

# CalPERS Investment Policy for Global Equity

## Effective Date

This policy is effective November 18, 2019 and supersedes all previous Global Equity Program investment policies.

## Contents

Introduction	<u>22</u>
Strategic Objective	<u>22</u>
Responsibilities	<u>22</u>
Investment Approaches & Parameters	<u>22</u>
Investment Constraints/ Limitations	<u>33</u>
Glossary of CalPERS Specific Terms	<u>33</u>
Policy Document History	<u>33</u>
Appendices	<u>33</u>
Appendix 1: Reporting to the Investment Committee	<u>44</u>
Appendix 2: Investment Responsibilities	<u>55</u>
Appendix 3: Investment Constraints/Limitations	<u>66</u>
Appendix 4: Policy Document History	<u>77</u>

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

This Program Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy (Total Fund Policy). This Program Policy shall also be managed to comply with all other applicable Investment Office policies.

## Strategic Objective

The Program has two strategies, the Market Capitalization Weighted Segment and the Factor Weighted Segment, each defined as an "Asset Segment", and having the strategic objectives specified below.

- A. The Market Capitalization Weighted Segment of the Program has the following strategic objective:
  - To provide exposure to economic growth and be a reliable source of liquidity.
- B. The Factor Weighted Segment of the Program has the following strategic objective:
  - To provide exposure to economic growth with reduced overall volatility and some diversification of equity risk.

## 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, to this Program Policy.

## Investment Approaches & Parameters

- A. Approach
 

In the management of the overall Global Equity portfolio, investments are made with a specific purpose. Included strategies may be index-oriented (which closely replicate an index selected as the benchmark) or active strategies (which permit **asset class tracking**

**error** within specified parameters). All strategies shall be categorized as “index-oriented” or “active.”

Global Equity utilizes both internally managed and externally managed strategies to meet the Strategic Objective. The Program seeks to facilitate meaningful information transfer from the external investment managers to Staff to help Staff develop scalable, sustainable, and efficient methods of increasing the likelihood of meeting Global Equity’s investment return goals over the long term.

#### B. Investment Opportunity Set

The primary universe of allowable investment assets within Global Equity shall be publicly traded global equity securities and derivatives thereof as described in the Total Fund Policy, Global Derivatives and Counterparty Risk Section, and associated procedure.

#### C. Investment Selection

Global Equity has internal committees to select desired strategies and allocate capital. The Global Equity committees review and approve internal and external strategies forming the pool of eligible investment strategy alternatives and allocate capital to and from those eligible strategies.

#### D. Investment Parameters

All investment strategies shall have specific, written guidelines. The guidelines shall outline the investment philosophy and approaches, permissible and restricted activities and a performance objective that is commensurate with the strategy’s purpose.

### ~~Investment Constraints/Limitations~~

~~See Appendix 3 for program investment constraints.~~

### ~~Glossary of CalPERS Specific Terms~~

~~**Italicized** terms appearing in the Program 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 of and revisions to this Program 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

*Table 1: investment Office Staff Reporting Responsibilities*

Ref #	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

*Table 2: General Pension Consultant Reporting Responsibilities*

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

## Appendix 2: Investment Responsibilities

The following sections 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 internally and externally managed strategies in the implementation of, and compliance with, the Program Policy and the Total Fund Policy.
3. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
4. Design and implement a process for capital allocation within the asset class.

### *General Pension Consultants 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, the Total Fund Policy, and the Program 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 table provides details regarding investment constraints/limitations related to the following Asset Segments:

- Market Capitalization Weighted Segment
- Factor Weighted Segment

Investment Constraints/Limitations by Global Equity Asset Segment
<p><b>Market Capitalization Weighted Segment</b></p> <ol style="list-style-type: none"> <li>1. Active risk will be managed using tracking error. On average, the aggregate forecasted tracking error is to be maintained between 0 and 50 basis points as measured by the CalPERS Risk Management system while allowing for slight deviations from this range depending on market conditions.</li> <li>2. Further restrictions regarding concentration risk, out-of-benchmark bets, and use of derivatives are further outlined in the Policy-Related Procedures (PRP) for the Global Equity Program.</li> </ol> <p><b>Factor Weighted Segment</b></p> <ol style="list-style-type: none"> <li>1. Active risk will be managed using tracking error. On average, the aggregate forecasted tracking error is to be maintained between 0 and 50 basis points as measured by the CalPERS Risk Management system while allowing for slight deviations from this range depending on market conditions.</li> <li>2. Further restrictions regarding concentration risk, out-of-benchmark bets, and use of derivatives are outlined in the PRP for the Global Equity Program.</li> </ol>

## Appendix 4: Policy Document History

Table 3: Global Equity Program Policy Document History

Date	Detail
2012-12-10	Adopted by the Investment Committee
2013-11-18	Revisions approved by the Investment Committee
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-05-15	Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually"
2014-05-15	Administrative changes to reflect the Policy Glossary of Terms Update Project
2014-10-13	Revisions approved by the Investment Committee
2015-11-16	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions
2019-11-18	Approved by the Investment Committee Updates were made to reflect the new asset segments. Administrative changes to migrate policy into an accessible template.

# CalPERS Investment Policy for Global Fixed Income Program

## Effective Date

This Policy is effective November 18, 2019 and supersedes all previous Global Fixed Income Program investment policies.

## Contents

Introduction	<u>92</u>
Strategic Objective	<u>92</u>
Responsibilities	<u>92</u>
Investment Approaches & Parameters	<u>102</u>
Glossary of CalPERS Specific Terms	<u>103</u>
Policy Document History	<u>103</u>
Appendices	<u>103</u>
Appendix 1: Reporting to the Investment Committee	<u>114</u>
Appendix 2: Investment Responsibilities	<u>125</u>
Appendix 3: Investment Constraints/Limitations	<u>136</u>
Appendix 4: Policy Document History	<u>147</u>

## 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 (Program Policy) for the Global Fixed Income Program (Program). The design of this Program 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 Program Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.~~

~~This Program Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy (Total Fund Policy). This Program Policy shall also be managed to comply with all applicable Investment Office policies.~~

## Strategic Objective

The Program has five strategies: Treasury, Mortgage-Backed Securities, Investment Grade Corporates, Emerging Markets Sovereign Bonds, and High Yield, each defined as an "Asset Segment" and having the strategic objectives outlined below.

- A. The Treasury Segment of the Program has the following strategic objective:
  - To serve as an economic diversifier to equity risk and be a reliable source of liquidity.
- B. The Mortgage-Backed Securities Segment of the Program has the following strategic objective:
  - To provide a reliable source of income and an additional source of liquidity.
- C. The Investment Grade Corporates Segment of the Program has the following strategic objective:
  - To provide a reliable source of income and an additional source of liquidity.
- D. The Emerging Markets Sovereign Bonds Segment of the Program has the following strategic objective:
  - To provide exposure to economic growth and be a reliable source of income.
- E. The High Yield Segment of the Program has the following strategic objective:
  - To provide exposure to economic growth and be a reliable source of income.

## 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, to this Program Policy.~~

## 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 Program 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 of and revisions to this Program 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**

*Table 1: Investment Office Staff Reporting Responsibilities*

Ref #	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

*Table 2: General Pension Consultant Reporting Responsibilities*

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

## Appendix 2: Investment Responsibilities

The following sections 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 the internal and external managers in the implementation of, and compliance with, the Program Policy and the Total Fund 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, the Total Fund Policy, and the Program 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 table provides details regarding investment constraints/limitations related to the following Asset Segments:

- Treasury Segment
- Mortgage-Backed Securities Segment
- Investment Grade Corporates Segment
- Emerging Markets Sovereign Bonds Segment
- High Yield Segment

<b>Investment Constraints/Limitations by Global Fixed Income Asset Segment</b>
<p><b>Treasury Segment</b></p> <ol style="list-style-type: none"> <li>1. Interest rate risk will be controlled using duration management. Duration will be maintained at +/-10% of the benchmark.</li> <li>2. Further restrictions regarding liquidity and use of derivatives are outlined in the Policy-Related Procedures (PRP) for the Global Fixed Income Program.</li> </ol>
<p><b>Mortgage-Backed Securities Segment</b></p> <ol style="list-style-type: none"> <li>1. Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</li> <li>2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</li> </ol>
<p><b>Investment Grade Corporates Segment</b></p> <ol style="list-style-type: none"> <li>1. Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</li> <li>2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</li> </ol>
<p><b>Emerging Markets Sovereign Bonds Segment</b></p> <ol style="list-style-type: none"> <li>1. Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</li> <li>2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</li> </ol>
<p><b>High Yield Segment</b></p> <ol style="list-style-type: none"> <li>1. Interest rate risk will be controlled using duration management. Duration will be maintained within +/- 0.50 of the benchmark.</li> <li>2. Further restrictions regarding ratings, concentration, currency, geography, and use of derivatives are outlined in the PRP for the Global Fixed Income Program.</li> </ol>

Additional details regarding investment constraints/limitations and risks are outlined in each Program Segment specific written procedures.

Appendix 4: Policy Document History

*Table 3: Global Fixed Income Program Policy History*

Date	Detail
<del>2015-11-16</del>	<p><del>Approved by the Investment Committee</del></p> <p><del>Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions. The Credit Enhancement Program Policy was consolidated with the Global Fixed Income Program Policy and was repealed on November 16, 2015.</del></p>
<del>2019-11-18</del>	<p><del>Approved by the Investment Committee</del></p> <p><del>Updates were made to reflect the new asset segments. Administrative changes to migrate policy into an accessible template.</del></p>

# CalPERS Investment Policy for Real Assets Program

## Effective Date

This Policy is effective December 16, 2019 and supersedes all previous Real Assets Program investment policies.

## Contents

Introduction	<u>162</u>
Strategic Objective	<u>162</u>
Benchmark	<u>252</u>
Responsibilities	<u>162</u>
Investment Approaches and Parameters	<u>162</u>
Investment Constraints/Limitations	<u>173</u>
Glossary of CalPERS Specific Terms	<u>173</u>
Policy Document History	<u>173</u>
Policy Appendices	<u>263</u>
Appendix 1: Reporting to the Investment Committee	<u>184</u>
Appendix 2: Investment Responsibilities	<u>195</u>
Appendix 3: Investment Constraints/Limitations	<u>206</u>
Appendix 4: Policy Document History	<u>8</u>

## 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 (Program Policy) for the Real Assets Program (Program), which is comprised of the following three portfolios: Real Estate, Infrastructure, and Forestland. The design of this Program 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 Program Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

This Program Policy should be read in conjunction with Policy-Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.

## Strategic Objective

The Program's strategic objective is to provide stable and predictable cash yield, diversification of equity risk, and inflation protection.

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Investment Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.

## Investment Approaches and Parameters

### 1. Real Assets Program Allocations

Program allocation targets and ranges are listed in the Total Fund Investment Policy.

### 2. Diversification and Limits

To mitigate risk, staff shall maintain an appropriate level of diversification within the Program. Staff shall monitor the Program for adherence to the Key Policy Parameters specified in Appendix 3 to this Policy.

### 3. Infrastructure and Forestland Parameters

The Key Policy Parameters pertaining to risk classifications, geographic regions, and leverage will apply to (a) the Infrastructure portfolio only when the Net Asset Value (NAV) for that portfolio exceeds \$5.0 billion and (b) the Forestland portfolio only when the NAV for that portfolio exceeds \$3.0 billion.

#### ~~Investment Constraints/Limitations~~

~~See Appendix 3 for program investment constraints.~~

#### ~~Glossary of CalPERS Specific Terms~~

~~***Bold italicized*** terms appearing in the Program 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 the Committee’s adoption of, and subsequent revisions to, this Program Policy.~~

#### ~~Policy Appendices~~

~~See the Total Fund Investment Policy appendices for overarching reporting requirements and responsibilities for the Investment Committee, staff, ***General Pension Consultant***, and ***Private Asset Class Board Investment Consultant***.~~

## 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*

Ref #	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 maintain a Strategic Plan approved by the Committee setting forth CalPERS' long-term objectives for investment and management of the Program. Changes to the Strategic Plan require Committee approval.	At a minimum every five years

*Table 2: General Pension Consultant Reporting Responsibilities*

Ref #	Report Content	Frequency
1.	The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmarks and this Program Policy and other applicable CalPERS policies.	No less than annually

## Appendix 2: Investment Responsibilities

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

- Investment Committee
- **General Pension Consultant**
- **Private Asset Class Board Investment Consultants**
- Managers/Partners

As used in this Policy, the term “manager” refers to third-party managers under the Program, and the term “partner” includes managing members of Limited Liability Companies.

### *Investment Office Staff Responsibilities*

1. Undertake all aspects of portfolio management including monitoring, trading, analyzing, and evaluating performance relative to the appropriate benchmark, and selecting and contracting with managers/partners consistent with all applicable policies and procedures.
2. Develop and maintain investment procedures, program guidelines, and portfolio guidelines.
3. Screen and evaluate investment proposals consistent with the Program’s Strategic Plan, Appendix 3, and applicable investment policies and procedures.
4. Execute approved investment transactions, including negotiating investment agreements, performing initial and ongoing due diligence, and closing transactions.

### *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.

### *Private Asset Class Board Investment Consultants Responsibilities*

The responsibilities of the respective board consultants are specified in the “Private Asset Class Board Investment Consultants” section of, and the reporting and responsibility appendices to, the Total Fund Investment Policy.

### *Manager/Partner Responsibilities*

1. Manage its allocated portion of the Program in accordance with (a) each manager/partner’s contract or partnership/operating agreement with CalPERS and (b) applicable policies.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of its allocated portion of the Program.

## Appendix 3: Investment Constraints/Limitations

### Staff Authority Limits

Table 3 below outlines the NAV limits at which staff may undertake commitments and dispositions.

Commitment limits (i) include new commitments, additional commitments made for investments in existing assets, and debt pay-downs, and (ii) apply only to the amount committed or invested, excluding any leverage or fees.

*Table 3: Staff Authority Limits - Real Assets Program*

	Commitments (\$ billions)	Dispositions (\$ billions)
Managing Investment Director limit per: (Real Estate)	\$3	\$3
Chief Investment Officer limit per: (Real Estate)	\$6	\$6
Managing Investment Director limit per: (Infrastructure)	\$1	\$1
Chief Investment Officer limit per: (Infrastructure)	\$2	\$2
Managing Investment Director limit per: (Forestland)	\$1	\$1
Chief Investment Officer limit per: (Forestland)	\$2	\$2
Managing Investment Director Cumulative Fiscal Year Limit: (Real Assets)	\$15	\$15

### Key Policy Parameters

#### 1. Partner Relationship Exposure

The maximum Partner Relationship Exposure for the Program is 20%. Similarly, the maximum exposure to outstanding investments with no **External Manager** is also 20%. For purposes of this Appendix 3,

- a. "Partner Relationship Exposure" means, with reference to any given Partner Relationship, the ratio of (i) the NAV of assets under management with such

Partner Relationship, plus total unfunded commitments, to (ii) the total NAV of the Program plus total unfunded commitments; and

- b. “Partner Relationship” means, collectively, the total investment allocation with any one manager or partner, or, in cases where the Program has investments with multiple members of an affiliated group of managers and/or partners, the investment allocation with that affiliated group.
2. Risk Classifications

The Program will be divided into three risk classifications: core, value add, and opportunistic. Individual assets will be assigned to the appropriate risk classification. The permitted NAV percentage ranges for each risk classification are outlined in Table 4.

*Table 4: Risk Classifications*

Risk Classification	Real Assets	Real Estate	Infrastructure	Forestland
Core	75-100%	75-100%	60-100%	75-100%
Value Add	0-25%	0-25%	0-25%	0-25%
Opportunistic*	0-25%	0-25%	0-25%	0-25%

\*Development assets will have a limit of 10% of the Program and each portfolio. All Development assets will be assigned the “opportunistic” risk classification.

### 3. Geography

Staff will pursue a global real assets investment strategy, with emphasis in the United States. International markets are categorized as Developed, Emerging, and Frontier, based on FTSE classification of markets. The permitted NAV percentage ranges for each geographic region are outlined in Table 5.

*Table 5: Geography*

Region	Real Assets	Real Estate	Infrastructure	Forestland
United States	70-100%	75-100%	40-100%	50-100%
International Developed Markets	0-30%	0-25%	0-60%	0-50%
International Emerging Markets	0-15%	0-15%	0-15%	0-15%
International Frontier Markets	0-5%	0-5%	0-5%	0-5%

### 4. Public Securities

Public securities will not exceed 10% of the Program.

Appendix 4: Policy Document History

Table 6: Real Assets Program Policy History

Date	Detail
2011-04-11	Approved by the Policy Subcommittee
2011-05-16	Adopted by the Investment Committee
2011-06-15	Approved by the Policy Subcommittee
2011-08-15	Adopted by the Investment Committee
2013-04-15	Approved by the Investment Committee
2013-12-16	Approved by the Investment Committee
2014-05-28	Administrative changes to (1) align this policy with the Global Derivatives and Counterparty Risk Policy, and (2) to standardize reporting frequencies to the Investment Committee to "no less than annually"
2014-05-28	Administrative changes to reflect the Policy Glossary of Terms Update Project
2016-02-16	Approved by the Investment Committee Added Attachment D, Investment Limits and Constraints, to incorporate Investment Restructuring Project revisions
2016-08-15	The Investment Policy for Real Assets was conditionally approved by the Investment Committee pending approval of the Real Assets Investment Policy Procedures and Guidelines by the Board's Investment Consultants. The Policy was reformatted to incorporate Investment Policy Revision Project revisions.  As of November 30, 2016, the IPPGs were approved by the Board Investment Consultants. Real Assets staff requested the updated Investment Policy for Real Assets and the IPPGs be effective as of January 1, 2017.
2018-03-19	Approved by the Investment Committee Revisions to clarify fiscal year commitment limits specific to the Managing Investment Director, and establish a threshold at which the concentration limits apply to the Forestland Portfolio.
2018-11-13	Approved by the Investment Committee Revisions to clarify that threshold limits apply to leverage considerations for the Forestland and Infrastructure programs, clarify that the Real Assets Strategic Plan shall be used in the evaluation of investment proposals, and several ministerial updates.
2018-12-17	Approved by the Investment Committee

Date	Detail
	Revision of the regional ranges for the Infrastructure portfolio to increase the permitted exposure to International Developed Markets by 10% with a corresponding reduction to the permitted exposure to the U.S.
2019-01-08	<del>Administrative changes made to migrate policy into an accessible template.</del>
2019-12-16	Approved by the Investment Committee  <del>Updates were made to RA Program Policy staff authority limits. Administrative changes were to reflect business process changes and migrate policy into an accessible template.</del>

# CalPERS Investment Policy for Private Equity Program

## Effective Date

This policy is effective June 17, 2020 and supersedes all previous Private Equity Program investment policies.

## Contents

Introduction	<u>252</u>
Strategic Objective	<u>252</u>
Benchmark	<u>252</u>
Responsibilities	<u>252</u>
Investment Approaches & Parameters	<u>252</u>
Investment Constraints/ Limitations	<u>263</u>
Glossary of CalPERS Specific Terms	<u>263</u>
Policy Document History	<u>263</u>
Policy Appendices	<u>263</u>
Appendix 1: Reporting to the Investment Committee	<u>274</u>
Appendix 2: Investment Responsibilities	<u>285</u>
Appendix 3: Investment Constraints/Limitations	<u>296</u>
Appendix 4: Private Equity Program Policy Document History	<u>307</u>

## 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 (Program Policy) for the Private Equity (PE) Program (Program). The design of this Program 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 Program Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.

This Program Policy should be read in conjunction with Policy Related Procedures (PRPs) and is subject to the CalPERS Total Fund Investment Policy (Total Fund Policy). Staff shall manage this Program Policy in compliance with all applicable Investment Office policies.

## Strategic Objective

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

## Benchmark

The benchmarks for the Program are specified in the Benchmarks section of the Total Fund Policy.

## Responsibilities

Details regarding various levels of responsibility for this Program are provided in the following appendices to this Program Policy: Appendix 1, Reporting to the Investment Committee, and Appendix 2, Investment Responsibilities.

## 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.

#### C. Investment Vehicle Parameters

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

### ~~Investment Constraints/ Limitations~~

~~See Appendix 3 for program investment constraints.~~

### ~~Glossary of CalPERS Specific Terms~~

~~**Bold Italicized** terms appearing in the Program Policy are "CalPERS specific" in nature and are defined in the CalPERS Specific Glossary of Terms.~~

### ~~Policy Document History~~

~~**History** See Appendix 4 for historical details of the Committee's adoption of, and subsequent revisions to, this Program~~

### ~~Policy Appendices~~

~~See the Total Fund Policy appendices for overarching reporting requirements and responsibilities for Investment Committee, Staff, **General Pension Consultant, and Private Asset Class Board Investment Consultant**.~~

## Appendix 1: Reporting to the Investment Committee

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

- Investment Office Staff
- General Pension Consultant

*Table 1: Investment Office Staff Reporting Responsibilities*

Ref #	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 regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.	Next Committee meeting, or sooner if deemed necessary

*Table 2: General Pension Consultant Reporting Responsibilities*

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

## Appendix 2: Investment Responsibilities

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

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

### *Investment Office Staff Responsibilities*

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 Program 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.

### *Private Asset Class Board Investment Consultant Responsibilities*

1. Provide independent perspective and counsel to the Committee, to include routine communication with Investment Office staff and periodic reviews of processes and procedures.

### *General Partner Responsibilities*

1. All aspects of portfolio management as set forth in each general partner's limited partnership agreement or contract with CalPERS and the Program Policy and Total Fund Policy.
2. Communicate and cooperate with Investment Office staff and authorized third parties regarding the management of the fund.

### Appendix 3: Investment Constraints/Limitations

#### A. Strategy Allocation Targets & Ranges:

Strategy	Target	Range
Buyouts	70%	60% - 80%
Credit Related	5%	0% - 10%
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
MID Fiscal Year Limit*	\$10	\$3	\$5	\$3

\*Fiscal Year Limit applies to cumulative commitments.

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.

## Appendix 4: Private Equity Program Policy Document History

Date	Detail
<del>1997-04-04</del> <del>1997-04-14</del>	Approved by the Policy Subcommittee Adopted by the Investment Committee
<del>2005-03-11</del> <del>2005-04-18</del>	Revised by the Policy Subcommittee Approved by the Investment Committee
<del>2005-09-16</del> <del>2005-10-17</del>	Revised by the Policy Subcommittee Approved by the Investment Committee
<del>2006-04-14</del> <del>2006-05-15</del>	Revised by the Policy Subcommittee Approved by the Investment Committee
<del>2008-08-18</del> <del>2008-09-15</del>	Revised by the Policy Subcommittee Approved by the Investment Committee
2009-06-16	Administrative changes made to align with Policy Review Project
<del>2009-12-14</del> <del>2010-02-16</del>	Revised by the Policy Subcommittee Approved by the Investment Committee
<del>2011-10-17</del> <del>2011-11-14</del>	Revised by the Policy Subcommittee 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 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).
2018-08-13	Approved by the Investment Committee 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.
2019-12-16	Approved by the Investment Committee

Date	Detail
	Updates were made to CalPERS Specific Glossary of Terms. Administrative changes were to reflect business process changes and migrate policy into an accessible template.
2020-02-28	Administrative change to the reporting frequency to align with the quarterly BOA IC meetings.
2020-07-10	Administrative changes to the strategy targets and ranges to reflect the changes approved by the Investment Committee and ratified by the Board of Administration at the June 2020 committee meetings and to clean up typographical error.