

CalPERS Investment Policy for Private Equity Program

Effective Date

This policy is effective [Month DD, YYYY] ~~immediately upon adoption~~ and supersedes all previous Private 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 Private Equity (PE) Program (Program). The design of this Program Policy ensures that 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 the Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.~~This Policy should be read in conjunction with and is subject to 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 Program's strategic objective is to maximize risk-adjusted rates of return and enhance the equity return to the Fund.

Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Policy.

Responsibilities

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

Investment Approaches & Parameters

A. Approach

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments, co- investments, and ***Customized Investment Accounts***.
2. Top-down strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing.

B. Specific Risk Parameters

There are specific risks associated with private equity investments that shall be monitored and mitigated by CalPERS commensurate with the expected return as each investment proposal is considered, including but not limited to the following major risk categories:

1. Leverage: The increased volatility risk posed by the existence of non-recourse debt at the underlying investment level.
2. Operating and Business: The potential for certain investments to entail exceptional operating and business risks.
3. Liquidity: The liquidity risks inherent in private equity, given typical time horizons of 5-10 years and generally limited opportunities for sale in the secondary market.
4. Structural: The risks arising from a potential misalignment of interests between the general partner and the limited partners, which may be mitigated by, among other things, structuring fees and incentive payments and other key aspects of the business relationship so as to better align the interests of the partners.
5. Valuation: The risks associated with the valuation process for partnerships and co-investments, including whether the general partner employs an appropriate valuation discipline.

The investment approach for the portfolio shall seek to reduce risk through appropriate diversification by geography, industry, ***Vintage Year*** and investment strategy.

C. Investment Vehicle Parameters

Investment vehicles may take the form of limited partnerships, limited liability companies (LLCs), or other similar limited liability legal structures.

Investment Constraints/ Limitations

See Appendix 3 for program investment constraints.

Glossary of CalPERS Specific Terms

Bold 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

History See Appendix 4 for historical details of the Committee’s adoption of, and subsequent revisions to, of this Program policy.

Policy Appendices

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

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
	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 next Committee meeting, or sooner if deemed necessary
2.	Staff shall report regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.	Monthly

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</u> 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 Office Staff
- ***Private Asset Class Board Investment Consultant***
- General Partner

Investment Office Staff Responsibilities

1. All aspects of program portfolio management, including monitoring, analyzing, evaluating performance relative to the appropriate benchmark, selecting investments, and contracting with general partners.
2. Monitor general partners in the implementation of, and compliance with, the Program Policy.
3. Develop and maintain selection guidelines for private equity investments.
4. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
5. Monitor non-recourse debt as a risk factor.

Private Asset Class Board Investment 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.

General Partner Responsibilities

1. All aspects of portfolio management as set forth in each general partner's limited partnership agreement or contract with CalPERS and the Program Policy and Total Fund Policy.
2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the fund.

Appendix 3: Investment Constraints/Limitations

A. Strategy Allocation Targets & Ranges:

Strategy	Target	Range
Buyouts	65%	55% - 75%
Credit Related	10%	0% - 15%
Venture Capital	1%	0% - 7%
Growth/Expansion	15%	5% - 20%
Opportunistic	10%	0% - 15%

B. Investment Parameters:

Staff Authority Limits

Net Asset Value (NAV) in billions

The Managing Investment Director (MID) and Chief Investment Officer (CIO) limits apply per commitment.	Funds	Co-Investments	Customized Investment Account	Secondary
MID	\$0.5	\$0.3	\$1.3	\$0.9
CIO	\$1	\$0.6	\$1.9	\$1.7
Fiscal Year Limit applies to cumulative commitments.				
MID Fiscal Year Limit*	\$10	\$3	\$5	\$3

*Fiscal Year Limit applies to cumulative commitments.

1. Commitment approval will be required for commitments beyond those authorized for the CIO. If there is a vacancy in the CIO position, Committee approval will be required for commitment authority otherwise delegated to the CIO.
2. The aggregate **Net Committed Capital** to any one general partner is limited to 10% or less of PE's total Net Committed Capital. Any exceptions to this must be specifically approved by the Committee. On August 18, 2014, the Committee approved three exceptions, increasing the maximum exposure from 10% to 15% for the following general partners: Blackstone, Carlyle and Apollo.
3. Co-Investments are subject to the further restriction that the co-investment must be made alongside a firm with which the PE Program has an active commitment.
4. Fund Investment Limitation - CalPERS commitments to any one fund cannot exceed 25% of the fund.

Appendix 4: Private Equity Program Policy Document History

Date	Detail
1997-04-04 1997-04-14	Approved by the Policy Subcommittee Adopted by the Investment Committee
2005-03-11 2005-04-18	Revised by the Policy Subcommittee Approved by the Investment Committee
2005-09-16 2005-10-17	Revised by the Policy Subcommittee Approved by the Investment Committee
2006-04-14 2006-05-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2008-08-18 2008-09-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2009-06-16	Administrative changes made to align with Policy Review Project
2009-12-14 2010-02-16	Revised by the Policy Subcommittee Approved by the Investment Committee
2011-10-17 2011-11-14	Revised by the Policy Subcommittee Approved by the Investment Committee
2012-05-14	Administrative changes made to reflect Delegation revisions
2013-06-12	Administrative changes made to reflect Private Asset Class Board Consultant Policy revisions
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-06-24	Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”
2014-06-24	Administrative changes to reflect the Policy Glossary of Terms Update Project
2015-12-14	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions
2016-07-22	Administrative changes made to reflect General Pension Consultant reporting responsibility
2016-12-14	Administrative change to Appendix 3 to include exceptions approved in August 2014 by the Investment Committee increasing the maximum exposure to three general partners from 10% to 15% (Blackstone, Carlyle and Apollo).
2018-08-13	Approved by the Investment Committee Revisions to the depiction of commitment and fiscal year limits for investment types to dollar-thresholds, as well as updates to targets and ranges for the Buyouts and credit-related strategies.
<u>YYYY-MM-DD</u>	<u>[Approved by the Investment Committee</u>

Date	Detail
	<u>Updates were made to CalPERS Specific Glossary of Terms.</u> <u>Administrative changes were to reflect business process changes and migrate policy into an accessible template.]</u>