

# Policy Review & Restructure First Read

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Investment Controls and Operational Risk

# Introduction

In November 2025, the Investment Committee approved a Reference Portfolio and Active Risk Limit for the Public Employee's Retirement Fund. Given this material change in governance, investment policy requires new features, reporting, and responsibilities to incorporate the adoption of a Total Portfolio Approach.

The Board has also asked the management to review the overall policy structure and recommend changes to improve the user experience.

This is a first read of the policies and the Investment team is seeking input from the Investment Committee (Committee).

## Background

As required by Policy, the Investment team will periodically review and make recommendations to the Committee regarding:

- New policy development
- Policy revisions
- Policy repeals

## OBJECTIVES

- Incorporate Total Portfolio Approach
- Enhance user experience
- Design PERF and Affiliate investment policies in accordance with their specific objectives

## STRUCTURAL CHANGES

- Establish overarching Statement of Investment Policy (Umbrella policy) with content from the Total Fund Policy
- Link all investment policies, principles, and beliefs to the Umbrella
- Move content from the current Total Fund Policy to the new modular structure
- Stand up a new PERF Investment Policy
- Incorporate all relevant content from Total Fund Policy to Affiliate Fund Policies

Statement of Investment Policy  
(Umbrella)

Investment  
Beliefs

Governance &  
Sustainability  
Principles

PERF  
Investment  
Policy

8 Affiliate  
Fund Policies

Divestment

Private Equity  
Outsourcers

Responsible  
Contractor  
Program

Glossary

**1. What has moved but not changed (no redline).**

- Responsible Contractor Program
- Private Equity Outsourcers
- Governance and Sustainability Principles
- Divestment

**Goal:** Change policy only where it is needed or where it is helpful and reflect the changes in the most transparent way possible.

**2. What has moved with minor changes will be shown as clean with redline for new or altered content.**

- Affiliate Investment Funds. Content from the Total Fund policy that relates to the funds has been migrated.
- Investment Beliefs. Minor changes to align with a Total Portfolio Approach.
- Statement of Investment Policy. New overarching investment policy using existing Total Fund Policy content.

**3. What is new will be shown in a clean format for ease of reading.**

- PERF Policy. This is a new document and designed to reflect good governance under TPA.

**4. What will be repealed**

- Total Fund Policy. Each section will be tagged with “moved” or “removed” and a brief explanation.
- Absolute Returns Strategies and Inflation Assets Program policies are no longer necessary under a Total Portfolio Approach.

Changes limited to updating beliefs #6 and #10 to align with TPA

## 6. ~~Strategic~~ Asset allocation is the dominant determinant of portfolio risk and return.

- ~~CalPERS strategic asset allocation process transforms the fund's targeted rate of return to the market exposures that staff will manage.~~
- CalPERS will construct portfolios with the appropriate amount of market risk necessary to achieve its long-term objectives.
- CalPERS will aim to diversify its overall portfolio across distinct risk factors / return drivers.
- CalPERS will seek to add value with disciplined, dynamic asset allocation processes, such as mean reversion. The processes must reflect CalPERS characteristics, such as time horizon and size of assets.
- CalPERS will consider investment strategies if they have the potential to have a material impact on portfolio risk and return.

## 10. Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

- Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.
- CalPERS must consider the government agency constraints under which it operates (e.g., compensation, civil service rules, contracting, transparency) when choosing its ~~strategic~~ asset allocation and investment strategies.

- Umbrella policy will contain overarching statements that apply to all funds and policies below it
- Content is largely lifted out of current Total Fund Policy sections
- Refers and directly links to all other funds and policies underneath it

## California Public Employees’ Retirement System Total Fund Investment Policy

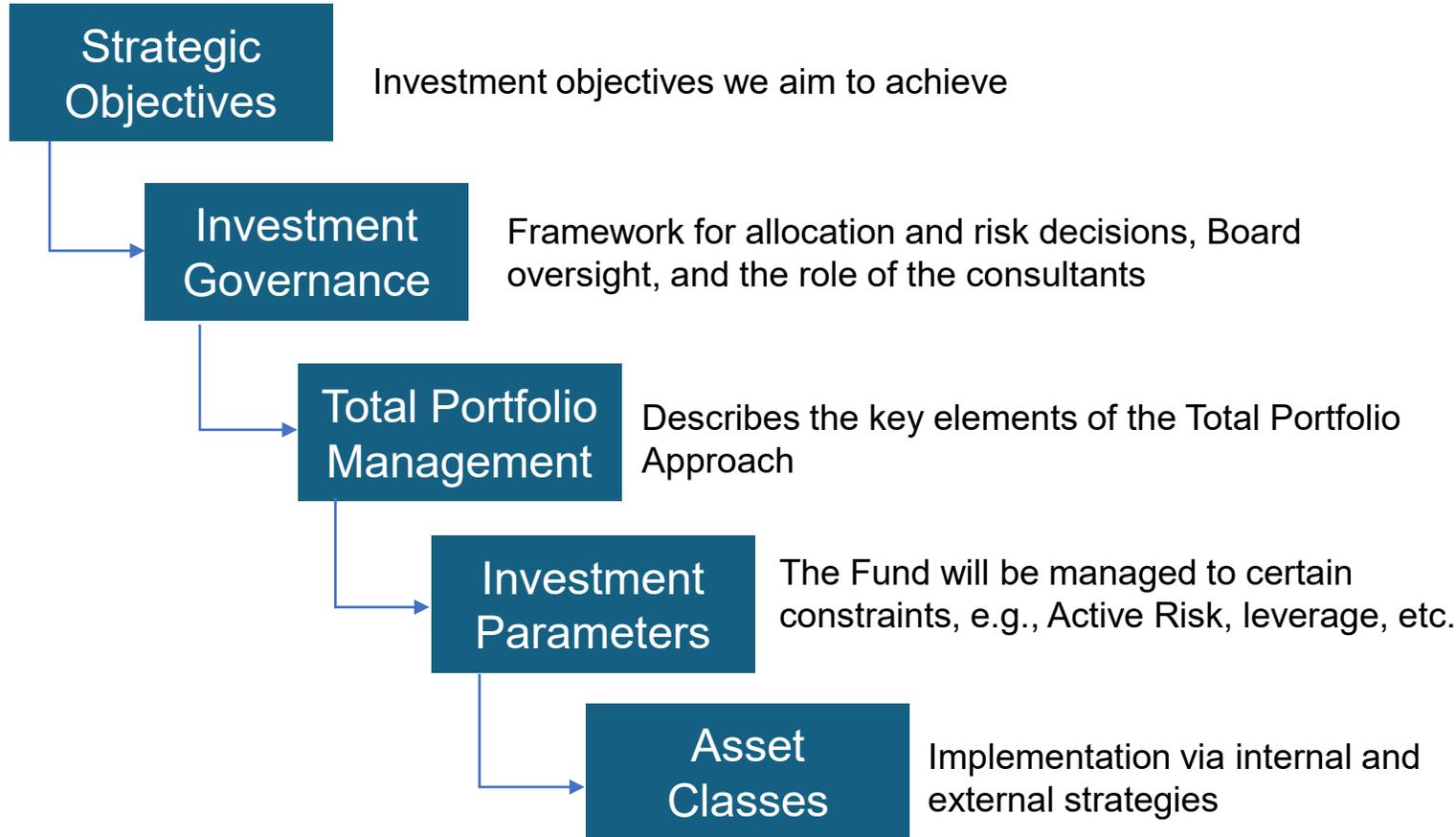
### Effective Date

This Policy is effective June 10, 2024, and supersedes the previous Total Fund Investment Policy.

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## Structure Logic



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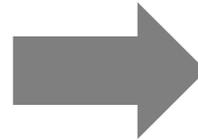
- I. Introduction
- II. Strategic Objective
- III. Investment Governance
  - A. Strategic Investment Parameters
  - B. Investment Policy and Delegation and Authority
  - C. Allocation Governance and Investment Management
  - D. Oversight and Transparency
- IV. Total Portfolio Management
  - A. Reference Portfolio
  - B. Value-Add and Active Risk
  - C. Portfolio Construction
  - D. Investment Risk Management
- V. Investment Parameters
  - A. Active Risk Limit
  - B. Leverage
  - C. Liquidity
  - D. Derivatives and Counterparty Risk
  - E. Additional Constraints and Limitations
- VI. Implementation
  - A. Total Fund
  - B. Global Equity
  - C. Fixed Income
  - D. Real Assets
  - E. Private Equity
  - F. Private Debt
  - G. Opportunistic and Innovation
- VII. Terminated Agency Pool
- VIII. Reporting and Responsibilities
- IX. Investment Constraints and Limitations
- X. Policy Document History
- Appendices

# PERF POLICY | KEY INVESTMENT CONSTRAINTS

*From many different risk measurements and limits totaling ~450 bps of active risk leeway to a single Active Risk Limit of 400 bps*

**From**

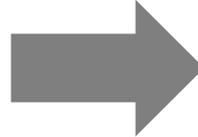
Strategic Asset Allocation – Asset Class Targets and Ranges



**To**

Reference Portfolio

Multiple total fund and strategy risk limits:  
(Tracking error, duration, credit quality, strategy, or geography)



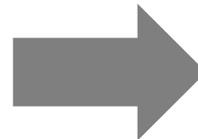
One Active Risk Limit – 400bps

Total Fund Leverage  
(15% Active + 5% Strategic)



Total Portfolio Leverage Limit – 20%

Deal Requirements  
(Staff Authority Limits, PPOs, exposure limits to a General Partner, or concentration limits to a fund)



No Change

## **Umbrella Policy and Investment Beliefs**

- Updated references to Strategic Asset Allocation, and revised to accommodate a Total Portfolio Approach

## **Affiliate Funds**

- Moved policy benchmarks to individual Fund policies
- Incorporated relevant requirements from the Total Fund Policy

## **PERF**

- Updated to reflect Board adoption of Reference Portfolio and Active Risk Limit
- Added overview of investment governance, focusing on allocation and risk decision-making
- Streamlined asset class descriptions and consolidated into a single set of reporting requirements and responsibilities
- Augmented Wilshire and Meketa roles to provide additional oversight on portfolio construction approach and active risk model.

# Next Steps

- This is a first read
- Solicit Investment Committee feedback on the changes
- Incorporate the feedback
- The policy changes will be brought back for a second read as an action item in June to seek the Committee's approval

# APPENDIX

# INVESTMENT POLICY INVENTORY

No.	Policy Document	Description of Content Change	Current Location	Future Location
1	Investment Beliefs	Update to align with TPA	Total Fund Policy	Linked to Umbrella
2	Governance & Sustainability Principles	None	Total Fund Policy	Linked to Umbrella
3	Total Fund Investment Policy	Current content is moved or removed (as annotated)	Stand Alone	Rescind
4	CalPERS' Statement of Investment Policy	New umbrella policy with content moved from Total Fund Policy and modified to align with TPA	N/A	New
5	PERF Investment Policy	New policy to align with TPA	N/A	Linked to Umbrella
6	CERBT Investment Policy	Revised to incorporate content that is currently in Total Fund Policy, including, Policy Benchmarks and other responsibilities and reporting requirements.	Stand Alone	Linked to Umbrella
7	CEPPT Investment Policy		Stand Alone	Linked to Umbrella
8	SIP (SCP & 457) Policy		Stand Alone	Linked to Umbrella
9	Long-Term Care Fund Policy		Stand Alone	Linked to Umbrella
10	Health Care Fund Investment Policy		Stand Alone	Linked to Umbrella
11	Legislators' Retirement Fund Investment Policy		Stand Alone	Linked to Umbrella
12	Judges' Fund Retirement Policy		Stand Alone	Linked to Umbrella
13	Judges' II Fund Retirement Policy		Stand Alone	Linked to Umbrella
14	Responsible Contractor Program Policy	None	Stand Alone	Linked to Umbrella
15	Private Equity Outsourcers Policy	None	Stand Alone	Linked to Umbrella
16	CalPERS Investment Glossary	Updated to align with TPA content	Stand Alone	Linked to Umbrella
17	Absolute Returns Strategies Policy	Rescind legacy policy with no current investments	Stand Alone	Rescind
18	Inflation Assets Program Policy	Rescind legacy policy with no current investments	Stand Alone	Rescind