

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

**FOR  
THE CALIFORNIA EMPLOYERS' RETIREE BENEFIT TRUST (CERBT) FUND**

**October 13, 2014**

*This policy is effective immediately upon adoption and supersedes all previous policies governing the Annuitants' Healthcare Coverage Fund, also known as the California Employers' Retiree Benefit Trust (CERBT) Fund.*

**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 policy portfolios ("Portfolios") of the California Employers' Retiree Benefit Trust ("CERBT"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Portfolios. Additionally, use of this Policy ensures sufficient flexibility in managing investment risks and returns associated with the CERBT.

The CERBT was established March 1, 2007 for public employers to prefund their retiree health and other post-employment benefit obligations. The CERBT is currently known in statute as the Annuitants' Healthcare Coverage Fund. There are three separate Portfolios ("Strategy 1", "Strategy 2", and "Strategy 3") for the CERBT, which provide employers a choice of asset allocation strategies.

**II. STRATEGIC OBJECTIVE**

Each of the CERBT Portfolios shall be managed to accomplish the following:

- A. Offer to employers a distinct investment alternative.
- B. Invest in an asset allocation mix with targets and ranges based on a periodic asset liability management review.
- 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 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 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 Portfolios within Policy ranges approved by the Committee, in accordance with Policy guidelines.
  4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the Portfolios.
  5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
  6. Reporting 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.
  7. 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 three CERBT Portfolios' 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 shall fulfill the following duties:
1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
  2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
  3. Cooperate fully with CalPERS staff, Custodian and Consultant concerning requests for information.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

- A. The benchmark for the CERBT is specified in the Benchmarks Policy.
- B. CalPERS shall invest the assets of each of the CERBT Portfolios to meet or exceed the individualized benchmark designated in the Policy.

#### V. INVESTMENT APPROACHES AND PARAMETERS

- A. Philosophy and Approach

The CERBT Portfolios 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 Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section V.C. Strategic Asset Allocation Process.

- C. Fund Structure/Parameters

Staff shall manage the Portfolios in accordance with the approved strategic asset allocation. CalPERS Custodian shall 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.

There are three separate CERBT Portfolios (“Strategy 1”, “Strategy 2”, and “Strategy 3”). Levels of expected return and risk vary among the Portfolios. The Policy asset class allocation targets and permissible ranges are as follows:

Asset Class	Strategy 1		Strategy 2		Strategy 3	
	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target	Policy Target	Policy Range Relative to Target
Global Equity	57%	+/- 2%	40%	+/- 2%	24%	+/- 2%
Fixed Income	27%	+/- 2%	39%	+/- 2%	39%	+/- 2%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 2%	10%	+/- 2%	26%	+/- 2%
Commodities	3%	+/- 2%	3%	+/- 2%	3%	+/- 2%
Real Estate Investment Trusts (REITs)	8%	+/- 2%	8%	+/- 2%	8%	+/- 2%
Liquidity	0%	+ 2%	0%	+ 2%	0%	+ 2%
Total	100%		100%		100%	

#### E. Rebalancing

Adherence to the Policy asset class allocation targets and ranges shall be monitored and reported to the Committee no less than annually. This report shall display a comparison between the Portfolios’ asset class allocations and the Policy asset class allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. Allocations may temporarily deviate from Policy ranges due to employer contributions/distributions and/or 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 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 asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Target Tracking Error

The CERBT Portfolios will be managed in a manner which minimizes any Tracking Error.

G. Restrictions, Prohibitions and Authorized Securities

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

All transactions involving derivatives are governed by the 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](#).

### **California Employers' Retiree Benefit Trust**

Approved by the Policy Subcommittee	June 15, 2011
Adopted by the Investment Committee	August 15, 2011
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	October 13, 2014

**The California Employers' Retiree Benefit Trust was previously the Annuitants' Healthcare Coverage Fund and Attachment A 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
Admins changes due to adoption of Benchmark Policy:	September 28, 2009

Annuitants' Healthcare Coverage Fund (Policy consolidated into the Affiliate Fund Policy)

Approved by the Policy Subcommittee:	December 15, 2006
Adopted by the Investment Committee:	December 18, 2006
Repealed by the Policy Subcommittee:	August 18, 2008
Repealed by the Investment Committee:	September 15, 2008

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

**FOR  
PUBLIC EMPLOYEES' HEALTH CARE FUND**

**May 15, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Public Employees' Health Care Fund 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 Public Employees' Health Care Fund ("Health Care Fund"). The Health Care Fund was established to fund the self-funded health benefit plans administered by CalPERS that rely upon cash flows from premiums and investment income to fund health benefit payments. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent action while managing the Health Care Fund. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

**II. STRATEGIC OBJECTIVE**

The Health Care Fund shall be managed to accomplish the following:

- A. Provide stability of principal, while avoiding large losses.
- B. Enhance returns within prudent levels of risk.
- C. Maintain liquidity to meet cash needs.

**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 benchmarks.

2. Reporting internally to the Committee no less than annually concerning the implementation of this Policy.
  3. Overseeing **external managers** secured to provide investment services for the Health Care Fund.
  4. Creating internally-managed funds and soliciting externally-managed funds or asset allocation services to be used in the composition of the Health Care Fund.
  5. Monitoring the implementation of and compliance with 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.
- B. CalPERS Health Staff is responsible for providing guidance for the strategic objective of the Health Care Fund.
- C. The **General Pension Consultant** ("Consultant") is responsible for monitoring, evaluating, and no less than annually reporting to the Committee on the Health Care Fund's 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 fulfill the following duties:
1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
  2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark.
  3. Cooperate fully with CalPERS staff, Custodian, and Consultant concerning requests for information.

#### **IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

- A. The benchmark for the Health Care Fund is specified in the Benchmarks Policy.
- B. The fund will be invested to meet the returns of its benchmark by investing primarily in investment grade debt instruments.



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

The Health Care 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 asset allocation strategy analysis shall be completed at least once every three years and will be presented to the Committee for review and approval of the Policy target asset allocations. 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.

**C. Fund Structure**

When Health Care Fund is invested with other CalPERS administered trust assets, the Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for the Health Care Fund.

**D. Restrictions, Prohibitions and Authorized Securities**

Restrictions, prohibitions and authorized securities of the Health Care Fund are defined in the policy governing each asset class or external investment manager guidelines.

All transactions involving derivatives are governed by the 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](#)

**Public Employees' Health Care Fund**

Adopted by the Investment Committee	April 15, 2013
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

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

**FOR  
JUDGES' RETIREMENT FUND**

**October 13, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Judges' Retirement Fund 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 Judges' Retirement Fund. The Judges' Retirement Fund was established under the Judges' Retirement System Law to provide retirement and death benefits for State Supreme and Appellate Court justices, and Superior Court and Municipal Court judges who were appointed or elected before November 9, 1994. The Judges' Retirement Fund is funded by the State General Fund on a pay-as-you-go basis.

The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent action while managing the Judges' Retirement Fund. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

**II. STRATEGIC OBJECTIVE**

The Judges' Retirement Fund shall be managed to accomplish the following:

- A. Maintain liquidity to meet operational expenses and benefit payments.

**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 benchmarks.
- 2. Reporting to the Committee no less than annually concerning the implementation of this Policy.

3. Overseeing **external managers** secured to provide investment services for the Judges' Retirement Fund.
  4. Creating internally-managed funds and soliciting externally-managed funds for the Judges' Retirement Fund.
  5. Monitoring the implementation of and compliance with 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.
- B. External Managers ("Manager") are responsible for aspects of portfolio management as set forth in each Manager's contract with CalPERS and may fulfill the following duties:
1. Communicate with CalPERS Staff, as needed, regarding investment strategies and investment results.
  2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark.
  3. Cooperate fully with CalPERS Staff, Custodian, and Consultant concerning requests for information.

#### **IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

- A. The benchmark for the Judges' Retirement Fund is specified in the Benchmarks Policy.
- B. The fund will be invested to provide sufficient liquidity for operational expenses and benefit payments.

#### **V. INVESTMENT APPROACHES AND PARAMETERS**

- A. Philosophy and Approach

The Judges' Retirement 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**

To the extent that the Judges' Retirement Fund contributions are used to pay benefits only and not to pre-fund liabilities, a comprehensive Asset Allocation Strategy analysis is not applicable or required. If the Judges' Retirement Fund begins to pre-fund future liabilities, then a comprehensive Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section V.C. Strategic Asset Allocation Process.

**C. Fund Structure**

When the Judges' Retirement Fund is invested with other CalPERS administered trust assets, the Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAVs) for the Judges' Retirement Fund.

**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 Judges' Retirement Fund Policy asset class allocation targets and permissible ranges are as follows:

<b>Asset Class</b>	<b>Judges' Retirement Fund</b>	
	<b>Policy Target</b>	<b>Policy Range Relative to Target</b>
Liquidity	100%	+/- 0%
<b>Total Fund</b>	<b>100%</b>	

**E. Rebalancing**

Since the entire portfolio is invested in the Liquidity asset class, no rebalancing will be required to maintain the 100% Liquidity allocation.

**F. Target Tracking Error**

The Judges' Retirement Fund will be managed in a manner which minimizes any Tracking Error.

G. Restrictions, Prohibitions and Authorized Securities

Restrictions, prohibitions and authorized securities of the Judges' Retirement Fund are defined in the policy governing each asset class or external investment manager guidelines.

All transactions involving derivatives are governed by the 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](#).

Adopted by the Investment Committee	August 19, 2013
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	October 13, 2014

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

**FOR  
THE JUDGES' RETIREMENT SYSTEM II (JRS II) FUND**

**October 13, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Judges' Retirement System II ("JRS II") Fund 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 JRS II Fund. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the JRS II Fund. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the JRS II Fund.

The JRS II Fund was established in 1994 to create a fully funded actuarially-sound retirement system for Supreme and Appellate Court justices, Superior Court judges, and Municipal Court judges appointed or elected on or after November 9, 1994.

**II. STRATEGIC OBJECTIVE**

The JRS II 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 JRS II 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 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 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 JRS II Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
  - 4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the JRS II Fund.
  - 5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
  - 6. Reporting 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.
  - 7. 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 no less than annually reporting to the Committee on the JRS II 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 shall fulfill the following duties:

1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
3. Cooperate fully with CalPERS staff, Custodian, and Consultant concerning requests for information.

#### IV. **PERFORMANCE OBJECTIVE AND BENCHMARK**

- A. The benchmark for the JRS II Fund is specified in the Benchmarks Policy.
- B. CalPERS shall invest the assets of the JRS II Fund to meet or exceed the actuarial rate over the long-term.

#### V. **INVESTMENT APPROACHES AND PARAMETERS**

- A. Philosophy and Approach

The JRS II 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 Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section V.C. Strategic Asset Allocation Process.

- C. Fund Structure/Parameters

Staff shall manage the JRS II Fund in accordance with the approved strategic asset allocation. CalPERS Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAVs) 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 JRS II Fund Policy asset class allocation targets and permissible ranges are as follows:

<b>Asset Class</b>	<b>JRS II Fund</b>	
	<b>Policy Target</b>	<b>Policy Range Relative to Target</b>
Global Equity	50%	+/- 5%
Fixed Income	34%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 3%
Commodities	3%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity	0%	+ 2%
<b>Total Fund</b>	<b>100%</b>	

**E. Rebalancing**

Adherence to the Policy asset class allocation targets and ranges shall be monitored and reported to the Committee no less than annually. This report shall display a comparison between the JRS II Fund asset class allocations and the Policy asset class allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. 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 allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Changes in 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 asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Target Tracking Error

The JRS II Fund will be managed within a target forecast annual tracking error as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section VI.F. Target Tracking Error.

G. Restrictions, Prohibitions and Authorized Securities

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

All transactions involving derivatives are governed by the 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.

## VI. 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](#).

<b>Judges' Retirement System II</b>	
Approved by the Policy Subcommittee	June 15, 2011
Adopted by the Investment Committee	August 15, 2011
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 Project Update	May 15, 2014
Approved by the Investment Committee	October 13, 2014

**The Judges' Retirement System II was previously Attachment B 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

Current Policy

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

**FOR  
THE LEGISLATORS' RETIREMENT SYSTEM (LRS) FUND**

**October 13, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Legislators' Retirement System ("LRS") Fund 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 LRS Fund. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the LRS Fund. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the LRS Fund.

The Legislators' Retirement System was established by statute to provide retirement benefits to members of the Legislature elected prior to November 7, 1990, elected Constitutional Officers, the Insurance Commissioner, and Legislative Statutory Officers.

**II. STRATEGIC OBJECTIVE**

The LRS 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 LRS 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 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 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 LRS Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
  - 4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the LRS Fund.
  - 5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
  - 6. Reporting 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.
  - 7. 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 no less than annually to the Committee on the LRS 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 shall fulfill the following duties:

1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
3. Cooperate fully with CalPERS staff, Custodian, and Consultant concerning requests for information.

#### **IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

- A. The benchmark for the LRS Fund is specified in the Benchmarks Policy.
- B. CalPERS shall invest the assets of the LRS Fund to meet or exceed the actuarial rate over the long-term.

#### **V. INVESTMENT APPROACHES AND PARAMETERS**

- A. Philosophy and Approach

The LRS 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 Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section V.C. Strategic Asset Allocation Process.

C. Fund Structure/Parameters

Staff shall manage the LRS Fund in accordance with the approved strategic asset allocation. CalPERS Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAVs) 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 LRS Fund Policy asset class allocation targets and permissible ranges are as follows:

Asset Class	LRS Fund	
	Policy Target	Policy Range Relative to Target
Global Equity	24%	+/- 5%
Fixed Income	39%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	26%	+/- 3%
Commodities	3%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity	0%	+2%
<b>Total Fund</b>	<b>100%</b>	

E. Rebalancing

Adherence to the Policy asset class allocation targets and ranges shall be monitored and reported to the Committee no less than annually. This report shall display a comparison between the LRS Fund asset class allocations and the Policy asset class allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.



Asset class allocations shall be managed to be within Policy ranges. 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 allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Changes in 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 asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Target Tracking Error

The LRS Fund will be managed within a target forecast annual tracking error as described in the CalPERS Statement of Investment Policy for Asset Allocation Strategy, Section VI.F. Target Tracking Error.

G. Restrictions, Prohibitions and Authorized Securities

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

All transactions involving derivatives are governed by the 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](#).

### Legislators' Retirement System

Approved by the Policy Subcommittee	June 15, 2011
Adopted by the Investment Committee	August 15, 2011
Admin 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	October 13, 2014

**The Legislators' Retirement System was previously Attachment C 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

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

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

**June 15, 2015**

*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 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 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 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 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 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 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 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 Asset Allocation Strategy analysis shall be completed 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 asset class allocation targets and permissible ranges are as follows:

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

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

G. 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.

## 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



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

**FOR  
SUPPLEMENTAL INCOME PLANS**

**April 14, 2015**

*This policy is effective immediately upon adoption and supersedes all previous Supplemental Income Plans policies.*

**I. PURPOSE**

The California Public Employee's 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 CalPERS Supplemental Income Plans ("SIP" or "the SIP") and guidelines for the business needs and legal requirements applicable to the SIP program. Under the SIP, CalPERS administers various deferred compensation and defined contribution plans for employees of participating public agencies, schools and the State of California.<sup>1</sup> The Policy provides criteria against which results will be measured, and serves as a review document to guide ongoing operations and oversight. The Policy is also intended to ensure the Committee is fulfilling its fiduciary responsibilities in the management of the SIP.

The Committee intends this Policy to be a dynamic document and will review it from time to time. The Policy will be modified periodically to reflect the changing nature of the SIP. In addition, the Committee has delegated to the CalPERS Staff certain authority that pertains to the ongoing management and administration of the SIP.

All of CalPERS SIP investment activities are designed and executed in order to serve the best interests of the Participants and beneficiaries of the SIP. All transactions will be for the sole economic benefit of CalPERS SIP Participants and beneficiaries and for the sole purpose of providing benefits to them.

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<sup>1</sup> As of July 1, 2012, the Customer Services and Support Branch administers the CalPERS 457 Deferred Compensation Plan (the "457 Plan"), the Placer County 401(k) Plan, and the Supplemental Contributions Program (the "SCP"), collectively the "SIP".

The purpose of this Policy is to provide assurance to Participants that managers, consultants, and other entities selected by CalPERS take prudent and careful action while administering and managing the SIP. Under the SIP, Participants have an efficient and convenient method of setting aside and accumulating supplemental retirement savings over their period of employment. Overall investment plan and available individual investment options under the SIP will be designed to help Participants achieve their long-term retirement income goals by providing a diversified range of alternatives with materially different risk and return characteristics. Since SIP Participants' needs represent a wide range of investment time horizons, risk tolerances and return expectations, an appropriate range of investment options will be available while avoiding an overly complex fund line-up that might confuse the average Participant.

## **II. STRATEGIC OBJECTIVE**

The SIP objective is to help provide Participants with supplemental income during retirement consistent with the Participants' individual circumstances, goals, time horizons and risk tolerance. For the self-directed plans under the SIP, the Committee intends to accomplish this objective by offering the following three tiers of options:

- A. Tier I will include customized Target Retirement Date Funds which are designed for Participants who do not wish to make active asset allocation decisions. The asset allocation of each Target Date Retirement Fund will change over time based on a Participant's expected time frame for entering retirement. In addition to offering Participants an all-in-one solution for retirement investing, these Target Date Retirement Funds will serve as the designated "default" option for investment of contributions by Participants who do not provide affirmative instruction on how to invest their contributions. CalPERS will develop the Target Retirement Date Funds and manage them in accordance with the Supplemental Income Plans Target Retirement Date Funds Policy. Customization of the Target Retirement Date Funds will be based on CalPERS member demographic data, pension retirement income as the primary retirement income source, and average retirement age among all membership classifications.
- B. Tier II will include a Core fund lineup for Participants who wish to actively design their own asset allocation based on their individual circumstances, goals, time horizons and risk tolerance. The Core funds are intended to offer an appropriate range of investment alternatives with materially different risk and return characteristics, which are style neutral, passively managed and provide exposure to major asset classes that are highly correlated with the market and bear lower fees. The Core investment fund lineup will include the following major asset classes:

1. U.S. Equity;
  2. International Equity;
  3. U.S. Short-Term Fixed Income;
  4. U.S. Fixed Income;
  5. Cash Equivalent; and
  6. Inflation Hedging/Real Asset.
- C. Tier III is the Self-directed brokerage window, which is available for employers that contract for this optional plan service. The Self-directed brokerage window, if elected by participating SIP employers, offers Participants a wide array of investment options in addition to the Core menu, if desired. It is generally designed for investors who have investing experience, are comfortable choosing from a wide variety of investments and understand how to research and evaluate a wide variety of investments on their own. The investments available under the Self-directed brokerage window are not endorsed, monitored, or selected by the CalPERS staff or the Committee.

### **III. RESPONSIBILITIES**

To assist the Committee in fulfilling the management and administration responsibilities of the SIP, including selecting investment fund options consistent with the Policy's Strategic Objective, those involved will have the following responsibilities.

- A. CalPERS Investment Staff ("Staff") is responsible for the following:
1. Selecting, monitoring, analyzing, and evaluating performance of each investment fund relative to an appropriate benchmark. The ongoing monitoring and evaluation of investment options will be a regular and disciplined process in accordance with established Investment Office Policies and procedures;
  2. Establishing the fund line-up using internally and externally managed funds, including the default fund offerings;
  3. Creating internally managed portfolios as fund offerings, as appropriate;

4. Directing cash contributions and rebalancing asset allocation funds as set forth in policy approved by the Committee;
  5. Identifying fund line up considerations and making recommendations to the Committee consistent with pertinent delegations;
  6. Reporting to the Committee no less than annually on the investment performance of the investment fund options for the SIP; and,
  7. Monitoring 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. 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 actions.
- B. CalPERS Deputy Executive Officer – Customer Services and Support Branch (“DEO – CSS”) is responsible for providing guidance for the strategic objectives of the SIP funds.
- C. Internal and **External Managers** (“Manager”) are responsible for aspects of portfolio management as set forth in their respective investment management contracts, guidelines or policies and shall fulfill the following duties:
1. Communicate with Staff as needed regarding investment strategy and investment results. The Manager(s) are expected to perform their duties in accordance with the objectives of each fund and to monitor, analyze, and evaluate performance relative to the agreed upon benchmark;
  2. Cooperate fully when Staff, SIP’s custodian, the Third-Party Administrator and the consultant(s) request information; and,
  3. Provide the fund fact sheets for the SIP investment fund options that include the fund’s investment objective, strategy, exposures, risks, performance history, fees and expenses, and other material investment characteristics to help inform and educate the Participants and employers.
- D. The SIP Participants may, if authorized by the applicable plan, choose to self-direct their investments, rather than accepting the default investment option. Individual accounts are established for each Participant and allow

the Participants to exercise control over the assets in their accounts. In addition, Participants have the independence and authority to select those investment options they deem suitable to meet their retirement income goals and investment objectives, subject to certain investment and trading restrictions that may be adopted, from time to time, under the SIP program.

- E. The **General Pension Consultant** is responsible for monitoring, evaluating, and reporting to the Committee, no less than annually, about the internally and externally managed fund performance relative to the benchmarks and Policy guidelines.

#### **IV. PERFORMANCE OBJECTIVE AND BENCHMARK**

- A. The benchmark for each of the SIP investment options is specified in the Total Fund Investment Policy, Appendix 5, Investment Benchmarks Tables.
- B. The objective is for each investment option under the SIP to track its respective benchmark.

#### **V. EXCESSIVE SHORT-TERM TRADING**

The overall investment plan and the available individual investment options under the SIP are designed to help Participants achieve their long-term retirement income goals. Excessive short-term or disruptive trading of the funds is counter-productive to the long-term investment design of the SIP. To achieve a balance between the right of individual Participants to self-direct their investments, and the right of all Participants to enjoy appropriate growth of their assets in proportion to the risk they bear and at reasonable cost through investment in prudently managed investment funds, the SIP will employ administrative and procedural measures to restrain the use of excessive short-term or disruptive trading strategies by individual Participants that may occur at the expense of other Participants and result in the dilution of Participant value in the funds. Specifically, Staff in coordination with external managers will monitor all Participant trades to identify excessive short-term or disruptive trading. If such trading is identified, Staff will provide written notification to the Participant to explain the long-term focus of the SIP and to request that the Participant cease from engaging in this type of trading.

If after written notification, the Participant continues excessive short-term or disruptive trading, Staff will confer with the CalPERS Legal Office regarding the suitability of other measures used singly or in combination with one another as may be reasonably necessary to further address excessive trades, or other excessive short-term or disruptive trading by a Participant in contradiction of the Policy.

To avoid the need to monitor Participant trading while ensuring equitable treatment for all Participants, external managers may employ fair value pricing practices. Fair value pricing adjusts security prices when significant events occur after the closing of the local market. This price adjustment attempts to eliminate the potential profit a short-term trading strategy would seek to extract from the funds and therefore discourages the practice.

## **VI. APPROACHES AND PARAMETERS**

### **A. Philosophy and Approach**

The SIP 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. Upon adoption of significant Policy changes, a reasonable time period will be allowed to transition to the new Policy.

### **B. Strategy Process**

A comprehensive strategy analysis shall be completed at least every three years and will be presented to the Committee for review and approval of the Policy. The Chief Investment Officer may recommend a more frequent analysis if expected returns, risks or liability value have substantially changed since the prior analysis.

### **C. Fund Structure**

When SIP is invested with other CalPERS administered trust assets, the Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for the SIP.

### **D. Restriction, Prohibitions and Authorized Securities**

Restrictions, prohibitions and authorized securities of the SIP are defined in the policy governing each asset class or external investment guidelines.

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

**VII. CALCULATIONS AND COMPUTATIONS**

The Third-Party Administrator, Managers, consultants, and other entities selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS custodian.

**VIII. GLOSSARY OF TERMS**

***Italicized*** terms appearing in the Policy are CalPERS specific in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

Approved by the Policy Subcommittee	October 12, 2007
Adopted by the Investment Committee	December 17, 2007
Revised by the Policy Subcommittee	December 15, 2008
Approved by the Investment Committee	February 17, 2009
Administrative changes made due to Policy Review Project	June 16, 2009
Administrative changes due to adoption of Benchmark Poli	September 29, 2009
Approved by the Investment Committee	August 13, 2012
Approved by the Investment Committee	June 17, 2013
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
Administrative changes to reflect closure of the State Peace Officers & Firefighters (POFF) Fund	April 14, 2015