

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

**FOR  
PRIVATE EQUITY (PE) PROGRAM**

**June 24, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Private Equity (PE) Program (formerly known as Alternative Investment Management) 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 the Private Equity (PE) Program ("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**

To maximize risk-adjusted rates of return while enhancing the CalPERS position as a premier private equity investment manager is the strategic objective of the Program.

The Program shall be managed to enhance the equity return to the Fund.

**III. RESPONSIBILITIES**

A. CalPERS Investment 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. Reporting to the Committee no less than annually and more often if needed about the performance of the Program. Staff will also report monthly to the Committee regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.

3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and violations of guidelines and Policies to the Committee at its next meeting, or sooner if deemed necessary. These reports shall include explanations of all violations and appropriate recommendations for corrective action.
  4. Evaluating and selecting Private Equity Investments.
  5. In managing this Program, Staff will work cooperatively with the Investment Pool Consultant(s) it has retained as part of the spring-fed pool. Their primary purpose shall be to serve as an extension of Staff. Staff may also use outside experts, as appropriate, to provide specialized expertise in various disciplines, on a one time basis.
  6. For investments in **Customized Investment Accounts** that invest alongside other similarly structured funds in the same investments, Funds, or Co-Investments an Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant, may provide an independent due diligence report at the discretion of the SIO.
  7. For investments considered Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds or direct investments an Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant, will provide a Prudent Person Opinion.
- B. The **Private Asset Class Board Investment Consultant** (“Consultant”) responsibilities are specified in the Role of the Private Asset Class Board Investment Consultants Policy.
- C. The General Partner (“General Partner”) is responsible for all aspects of portfolio management as set forth in each General Partner’s limited partnership agreement or contract with CalPERS.

#### **IV. PERFORMANCE OBJECTIVES AND BENCHMARKS**

- A. The performance objective for the Program is to enhance the equity return of the fund.
- B. The benchmark for the Program is specified in the Benchmarks Policy.

**V. INVESTMENT APPROACHES AND PARAMETERS****A. Approach**

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments, Direct Investments (including “Independently Sourced Investments” and “Co-Investments”), and Customized Investment Accounts.
  - a. Investment opportunities will be classified as partnership investments when decision-making and management discretion is granted to outside managers.
  - b. Investment opportunities shall be classified as direct investments if CalPERS retains discretion and manages the investment internally or through its external resource(s).
  - c. Customized Investment Accounts shall include innovative structures that provide a means to access investment opportunities, exploit CalPERS strengths, and achieve the maximum risk-adjusted rates of return.
2. “Top down” strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing. Based on these assessments, the Staff shall proactively seek out the most attractive investment opportunities, while maintaining appropriate diversification.
3. Depending on the form and character of the investment, the Program sets minimum standards for each investment.

**B. Specific Risk Parameters**

There are specific risks associated with investments that shall be monitored and mitigated by CalPERS. Each segment of the private equity market contains uncertainties that are unique to it. CalPERS shall manage the following major categories of uncertainties commensurate with the expected return as an investment proposal is considered:

1. Leverage: Some investments may use non-recourse debt (leverage) which may increase the volatility of returns.
2. Operating and Business: Certain investments may entail above average operating and business risk.

3. Liquidity: Private equity investments may lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited. The ability to negotiate specific “exit” rights (e.g., registration rights, puts and calls) are generally applicable only to Direct Investments.
4. Structural: CalPERS negotiates and structures specific fundamental rights and protections, which include mechanisms for taking remedial action. These basic protections include where appropriate advisory committee participation and specific termination provisions in partnership transactions; and anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.
5. Valuation: Partnerships and co-investments shall be evaluated to determine if the general partner employs an appropriate valuation discipline. For direct investments, the Staff shall review valuations to determine if they are reasonable.

The portfolio shall reduce risk through appropriate diversification by geography, industry, **vintage year** and investment strategy.

C. Investment Selection

1. The Program shall consider any appropriate investment opportunity with the potential for returns superior to traditional investment opportunities. Investments can be in any industry or geography and may include, but are not limited to:
  - a. Buyouts or Corporate Restructuring
  - b. Expansion Capital
  - c. Venture Capital
  - d. Credit Related
  - e. Opportunistic
2. Staff shall develop and maintain selection guidelines for private equity investments to include the following:
  - a. Minimum requirements with respect to the following:
    - (1) General Partner’s relevant investment experience and specific qualifications

- (2) General Partner's ability to work together
  - (3) General Partner's ability to dedicate sufficient time and attention to the undertaking
  - (4) Basic investment vehicle terms
  - (5) Investment goals and objectives
  - b. Performance criteria
  - c. Due Diligence process
  - d. Legal constraints or requirements
  - e. Reporting requirements
  - f. Quality control processes including, but not limited to, investment monitoring and risk control
  - g. Other relevant parameters that may apply
- D. Investment Parameters

Investments may operate under a limited partnership agreement, limited liability company (LLC), or other similar legal structure.

All legal structures shall include specific, written investment guidelines. The guidelines shall outline the fund's investment philosophy and approaches, representative portfolio characteristics, permissible and restricted procedures, and a performance objective commensurate with the investment risk to be incurred.

Implementation of this Program shall comply at all times with the applicable CalPERS investment policies. All transactions involving derivatives are governed by the Global Derivatives and Counterparty Risk Policy.

## E. Sub-Asset Class Allocations

The categories and ranges for sub-asset classes shall be as follows:

<b>Strategy</b>	<b>Target</b>	<b>Range</b>
Buyouts	60%	50% - 70%
Credit Related	15%	10% - 25%
Venture Capital	1%	0% - 7%
Growth/Expansion	15%	5% - 20%
Opportunistic	10%	0% - 15%

## F. Leverage

Recourse Debt shall not be permitted.

Non-recourse Debt may be utilized by an underlying investment within a partnership or a direct investment. Staff monitors the non-recourse debt as a risk factor.

**VI. CALCULATIONS AND COMPUTATIONS**

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value which shall be 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](#).

**PRIVATE EQUITY PROGRAM**

Approved by the Policy Subcommittee	April 4, 1997
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Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”	June 24, 2014
Administrative changes to reflect the Policy Glossary of Terms Update Project	June 24, 2014