California Public Employees' Retirement System
Investment Policy for
Inflation Assets

Effective Date

November 16, 2015
This Policy is effective immediately upon adoption and supersedes all previous Inflation Assets policies, including Commodities and Inflation-Linked Bonds.

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 (Policy) for the Inflation Assets Program (Program). The design of this 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 Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

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 includes two components: commodities and inflation-linked bonds (ILB).

The Program seeks long-term returns above inflation, to diversify CalPERS investments, and to hedge against inflation risks.

Responsibil-ities

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	All investment programs shall have specific written guidelines. The guidelines shall outline the investment approaches, permissible and restricted activities, and a performance objective that is commensurate with the program's purpose. Staff shall rely on short- or long-term ratings from authorized nationally recognized statistical rating organizations (NRSROs) only. Staff shall maintain and annually update internal ratings for securities that are not rated by any authorized NRSROs.
Investment Constraints/ Limitations	See Appendix 3 for program investment constraints.
Glossary of CalPERS Specific Terms	***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.

California Public Employees' Retirement System
Inflation Assets 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

Investment Office Staff	
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

General Pension Consultant	
Report Content	**Frequency**
1. The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmark and this Policy and other applicable CalPERS Policies.	No less than annually

Appendix 2
Investment Responsibilities

The following tables 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 internal and external managers in the implementation of and compliance with the Policy.
3. 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

The following tables provide details regarding investment constraints/limitations related to the following programs:

- Commodities
- Inflation-Linked Bonds

Program Allocation Targets and Ranges

Allocations are expressed as a percentage of the Inflation Assets Program

Component	Target	Range
Commodities	25%	0% - 75%
Inflation-Linked Bonds (ILB)	75%	25% - 100%

Commodities Program

1. Sector risk will be mitigated by maintaining net option-adjusted commodities exposures within +/- 20% points of benchmark weights.

Inflation-Linked Bond Program

1. Interest Rate Risk is the price volatility produced by changes in the overall level of interest rates as measured by option-adjusted duration. Duration shall be maintained at -50% to +10% of the benchmark duration.

2. Permitted Investments and Ranges
   ILB Program targets and permissible ranges as a percentage of the total Inflation-Linked Bond Program portfolio are:

Sector	Benchmark	Permitted Range
Total investment grade inflation-linked government bonds	100%	80% - 100%
• U.S. inflation-linked bonds	67%	52% - 82%
• Investment grade international inflation-linked bonds	33%	18% - 48%
• Non-government investment grade inflation-linked bonds	0%	0% - 10%
• Investment grade nominal government bonds	0%	0% - 15%
• Short-term fixed income	0%	0% - 10%
• Non-investment grade inflation-linked government bonds	0%	0% - 5%

   The market value of non-benchmark investments, defined as the sum of the last four rows of the above table, shall not exceed 20% of the ILB Program.

Appendix 4
Inflation Assets Policy Document History

Date	Detail
2015-11-16	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions