

**California Public Employees' Retirement System  
Investment Policy for  
Private Equity Program**

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**Effective Date** [Month, DD, YYYY]

This policy is effective immediately upon adoption and supersedes all previous Private Equity Program 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 (Policy) for the Private Equity (PE) 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 the 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.

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**Strategic Objective**

The Program's strategic objective is to maximize risk-adjusted rates of return and enhance the equity return to the Fund.

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**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.

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Private Equity (PE) Program**

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**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.

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**Investment  
Approaches  
& Parameters  
(continued)**

C. Investment Vehicle Parameters

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

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**Investment  
Constraints/  
Limitations**

See Appendix 3 for program investment constraints.

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**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](#).

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**Policy  
Document**

**History** See Appendix 4 for historical details of Committee adoption and revisions of this policy.

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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.**

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| <p><b>Appendix 1</b><br/><b>Reporting to the Investment Committee (IC)</b></p> |
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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 next Committee meeting, or sooner if deemed necessary |
| 3. Staff shall report regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.  | Monthly  |

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

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**Appendix 2  
Investment Responsibilities**

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

- Investment Office Staff
- Private Asset Class Board Investment Consultant
- General Partner

| <b>Investment Office Staff Responsibilities</b>  |
|--|
| 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 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.   |

| <b>Private Asset Class Board Investment Consultant Responsibilities</b>  |
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| 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. |

| <b>General Partner Responsibilities</b>  |
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| 1. All aspects of portfolio management as set forth in each general partner's limited partnership agreement or contract with CalPERS and the Policy. |
| 2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the fund.                         |

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**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       |

1. Committee 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.

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**Appendix 4**  
**Private Equity Program Policy Document History**

| Date                     | Detail   |
|--------------------------|--|
| 1997-04-04<br>1997-04-14 | Approved by the Policy Subcommittee<br>Adopted by the Investment Committee   |
| 2005-03-11<br>2005-04-18 | Revised by the Policy Subcommittee<br>Approved by the Investment Committee   |
| 2005-09-16<br>2005-10-17 | Revised by the Policy Subcommittee<br>Approved by the Investment Committee   |
| 2006-04-14<br>2006-05-15 | Revised by the Policy Subcommittee<br>Approved by the Investment Committee   |
| 2008-08-18<br>2008-09-15 | Revised by the Policy Subcommittee<br>Approved by the Investment Committee   |
| 2009-06-16               | Administrative changes made to align with Policy Review Project  |
| 2009-12-14<br>2010-02-16 | Revised by the Policy Subcommittee<br>Approved by the Investment Committee   |
| 2011-10-17<br>2011-11-14 | Revised by the Policy Subcommittee<br>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<br>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).                  |
| [YYYY-MM-DD]             | Approved by the Investment Committee<br>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. |