CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
RESTRICTING PRIVATE EQUITY (PE) INVESTMENTS
IN PUBLIC SECTOR OUTSOURCERS

July 22, 2014

This policy is effective immediately upon adoption and supersedes all previous Restricting Private Equity (PE) Investments in Public Sector Outsourcers policies.

I. PURPOSE

The California Public Employees' Retirement System ("CalPERS") Investment Beliefs Policy and Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") of the Private Equity ("PE") Program ("Program") on investing in entities that outsource U.S. public sector jobs. The design of this Policy, together with the other policies governing PE investments, collectively ensure that the investors, managers, partners, consultants, or 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 segment of the Program.

II. STRATEGIC OBJECTIVE

The PE Program's primary objective is to achieve the highest possible risk-adjusted return for CalPERS while minimizing the risk of loss. The objective shall also reflect prudent levels of risk, the liabilities of CalPERS and the investment guidelines contained in this and other PE Program Investment policies. In order to access the best private equity investment opportunities and achieve these objectives, the PE Program shall maintain its status as the "Investor of Choice" within the private equity market.

The strategic objective of this Policy is to restrict private equity investments in entities that are likely to outsource U.S. state and local public sector jobs (hereinafter referred to as "Outsourcers") because of the potential negative impact to the employees and members of CalPERS.

Investments in Public Sector Outsourcers may involve unique risks. Outsourcers may be exposed to political resistance, labor disputes and public relations risks. In addition, the outsourcing of public sector jobs may cause public sector workers, including CalPERS members, to be laid off and be offered new private sector jobs in which they perform the same work but with inferior wages, benefits or working conditions.

III. RESPONSIBILITIES

A. CalPERS Investment Staff (“Staff”) is responsible for the following:

1. Implementing the Policy;

2. Maintaining a Procedures Manual outlining Staff’s operational procedures used in implementing this Policy;

3. Reporting to the Committee all material violations of, or material exceptions to, the Policy, with explanations and recommendations, if any;

4. Periodically reviewing the Policy and recommending modifications to the Policy, if appropriate, to the Committee for its consideration and approval; and

5. Staff will endeavor to facilitate, consistent with CalPERS role as a limited partner, the resolution of disputes in a manner consistent with the intent of the Policy.

IV. DEFINITION AND EXAMPLES OF AN OUTSOURCER

A. An “Outsourcer” is a portfolio company that intends to provide services in a manner that will cause the outsourcing, on more than a de minimis basis, to the private sector of existing U.S. state and local public sector jobs. In applying this definition:

1. The Outsourcer determination shall be made at the time the private equity fund first commits to invest in the portfolio company, based on the portfolio company’s business strategy for the succeeding three-year period that is in effect at the time of the initial commitment.

2. Activities that were not contemplated as of the investment commitment date, such as new business strategies or unanticipated acquisitions, shall not cause a portfolio company to be deemed an Outsourcer during the term of the investment vehicle.

3. In making Outsourcer determinations, a portfolio company shall be deemed to include all affiliates that either: are linked to it directly or indirectly by 80% or greater common ownership; or consolidate their financial statements with those of the portfolio company.

4. The outsourcing of existing U.S. state and local public sector jobs may be considered de minimis under guidelines set forth in the Procedures Manual.

5. The private equity fund manager shall make the determination as to whether the fund's portfolio companies are Outsourcers. Those determinations, if made in good faith and absent manifest error, shall be conclusive. A determination shall be considered to be made in good faith if it is made after reasonable due diligence with respect to the portfolio company's business strategy.

6. If a portfolio company otherwise would be deemed an Outsourcer, but a private equity fund manager believes that special facts warrant not treating it as an Outsourcer, the manager may, by written request to PE Staff, request that the entity be granted a waiver. PE Staff may grant such waiver as appropriate based on the particular facts presented. Staff shall provide periodic reports of granted waivers to the Committee.

B. Outsourcer examples (including but not limited to):

1. The following activities, if they result in more than a de minimis conversion or replacement of U.S. state and local public sector jobs, normally would deem a portfolio company an Outsourcer:

   a. Converting or replacing existing U.S. schools, public authorities or prisons that are staffed by U.S. state and or local public sector employees into or with institutions staffed by private sector employees.

   b. Converting or replacing existing positions within U.S. state or local authorities or local units from public employee staffing to private sector staffing, such as mailrooms, food service facilities, waste disposal collection units, health care service facilities or security guard services.

2. The following activities, while not exhaustive, would not deem a portfolio company an Outsourcer and thus the waiver described in section IV.A.6 is not applicable:

   a. The sale or provision of goods (e.g., automation equipment that causes job loss), software, applications, or services that, by increasing productivity or efficiency, might result in the reduction of government jobs.

   b. The provision of services that may cause job loss, but other than through private sector outsourcing, e.g., professional services that are secured other than for the purpose of transferring government jobs to the private sector.

c. Investments in assets on sale from public entities where the public interest was served by the decision to sell the asset.

V. IMPLEMENTATION PROCEDURES AND PARAMETERS

A. The Staff and its consultants shall secure a written agreement from the fund manager at the time of CalPERS commitment to the private equity fund that (i) acknowledges this Policy, (ii) provides that the manager will use good faith efforts to comply with the Policy consistent with its fiduciary duty to manage the fund and (iii) shall seek approval as provided for in Section IV.A.5. if it wishes to obtain assurance from CalPERS that a particular portfolio company will not be deemed an Outsourcer. However, if the fund manager does not agree that they will make good faith efforts to comply with the Policy and, if Staff and its consultants deem it appropriate based on all the circumstances, including the intent of this Policy as well as the investment merits of the fund, Staff shall recommend the potential investment to the Committee and the Committee shall make a determination whether or not to invest in such fund.

B. As part of the due diligence on each new private equity fund investment, Staff and its consultants will evaluate the fund manager's track record with respect to investments in Outsourcers. If there is substantial exposure (greater than 15% of previous capital commitments invested in any previous fund to Outsourcers (or, with respect to a private equity fund subject to the Policy, a violation of this Policy), Staff shall not invest in the fund. However, if Staff and its consultants deem it appropriate based on all the circumstances, including the intent of this Policy, as well as the investment merits of the fund, Staff shall recommend the potential investment to the Committee and the Committee shall make a determination whether or not to invest in such fund.

C. The Policy shall be implemented prospectively for all private equity funds in which CalPERS invests after the effective date of this Policy. Staff shall report to the Committee on the results and effectiveness of the Policy in restricting investment in Outsourcers, as well as any impact of the Policy on PE Program's investment opportunities. At that time, the Committee shall review the Policy and make any revisions, amendments or modifications to the Policy it believes to be necessary.

D. This Policy shall not apply to private equity funds (or the portfolio companies in which such funds invest) in which CalPERS invests that were formed prior the effective date of the Policy, except to the extent that CalPERS considers a future investment in such funds and the due diligence described in section V.B above shall be applicable.

E. Procedures Manual for the Policy is attached as Appendix I and contains specific procedures and processes for implementation of the Policy.

VI. 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.

Adopted by the Investment Committee:	December 13, 2004
Administrative Change to update program name to PE:	May 14, 2012
Administrative Changes to update template format and language	November 22, 2013
Administrative changes to reflect the Policy Glossary of Terms Update Project	July 22, 2014

Appendix I

Restricting Private Equity (PE) Investments in
Public Sector Outsourcers Policy
Procedures Manual

Overview

Private Equity ("PE") Staff will implement the Restricting PE Investments in Public Sector Outsourcers Policy ("Policy") adopted by the Investment Committee ("Committee"). The Policy will be implemented through the operational procedures and processes discussed below.

New Fund Investments:

Deal Screening

As part of PE Staff's ongoing screening of potential private equity fund investments, Staff will review the Private Placement Memoranda ("PPM") to determine whether there are any conflicts with the Policy. Attractive potential investments whose strategies may conflict with the Policy will be discussed at the PE team meetings as part of the overall screening and evaluation process. If, based on the initial screening, Staff determines the investment opportunity to be of sufficient return merit while the investment strategy may conflict with the Policy, Staff shall recommend proceeding to a complete Due Diligence review.

Due Diligence

Once Staff has concluded that a proposal warrants a complete Due Diligence review and a Consultant has been assigned to perform Due Diligence, the following steps relating to the Policy will be completed on all proposed investments in a new fund:

- Staff and the Consultant will perform an evaluation of the fund manager's historical investment track record to determine the nature and extent of any "***substantial exposure***" to previous investments in "***Outsourcers***".

  - Substantial exposure will be deemed to exist if greater than 15% of the previous capital commitments invested in any previous fund managed by the fund manager were invested in portfolio companies that are determined to be Outsourcers.

  - An Outsourcer is defined in the Policy.

- Staff will require from the Consultant an affirmative statement as to whether or not the fund has substantial exposure to investments in Outsourcers. The Consultant will include this assessment in the due diligence memo provided to PE Staff.

If, based on the foregoing, it is determined that the fund manager has substantial exposure to investments in Outsourcers, PE Staff shall not invest in the fund.

However, where it has been determined that the fund manager has substantial exposure to investments in Outsourcers, Staff and the Consultant will seek to understand the nature of the Outsourcers. If Staff deems it appropriate based on all the facts and circumstances and economic merit, including the quality and experience of the fund manager, Staff shall recommend the potential investment in the fund to the Committee and the Committee shall determine whether or not to invest in such fund.

Post Approval Process

If Due Diligence is favorable based on all investment evaluation criteria, including the Policy, and the investment has been approved by PE Staff or by the Committee, the following steps will be taken with respect to the Policy prior to making the investment:

- PE Staff will secure a written agreement with the private equity fund manager through a side letter or other appropriate means that:

    - Acknowledges the CalPERS Policy; and

    - Acknowledges that the fund manager will use good faith efforts to comply with the Policy consistent with the fund manager's fiduciary duty to manage the fund.

PE Staff will confer with legal counsel as appropriate to ensure the substance and intent of these points are appropriately acknowledged by the fund manager.

However, if the fund manager elects not to execute the side letter described above, and if Staff and the Consultant determine it appropriate based on all the facts and circumstances, including the quality and experience of the fund manager and the intent of the Policy, Staff shall recommend the potential investment to the Committee and the Committee shall make a determination whether or not to invest in such fund. Investments approved by the Committee that do not contain a written acknowledgement of the Policy will still be held to the same standards of the Policy regardless of whether or not the manager acknowledges the Policy and will be evaluated by Staff based on the requirements of the Policy for all follow on funds.

During the life of the fund, the fund manager may, by written request to PE Staff, request that a portfolio company that would otherwise be an Outsourcer under the Policy be granted a waiver where the fund manager believes there are special facts and circumstances that warrant not treating the company as an Outsourcer . If PE Staff believes such a waiver would be consistent with the intent of the Policy and is appropriate based on the facts presented, PE Staff may grant such. In the event a waiver is granted, the portfolio company will not be considered an Outsourcer.

In the event it is determined that during the life of the fund an investment in an Outsourcer was made, CalPERS will not seek any remedy or recourse against the fund manager; however, PE Staff shall be precluded from making an investment in a follow on fund with the fund manager. If PE Staff determines it appropriate, based on all the facts and circumstances, PE Staff may recommend the investment in the follow on fund to the Committee, which will determine whether to invest in the follow on fund consistent with its fiduciary duty.

Reporting to the Committee

As periodically required, or at a minimum annually, PE Staff will report the following to the Committee:

- Waivers granted by PE Staff to private equity fund managers where special facts and circumstances warranted not treating a portfolio company as an Outsourcer.

- The results and effectiveness of the Policy.

- The impact, if any, of the Policy on the PE Program's investment opportunities.

PE Staff may, at any time, make recommendations for revisions, amendments or modifications of the Policy to the Committee. In no event will changes to the Policy be made without the consent of the Committee. Matters relating to the Policy will be discussed in closed session when appropriate and will be approved by CalPERS Legal Office.

Other Responsibilities

With respect to the Policy, Staff and External Resources will endeavor to facilitate, consistent with CalPERS role as a limited partner, the resolution of disputes in a manner consistent with the intent of the Policy.

Staff and the Consultant will implement the Policy with discipline and consistency and attempt to further the intent of the Policy in all fund manager relationships.

Definitions

De Minimis: Pursuant to the Policy, the outsourcing of state and local public sector jobs may be considered de minimis. The purpose of the de minimis exception is to provide limited flexibility to CalPERS partners and not to blunt the intent of the Policy. For the purposes of determining whether the outsourcing of state and local public sector jobs is de minimis a case-by-case analysis shall be used. The guidepost for this analysis shall be the underlying spirit of the Policy and shall depend upon the specific facts and circumstances of each transaction. The analysis will take into account each of the following as appropriate:

- Extent of current public sector outsourcing with respect to the number or percentage of jobs involved.

- Extent to which the portfolio company's overall revenue depends upon the revenue derived from public sector outsourcing.

- Extent to which the portfolio company intends to engage in public sector outsourcing as part of its business strategy.
- Other factors as appropriate based on specific facts and circumstances.

The definition and criteria may be refined and enhanced in the future based on the specific facts and circumstances encountered in practice.