CalPERS Investment Policy for the Public Employees’ Long-Term Care Fund

Effective Date
This policy is effective as of October 1, 2018 and supersedes all previous Long-Term Care (LTC) Fund 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 CalPERS’ investment beliefs and overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy (Policy) for the Public Employees’ LTC Fund (Fund). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent action while managing the Fund. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the Fund.

The Fund was established for the purpose of administering any self-funded long-term care plan developed by the CalPERS Board of Administration (Board) and for recovering the administrative costs of the LTC Program from insurance carriers and premiums. CalPERS LTC Program offers long-term care benefits as an option to members and their families.

This Policy should be read in conjunction with and is subject to applicable 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 Fund seeks to achieve the highest total rate of return reasonably possible within prudent levels of risk and liquidity for the Fund’s liabilities, while maintaining significant diversification to temper losses from market volatility and ensuring adequate liquidity to meet cash needs.

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

Investment Approach & Parameter
A. Performance Objective and Benchmark
   The benchmark for the Fund is specified in the CalPERS Total Fund Investment Policy benchmark appendix.

B. Strategic Asset Allocation Process
   A comprehensive Asset Allocation Strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS Total Fund Investment Policy, Asset Allocation Strategy Section, and Reporting to the Investment Committee appendix. As further described in the Asset Allocation Strategy Section, the schedule may be altered to accommodate pending Board actions.
C. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the Fund are governed by the CalPERS Total Fund Investment Policy for internal funds and defined in each Manager’s contract with CalPERS for external funds.

All transactions involving derivatives are governed by the CalPERS Total Fund Investment Policy, Global Derivatives and Counterparty Risk Section.

Investment Constraints/ Limitations

See Appendix 3 for Fund investment constraints/limitations

Glossary of CalPERS Specific Terms

*Bold 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.

Appendices

Appendix 1: Reporting to the Investment Committee

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

1. Investment Office Staff

2. General Pension Consultant

*Table 1: Investment Office Staff Reporting Responsibilities*

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Report Content</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Staff shall provide a review that will include, but is not limited to, asset class allocations compared to Policy targets and ranges (as applicable), current market value, performance, and risk metrics.</td>
<td>No less than annually</td>
</tr>
<tr>
<td>2.</td>
<td>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.</td>
<td>At the next Committee meeting, or sooner if deemed necessary</td>
</tr>
</tbody>
</table>
Table 2: General Pension Consultant Reporting Responsibilities

<table>
<thead>
<tr>
<th>Ref #</th>
<th>Report Content</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The Consultant shall monitor, evaluate, and report on the performance of the Fund relative to the benchmarks and this Policy and other applicable CalPERS Policies.</td>
<td>No less than annually</td>
</tr>
</tbody>
</table>

Appendix 2: Investment Responsibilities

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

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

Investment Committee Responsibilities
1. Approve asset classes for investment and set a policy target allocation, permissible range, and benchmark for each asset class.

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. Provide individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, Policy targets and ranges.
3. Manage the asset class allocations of the Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
4. Monitor internal and external managers in the implementation of, and compliance with, the Policy.
5. 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

Asset Allocation Targets & Ranges
Table 3 provides details regarding the asset allocation targets and ranges for the LTC Fund. Upon adoption of significant policy changes, Staff will implement the changes within a reasonable time period.

Table 3: Asset Class Allocation Targets & Ranges – LTC Fund, Effective October 1, 2018

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Policy Target</th>
<th>Policy Range Relative to Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>15%</td>
<td>+/- 4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>60%</td>
<td>+/- 5%</td>
</tr>
<tr>
<td>Treasury Inflation-Protected Securities (TIPS)</td>
<td>6%</td>
<td>+/- 2%</td>
</tr>
<tr>
<td>Commodities</td>
<td>8%</td>
<td>+/- 2%</td>
</tr>
<tr>
<td>Real Estate Investment Trusts (REITs)</td>
<td>11%</td>
<td>+/- 4%</td>
</tr>
<tr>
<td>Liquidity*</td>
<td>0%</td>
<td>+ 2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

*The Liquidity asset class is constrained to frictional/operational cash flows

Target Tracking Error
The Fund will be managed within a target forecast annual tracking error as described in the CalPERS Total Fund Investment Policy, Asset Allocation Strategy Section.

Appendix 4: Policy Document History

Table 4: LTC Fund Policy History

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-06-15</td>
<td>Approved by the Policy Subcommittee</td>
</tr>
<tr>
<td>2011-08-15</td>
<td>Adopted by the Investment Committee</td>
</tr>
<tr>
<td>2013-12-03</td>
<td>Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy</td>
</tr>
<tr>
<td>2014-05-15</td>
<td>Administrative changes to standardize reporting frequencies to the Investment Committee to “no less than annually”</td>
</tr>
<tr>
<td>2014-05-15</td>
<td>Administrative changes to reflect the Policy Glossary of Terms Update Project</td>
</tr>
</tbody>
</table>
The LTC Fund Policy was previously Attachment D of the Affiliate Fund Policy. Table 5 below reflects the revision history of the Affiliate Fund Policy:

Table 5: Affiliate Fund Policy History

<table>
<thead>
<tr>
<th>Date</th>
<th>Detail</th>
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</thead>
<tbody>
<tr>
<td>2008-08-18</td>
<td>Approved by the Policy Subcommittee</td>
</tr>
<tr>
<td>2008-09-15</td>
<td>Adopted by the Investment Committee</td>
</tr>
<tr>
<td>2008-12-15</td>
<td>Revised by the Investment Committee</td>
</tr>
<tr>
<td>2009-06-16</td>
<td>Administrative changes made due to Policy Review Project</td>
</tr>
<tr>
<td>2009-09-28</td>
<td>Administrative changes due to adoption of Benchmark Policy</td>
</tr>
</tbody>
</table>