

CalPERS Investment Policy for Global Equity

Effective Date

~~November 16, 2015~~

This policy is effective ~~immediately upon adoption~~ [Month DD, YYYY] and supersedes all previous Global Equity Program investment policies.

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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 the CalPERS investment beliefs and overarching investment purposes and objectives with respect to its investment programs. The CalPERS Total Fund Investment Policy specifically covers key areas of investment strategy, including performance objectives, asset allocation strategies, benchmark selection, investment risk management, and derivatives, leverage, and divestment policies, among other elements that are applicable to all asset classes and programs at CalPERS.

This document sets forth the investment policy (Program Policy) for the Global Equity Program (Program). The design of this Program Policy ensures that ~~S~~staff, investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Program Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

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

Strategic Objective

The Program has two strategies, the Market Capitalization Weighted Segment and the Factor Weighted Segment, each defined as an "Asset Segment", and having the strategic objectives: specified below.

- ~~A. The Program seeks to meet or exceed the return generated by global public equities as represented by the benchmark, specified in the CalPERS Total Fund Investment Policy benchmark appendix, while managing volatility relative to this benchmark.~~
- ~~B. The Program seeks to utilize active management in an effort to earn a rate of return in excess of the benchmark. The degree of active management deployed is constrained by various risk limits for the asset class to manage relative volatility~~
- A. The Market Capitalization Weighted Segment of the Program has the following strategic objective:
 - To provide exposure to economic growth and be a reliable source of liquidity.
- B. The Factor Weighted Segment of the Program has the following strategic objective:
 - To provide exposure to economic growth with reduced overall volatility and some diversification of equity risk.

Responsibilities

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

Investment Approaches & Parameters

A. Approach

In the management of the overall Global Equity portfolio, investments are made with a specific purpose. Included strategies may be index-oriented (which closely replicate an index selected as the benchmark) or active strategies (which permit **asset class tracking error** within specified parameters). All strategies shall be categorized as “index-oriented” or “active.”

Global Equity utilizes both internally managed and externally managed strategies to meet the Strategic Objective. The Program seeks to facilitate meaningful information transfer from the external investment managers to Staff to help Staff develop scalable, sustainable, and efficient methods of increasing the likelihood of meeting Global Equity’s investment return goals over the long term.

B. Investment Opportunity Set

The primary universe of allowable investment assets within Global Equity shall be publicly traded global equity securities and derivatives thereof as described in the ~~CalPERS Total Fund Investment Policy~~, Global Derivatives and Counterparty Risk Section, and associated procedure.

C. Investment Selection

Global Equity has internal committees to select desired strategies and allocate capital. The Global Equity committees review and approve internal and external strategies forming the pool of eligible investment strategy alternatives and allocate capital to and from those eligible strategies.

D. Investment Parameters

All investment strategies shall have specific, written guidelines. The guidelines shall outline the investment philosophy and approaches, permissible and restricted activities and a performance objective ~~which that~~ is commensurate with the strategy’s purpose.

Investment Constraints/ Limitations

See Appendix 3 for program investment constraints.

Glossary of CalPERS Specific Terms

Italicized terms appearing in the Program 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 of and revisions of to this Program Policy.

Appendices

See the [Total Fund Investment Policy](#) appendices for overarching reporting requirements and responsibilities for the Investment Committee, Staff, **General Pension Consultant**, **Private Asset Class Board Investment Consultant**, and **External Manager**.

Appendix 1: Reporting to the Investment Committee

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

- Investment Office Staff
- General Pension Consultant

Table 1: investment Office Staff Reporting Responsibilities

Ref #	Report Content	Frequency
1.	Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	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 Program relative to the benchmarks and this <u>Program p</u> Policy and other applicable CalPERS Policies.	No less than annually

Appendix 2: Investment Responsibilities

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

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

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. Monitor internally and externally managed strategies in the implementation of, and compliance with, the Program Policy and the Total Fund Policy.
3. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
4. Design and implement a process for capital allocation within the asset class.

General Pension Consultants 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, the Total Fund Policy, and the Program Policy.
2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the fund.

Appendix 3: Investment Constraints/Limitations

Specific Risk Parameters

1. ~~**Asset Class Tracking Error**~~— On average, the aggregate forecast tracking error for Global Equity is 0 to 50 basis points as measured by the CalPERS Risk Management system; however, allowing for slight deviations from this range depending on certain market conditions.
2. ~~Illiquidity~~— The allocation of assets to illiquid investment vehicles or instruments shall be limited to 15% of the Global Equity asset class exposure at the time of such allocation.

~~Prohibited Securities~~— The Committee through resolution, or the State or Federal government through enactment of rules or laws, may prohibit CalPERS from holding certain securities. CalPERS will remove such securities from relevant benchmarks. This section will not be applicable for investment funds where CalPERS does not have discretionary authority (e.g., commingled funds, exchange traded funds) except as required by Federal law. The following table provides details regarding investment constraints/limitations related to the following Asset Segments:

- Market Capitalization Weighted Segment
- Factor Weighted Segment

<u>Investment Constraints/Limitations by Global Equity Asset Segment</u>
<p><u>Market Capitalization Weighted Segment</u></p> <ol style="list-style-type: none"> 1. <u>Active risk will be managed using tracking error. On average, the aggregate forecasted tracking error is to be maintained between 0 and 50 basis points as measured by the CalPERS Risk Management system while allowing for slight deviations from this range depending on market conditions.</u> 2. <u>Further restrictions regarding concentration risk, out-of-benchmark bets, and use of derivatives are further outlined in the Investment Procedures and Guidelines (IPG) for the Global Equity Program.</u> <p><u>Factor Weighted Segment</u></p> <ol style="list-style-type: none"> 1. <u>Active risk will be managed using tracking error. On average, the aggregate forecasted tracking error is to be maintained between 0 and 50 basis points as measured by the CalPERS Risk Management system while allowing for slight deviations from this range depending on market conditions.</u> 2. <u>Further restrictions regarding concentration risk, out-of-benchmark bets, and use of derivatives are outlined in the IPG for the Global Equity Program.</u>

Appendix 4: Policy Document History

Table 3: Global Equity Program Policy Document History

Date	Detail
2012-12-10	Adopted by the Investment Committee
2013-11-18	Revisions approved by the Investment Committee
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-05-15	Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”
2014-05-15	Administrative changes to reflect the Policy Glossary of Terms Update Project
2014-10-13	Revisions approved by the Investment Committee
2015-11-16	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions
<u>YYYYY-MM-DD</u>	<u>[Approved by the Investment Committee Updates were made to reflect the new asset segments. Administrative changes to migrate policy into an accessible template.]</u>