

Total Fund Policy – Summary of Key Changes

A summary of the more notable changes to the Policy, by category, is listed below with the respective page numbers from Attachment 2, Proposed Total Fund Policy (mark-up view).

1. Strategic Asset Allocation Changes

- a. Replacement of Table 1, Strategic Asset Allocation Targets and Ranges, to show the segmentation of CalPERS public equity and fixed income asset classes (48 of 112).
- b. Revision of Table 1, the PERF policy benchmark, to reflect use of asset segments and indices (49 of 112).

2. Total Fund Leverage Management Changes

- a. Deletion of legacy language that no longer aligns with CalPERS business processes or has been superseded by the new Total Fund Leverage Parameters (14 of 112).
- b. Insertion of new “Total Fund Leverage Parameters,” with an aggregate limit on leverage of 20%, language regarding a total fund leverage calculation framework, and clarification of the activities included in the limit (15-16 of 112).
- c. Inclusion of a new staff responsibility to develop and maintain appropriate leverage management guidelines (40 of 112).
- d. Elimination of the “Summary of Permissible and Prohibited Types of Leverage,” previously Appendix 6, as the language has been superseded by the new Total Fund Leverage framework (53-54 of 112).
- e. Limits previously outlined in Appendix 6 are being relocated to an internal Investment-Policy Procedures & Guideline (IPPG), which are subject to oversight by the Board’s Investment Consultants.

3. Sustainable Investment Program and Principles Changes

- a. Addition of “Research” as a fourth channel, and addition of two new paragraphs to articulate priorities for the sustainable investment research and context about the “Integration” channel (29 of 112).
- b. Revision of staff responsibility to note an annual review of systemic sustainable-investment issues as a key part of that pre-existing responsibility (40 of 112).

Regarding the Principles:

- c. Revisions related to “corporate culture” including new language on boards’ oversight role in reviewing risks associated with corporate culture and ensuring corporations disclose patterns of behavior at any level within the company (76 of 112).
- d. Clarification re: the disclosure of lobbying activities at the local, state, and federal levels to ensure alignment with business strategy and to protect assets on behalf of shareowners (77-78, and 102 of 112).
- e. Inclusion of disclosure of board demographics and companies’ Employer Information Report (known as EEO-1 reports), or similar workforce demographic data, which will

enable shareowners to assess a company's board diversity relative to its workforce (79 of 112).

- f. Revisions to expand the definition of "Integrated Financial Reporting" to add the development and maintenance of integrated financial reporting as an item boards should be held accountable for and additional key performance indicators that should be included in integrated financial reporting disclosures made by companies (85 and 99 of 112).
- g. Complete replacement of executive compensation content to provide clarity on CalPERS' philosophy regarding how compensation should be designed and structured to ensure compensation is grounded in performance, aligned with the providers of capital, and driving long-term value creation (86-98 of 112).
- h. Revisions related to item D.2 (Corporate Reporting, Transparency) to broaden what should be included in a company's disclosures, to include human capital management and climate-change strategy, and the use of well-known reporting standards (99-100 of 112).
- i. Additional language framing both environmental risk factors and productive labor practices to better distinguish these topics as areas where the role of policy-makers and regulation are critical including new language addressing carbon-pricing policy (106-107 of 112).
- j. Revisions to Appendix B of the Principles (110 of 112), the list of memberships and endorsements supported by CalPERS, as follows:
 - i. Elimination of the Investor Network on Climate Risk (INCR) as a stand-alone item because it is part of Ceres.
 - ii. Updating the list with two additional items, the Sustainability Accounting Standards Board (SASB), and the Taskforce for Climate-Related Financial Disclosures (TCFD).

4. General Review Changes

a. *Prudent Person Opinion:*

- i. The table for "Private Equity Program Related Responsibilities" has been modified to include two rows for "co-investments" allowing the requirement for securing Prudent Person Opinions be determined by a \$200 million threshold. (42 of 112).
- ii. The table for "Real Assets Program Related Responsibilities" has similarly been updated, with the dollar thresholds for the first two rows of the table increased to \$100 million (43 of 112).

b. *Benchmark Oversight*

- i. Revisions made to clearly reflect the existing key roles and responsibilities associated with oversight of CalPERS' investment benchmarks to include the Board's General Pension Consultant's role in reviewing and approving policy benchmark construction rule changes and in identifying material benchmark-construction rule changes that require review and approval by the Committee (10 of 112).

- ii. Revisions to the responsibility for the General Pension Consultant to improve clarity and ease of reading (41 of 112).
- c. *Organizational changes*
- i. Enterprise Compliance (ECOM) has assumed formal ownership of the investment compliance function previously administered by the Investment Compliance & Operational Risk (ICOR) team allowing ICOR to focus its attention on portfolio management controls. ICOR has been renamed, accordingly, as the “Investment Controls & Operational Risk” team. This change affects several responsibilities in Appendix 1 and Appendix 2 of the Policy (33-34 and 39-40 of 112).
 - ii. Additionally, responsibility for the production of the “CalPERS for California Report” has shifted from the Investment Manager Engagement Programs team to the ICOR team (page 34 of 112).
- d. *Non-substantive, clean-up changes*
- i. Revision to move one item of existing language regarding the reporting of active asset allocation returns to the Committee into Appendix 1, to appear as staff responsibility number 7, consistent with the structure of the Policy (8 and 32 of 112).
 - ii. Replaced the word “compliance” with “adherence” or “implementation” to maintain clarity regarding the new delineation of responsibilities following migration of more formal compliance responsibilities from ICOR to ECOM (13, 32, 33, and 39 of 112).
 - iii. Updates to Tables 3, 5, 6, and 7 to show the benchmark for the Liquidity asset class for several of the Affiliate Funds and reflect all benchmarks consistently in the Total Fund Policy (50-51 of 112).
 - iv. Replacement of Figure 1, Core Issues in Long-Term Value Creation, with a higher resolution version of the Figure to improve readability (66-67 of 112). (Note: No changes made to content.)