Principal Investment Risks

Principal Risks of the Portfolio

An investment in CERBT is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. It is possible to lose money by investing in this portfolio. The portfolios risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. Some principal risks associated with CERBT are identified and described on the following pages.

Type of Risk:	Risk Description:
Allocation Risk	Allocation risk pertains to the manager's skill in achieving the portfolio's investment objectives by determining the portfolio's sector allocations and in selecting and weighting the underlying investments. The manager's evaluations and assumptions regarding asset classes and underlying investments may differ from actual market conditions.
Commodity Risk	Commodity Risk refers to the uncertainties of future market values and of the size of the future income caused by the fluctuation in the prices of commodities (grains, metals, gas, electricity, etc.).
Credit Risk	Credit Risk is the risk that the Fund could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivative contract, is unable or unwilling to meet its financial obligations.
Default Risk	Default Risk is a risk that the counterparty will not pay what it is obligated to pay on a bond, credit derivative, trade credit insurance or payment protection contract, or other trade or transaction when it is supposed to.
Derivatives Risk	Derivatives Risk is the risk of investing in derivative instruments, including liquidity, interest rate, market, credit and management risks, mispricing or improper valuation. Changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the Fund could lose more than the principal invested.
Focus (Concentration) Risk	Focus Risk increases as CERBT's exposure to any single type of investment increases. This includes investments in a given industry, sector, country, region, or type of security. The greater investment concentration, the greater the impact the performance on that investment will have on the Fund's performance. To the extent the Fund has greater exposure to any single type of investment, the Fund's potential for loss (or gain) will be greater than if its portfolios were invested more broadly in many types of investments.
Foreign Exchange Risk	Foreign Exchange Risk is the financial risk posed by an exposure to unanticipated changes in the exchange rate between two currencies. This risk is also known as "Exchange Rate Risk" or "Currency Risk".
Foreign Risk	Some of the underlying investments are in foreign securities, which are generally riskier than U.S. securities. As a result, the portfolio is subject to foreign risk, meaning that political events (such as civil unrest, national elections, and imposition of exchange controls), social and economic events (such as labor strikes and rising inflation), and natural disasters occurring in a country where the portfolio invests could cause the portfolio's investments in that country to experience losses.

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Inflation-Indexed Security Risk	Inflation-Indexed Security Risk is the risk that inflation-indexed debt securities are subject to the effects of changes in market interest rates cause by factors other than inflation (real interest rates). In general, the value of an inflation-indexed security, including TIPS, tends to decrease when real interest rates increase and can increase when real interest rates decrease. Interest payments on inflation-indexed securities are unpredictable and will fluctuate as the principal and interest are adjusted for inflation. There can be no assurance that the inflation index used will accurately measure the real rate of inflation in the price of goods and services. Any increase in the principal amount of an inflation-indexed debt security will be considered taxable ordinary income, even though the Fund will not receive the principal until maturity.
Interest Rate Risk	Interest Rate Risk is the risk that fixed income securities will decline in value when interest rates rise. A fixed income fund with a longer average portfolio duration will be more sensitive to changes in interest rates than a fund with a shorter average portfolio duration. Equity investments are also subject to interest rate risk since higher interest rates mean higher costs of borrowing, which in turn may negatively affect a securities price.
Liquidity Risk	Liquidity Risk exists when particular investments are or become difficult to purchase or sell at the price at which the fund has valued the security, whether because of current market conditions or the specific type of investment. Liquidity risk generally increases (meaning that securities become more illiquid) as the number, or relative need, of investors seeking to liquidate in a given market increases. To the extent that CERBT strategies involve foreign securities or non-US securities with a thin trading market, CERBT will tend to have greater exposure to liquidity risk.
Management Risk	Management Risk is the risk that the investment techniques and risk analyses applied by CalPERS and external managers will not produce the desired results. Legislative, regulatory, compliance and other industry developments may affect investment techniques available to CalPERS and external managers in connection with managing the CERBT. Management risk is greater when less qualitative information is available to CalPERS staff or external managers about an investment. There is no guarantee that the investment objective of the CERBT will be achieved.
Market Risk	Market risk is the risk that the value of securities owned by the Fund may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries. Market risk is called "systemic risk" which can be defined as financial system instability, potentially catastrophic, caused by or exacerbated by idiosyncratic events or conditions in financial intermediaries. System risk refers to the risks imposed by interdependencies in a system or market, where the failure of a single entity, or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system or market.
Principal Loss Risk	Employers own a percentage of the CERBT portfolio they invest in (expressed as "units"). At any given time, the value of an employer's units may be worth less than the price paid for them.