monitor risk.
Global Derivatives & Counterparty Risk	Risk Management	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.
		Monitor and evaluate the use of derivatives and counterparty risk exposures across CalPERS to ensure the appropriate investment risk controls are in place.
	Risk Management /Asset Class Staff	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.
		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.
Opportunistic	CIO & SIOs	Determine clear assignment of investment management responsibility for each program asset.
	CIO	Pre-approve all terms of any transfer of assets between a program account and another CalPERS account.
Plan Level & Asset Class Transition Portfolios	Investment Servicing Division	Maintain control of the movement of cash and securities at the CalPERS Custodian.
Role of Private Asset Class Board Investment Consultants	Private Equity and Real Assets	For investment transactions within staff's delegated authority, staff will analyze the transaction and make the investment decision.
		For investment transactions exceeding staff's delegated authority, staff will analyze the transaction and provide a recommendation to the Committee.
Custody Management	Investment Servicing Division	Notify Custodian in writing of the appointment, suspension, or termination of any investment manager.
		Develop and recommend to the Committee the criteria and methodology of Custodian selection, consistent with CalPERS enterprise-wide competitive solicitation and contracting procedures.
		Ensure that all original investment documents including deeds, titles, partnerships, and insurance contracts are safeguarded in accordance with CalPERS enterprise-wide Business Continuity Plan.
Terminated Agency Pool	Asset Allocation	Ensure that program rebalancing and restructuring is performed efficiently and prudently on an annual basis.
		Re-evaluate the asset allocation every 4 years or as needed if a significant change occurs in assets and liabilities as a result of the addition of a new terminated agency.
		Create an internally managed account to hold the assets of the program.

California Public Employees' Retirement System
Total Fund Investment Policy Appendices

Actuarial Office Staff		
Program	Responsible Party	Responsibility
Terminated Agency Pool	Actuarial Staff	Provide a forecast of liabilities.
		Recalculating pool liabilities when new agencies are added to the program.

General Pension Consultant		
Program	Responsible Party	Responsibility
Total Fund	General Pension Consultant	Provide independent review, analysis, and recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, a system-wide approach, and implementation of CalPERS policies.
Benchmarks	General Pension Consultant	Monitor and evaluate the appropriate use of benchmarks performance of the Total Fund and Programs relative to the policy.
		Review and recommend approval of all requests for benchmark replacements and modifications that impact the CalPERS Policy benchmarks.

Private Asset Class Board Investment Consultants (PACBIC)					
Program	Transaction Type/Size	Independent Due Diligence Report (not PACBIC)	Prudent Person Opinion (not PACBIC)	PACBIC Transaction Role	Opinion to the Board
Private Equity	Fund Investments	SIO discretion	N/A	SIO discretion	N/A
	Co-Investment	SIO discretion	N/A	SIO discretion	N/A
	Customized Investment Accounts that invest alongside other similarly structured funds in the same investments	SIO discretion	N/A	SIO discretion	N/A
	Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds in the same investments or a Direct Investment	N/A	Required	SIO discretion	N/A
	>Staff Delegated Authority	N/A	Required	Required	Required
Real Assets	≤ \$50 million	N/A	SIO discretion	SIO discretion	N/A
	>\$50 Million	N/A	Required	SIO discretion	N/A
	>Staff Delegated Authority	N/A	Required	Required	Required

1. Except as noted below, the PACBIC shall not:
 - a. Manage assets for CalPERS
 - b. Perform work for Staff on special projects
 - c. Provide opinions to Staff regarding specific investment transactions
2. In limited circumstances, the PACBIC may be engaged for roles enumerated above if the PACBIC possesses unique knowledge or expertise that is not available through other providers. Such an arrangement must be approved by the Committee prior to engagement. In situations where adequate time is not available to request Committee approval, staff may request approval from the Chair of the Committee. Upon approval of the request, staff will notify the other Committee members.

California Public Employees' Retirement System
 Total Fund Investment Policy Appendices

External Manager		
Program	Responsible Party	Responsibility
Global Derivatives & Counterparty Risk	External Manager	Operate under Investment Management Agreements (IMAs).
		Communicate with Staff as needed regarding investment strategy and investment results.
		Cooperate fully with CalPERS Staff, Custodian, and General Pension Consultant concerning requests for information.