

CalPERS Investment Policy for the California Employers’ Pension Prefunding Trust

Effective Date

This policy is effective as of June 24, 2019.

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Introduction

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 policy portfolios (Portfolios) of the California Employers' Pension Prefunding Trust Fund (CEPPT or 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 Portfolios. Additionally, use of this Policy ensures sufficient flexibility in managing investment risks and returns associated with the Fund.

The Fund was established January 1, 2019 for public employers to prefund their required pension contributions. There are two separate Portfolios (Strategy 1 and Strategy 2) for the Fund, that provide employers a choice of asset allocation strategies.

This Policy should be read in conjunction with and is subject to applicable conditions contained within the CalPERS [Total Fund Investment Policy](#). This Policy shall also be managed to comply with all applicable Investment Office policies.

Strategic Objective

The Fund seeks to offer to employers distinct investment alternatives given their specific liabilities and cash flow needs.

Responsibilities

Details regarding various levels of responsibility for this Fund are provided in Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.

Investment Approach & Parameter

A. Performance Objective and Benchmark

The benchmark for the Portfolios is specified in the CalPERS Total Fund Investment Policy benchmark appendix.

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, Asset Allocation Strategy Section, and Reporting to the Investment Committee appendix. As further described in the Asset Allocation Strategy Section, the schedule may be altered to accommodate pending Board actions.

C. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the Fund are governed by the CalPERS Total Fund Investment Policy for internal funds and defined in each Manager’s contract with CalPERS for external funds.

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

Investment Constraints/ Limitations

See Appendix 3 for Fund investment constraints/limitations.

Glossary of CalPERS Specific Terms

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

Policy Document History

See Appendix 4 for historical details of Investment Committee adoption and revisions of this Policy.

Appendices

Appendix 1: Reporting to the Investment Committee

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

1. Investment Office Staff
2. ***General Pension Consultant***

Table 1: Investment Office Staff Reporting Responsibilities

Ref #	Report Content	Frequency
1.	Staff shall provide a review that will include, but is not limited to, asset class allocations compared to Policy targets and ranges (as applicable), current market value, performance, and risk metrics.	No less than annually
2.	Staff shall report concerns, problems, material changes, and all violations of the Policy. These reports shall include explanations of any violations and appropriate recommendations for corrective action	At the next Committee meeting, or sooner if deemed necessary

Table 2: General Pension Consultant Reporting Responsibilities

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Fund relative to the benchmarks and this Policy and other applicable CalPERS Policies.	No less than annually

Appendix 2: Investment Responsibilities

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

- Investment Committee
- Investment Office Staff
- **General Pension Consultant**
- **External Manager**

Investment Committee Responsibilities

1. Approve asset classes for investment and set a policy target allocation, permissible range, and benchmark for each asset class.

Investment Office Staff Responsibilities

1. All aspects of portfolio management, including monitoring, trading, analyzing, evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers.
2. Provide individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, and Policy targets and ranges.
3. Manage the asset class allocations of the Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
4. Monitor internal and external managers in the implementation of, and compliance with, the Policy.
5. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.

General Pension Consultant Responsibilities

1. Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office Staff and periodic reviews of processes and procedures.

External Manager Responsibilities

1. Manage the Fund in accordance with each manager's contract with CalPERS and the Policy.

2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the Fund.

Appendix 3: Investment Constraints/Limitations

Portfolio Asset Class Allocation Targets & Ranges

The following tables provide details regarding the asset allocation targets and ranges for each CEPPT strategy. Upon adoption of significant policy changes, Staff will implement the changes within a reasonable time period.

Table 3.1: Allocation Targets and Ranges – Strategy 1, Effective June 24, 2019

Asset Class	Policy Target	Policy Range Relative to Target
Global Equity	40%	+/- 5%
Fixed Income	47%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity*	0%	+ 2%
Total	100%	

*The Liquidity asset class is constrained to frictional/operational cash flows

Table 3.2: Allocation Targets and Ranges – Strategy 2, Effective June 24, 2019

Asset Class	Policy Target	Policy Range Relative to Target
Global Equity	14%	+/- 5%
Fixed Income	73%	+/- 5%
Treasury Inflation-Protected Securities (TIPS)	5%	+/- 3%
Real Estate Investment Trusts (REITs)	8%	+/- 5%
Liquidity*	0%	+ 2%
Total	100%	

*The Liquidity asset class is constrained to frictional/operational cash flows.

Target Tracking Error

The Portfolios will be managed in a manner that minimizes any tracking error.

Appendix 4: Policy Document History

Table 4: CEPPT Fund Policy History

Date	Detail
YYYY-MM-DD	Approved by the Investment Committee.