

~~California Public Employees' Retirement System Total Fund~~ CalPERS Board of Administration Statement of Investment Policy

Effective Date

This policy is effective ~~June 10, 2024, and supersedes the previous Total Fund Investment Policy~~ July 1, 2026.

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Total Fund Investment Policy Overarching Statements

A. INTRODUCTION

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

The purpose of this Policy, and each of CalPERS' other investment policies (collectively the Policies), is to provide a framework for the management of ~~CalPERS~~CalPERS' assets. The Policies outline ~~objectives~~the strategies, benchmarks, restrictions, and responsibilities of the Funds, so that the Committee, staff, consultants, managers, members, ~~and~~ beneficiaries, and all other CalPERS stakeholders, clearly understand the objectives ~~and policies of the CalPERS investment program~~. The Policies also encourage effective communication, facilitate transparency and compliance, and provide a framework for reporting back to the Committee, as appropriate.

The Policies set forth the guidelines that the Committee deems to be appropriate and prudent in consideration of the needs of and legal requirements applicable to the CalPERS ~~investment program.~~Funds. The Policies provide criteria against which investment results will be measured and serve as a review document to guide ongoing operations and oversight. The Policies are also intended to ensure that the Committee is fulfilling its fiduciary responsibilities in the management of CalPERS' investments.

The Committee intends for the Policies to be dynamic documents and will review them from time to time. Policies will be modified periodically to reflect the changing nature of CalPERS assets ~~and investment programs~~, benefit and structural changes, and economic conditions. This Policy applies to all CalPERS investments and supersedes any contrary or inconsistent provisions within ~~asset class and individual program~~the Public Employees' Retirement Fund or affiliated fund (Fund) or other investment policies.

B. STRATEGIC OBJECTIVE

The overall objective of ~~the CalPERS investment program~~ is to generate returns at an appropriate level of risk to provide members and beneficiaries with benefits as required by law. This will be accomplished through a carefully planned and executed long-term investment ~~program~~strategy that efficiently and effectively allocates and manages the assets of ~~CalPERS~~the Funds.

The Policies have been designed to allow CalPERS to achieve a long-term total return target. Accordingly, prudent risk-taking is appropriate within the context of overall diversification to

meet CalPERS' long-term investment objectives. The assets of CalPERS will be broadly diversified to minimize the effect of short-term losses ~~within any investment program.~~ Consistent with California Constitution, Article XVI, section 17, all CalPERS investment activities, and all investment transactions, shall be designed and executed solely in the interest of, and for the exclusive purposes of, providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

~~C. Program Specific Investment Policies~~

~~In addition to this overarching Policy, there are other policies that focus on program-specific aspects of the CalPERS investment program. It is intended that those policies be read in conjunction with this Policy.~~

~~D. Responsibilities~~

~~Details regarding various levels of responsibility for all programs are provided in the following appendices:~~

- ~~1. Reporting to the Committee~~
- ~~2. Investment Responsibilities~~

~~E. Performance Objectives~~

~~Specifically:~~

~~The assets of CalPERS will be invested with the objective of achieving a long term~~ Each Fund shall be managed according to the following objectives:

- ~~• A rate of total return ~~that meets~~ sufficient to meet or ~~exceed~~ exceed the CalPERS actuarial expected rate of return.~~
- ~~• CalPERS will seek to maximize returns for the level of over long periods of time, within prudent levels of risk taken;~~
- ~~• CalPERS will seek to achieve a return that exceeds the Policy Index; and liquidity;~~
- ~~• CalPERS will seek Sufficient diversification to invest its assets efficiently, bearing in mind minimize the impact ~~risk of management and transaction costs on~~ significant loss in any single investment returns and preserve capital to the extent possible;~~

~~Policy benchmarks are listed in Appendix 5.~~

~~F. Investment Constraints & Limitations~~

~~Details regarding various investment constraints and limitations are provided in Appendix 6 for all Policy sections.~~

~~G. 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.~~

~~H. Policy Document History~~

~~Historical details of the Committee's adoption of and revisions to the Policy are provided in Appendix 8.~~

~~Total Fund Investment Policy Sections~~

- ~~Adherence to risk constraints approved by the Committee;~~
- ~~Adequate liquidity to meet cash needs; and~~
- ~~Consistent with the approach of the fund, add value through active investment decisions.~~

~~The strategic objectives of each individual Fund are described in the respective Fund’s investment policy.~~

C. INVESTMENT BELIEFS

Purpose

This Policy requires that CalPERS develop and maintain a set of Investment Beliefs. ~~Managing the CalPERS investment program~~The management of CalPERS’ assets requires exercising judgment in the face of considerable uncertainty. The Investment Beliefs provide a framework for exercising judgment and making investment decisions. Investment Beliefs:

- Provide a basis for strategic management of the investment portfolio
- Inform organizational priorities
- Ensure alignment between the Committee and staff
- Guide ~~development of~~ CalPERS culture

Investment Beliefs also provide context for CalPERS actions. They reflect ~~CalPERS~~CalPERS’ values and acknowledge CalPERS responsibility to sustain its ability to pay benefits for generations. The Investment Beliefs also acknowledge the critical importance of a strong and durable economy in achieving CalPERS’ objectives.

The Investment Beliefs are not a checklist to be applied by rote to every decision. They are a guide for making judgmental decisions that often require balancing multiple, inter-related decision factors.

The Investment Beliefs are ~~included as Appendix 3,~~located here.

D. RESPONSIBILITIES

The Committee is responsible for establishing investment policies and has oversight of CalPERS’ investments. The Committee sets the risk and return objectives, policy benchmarks, and investment constraints for each Fund. The Committee delegates day-to-day investment decision-making to the Chief Executive Officer (CEO), who further delegates investment responsibilities to the Chief Investment Officer (CIO). The CIO and Investment Office management are tasked with implementing investments in accordance with approved policies

and managing investment risk within established limits. The Committee provides oversight by monitoring and reviewing investment activities and associated risks.

Details regarding roles and responsibilities are described in the individual Fund policies.

E. FUND POLICIES

Investment policies for each Fund are listed and available via links below.

1. Public Employees' Retirement Fund
2. Public Employees' Long-Term Care Fund
3. California Employers' Retiree Benefit Trust Fund
4. California Employers' Pension Prefunding Trust Fund
5. Legislators' Retirement Fund
6. Judges' Retirement Fund
7. Judges' Retirement System II - Asset Fund
8. Public Employees' Health Care Fund
9. Supplemental Income Plans

F. INVESTMENT APPROACH

Allocation Strategy and Risk Tolerance

Purpose

~~Asset allocation involves establishing asset class allocation policy targets and ranges and managing those asset class allocations within their policy ranges. CalPERS recognizes that over 90% of the variation in investment returns of a large, well diversified pool of assets can typically be attributed to asset allocation decisions.~~

~~The performance objective is to achieve positive active asset allocation returns over rolling five-year periods.~~

~~The Asset Allocation Program shall be managed with the following objectives:~~

- ~~• A rate of total return sufficient to meet or exceed the actuarial expected rate of return within prudent levels of risk and liquidity;~~
- ~~• Sufficient diversification to minimize the risk of significant loss in any single investment and preserve capital to the extent possible;~~
- ~~• Adherence to the asset class policy ranges approved by the Committee, with any rebalancing being performed efficiently and prudently;~~
- ~~• Adequate liquidity to meet cash needs; and~~

- ~~Positive returns through any active asset allocation decisions subject to policy ranges and risk limits.~~

Investment Approaches & Parameters

Strategic

~~A. Asset Class Targets and Ranges~~

~~Refer to Appendix 4, Table 1, for asset class allocation targets and ranges. Asset allocation targets and ranges for the Affiliate Funds are provided within the individual Statements of Investment Policy for each fund.~~

~~B. Strategic Asset Allocation Process~~

Strategic Asset and Risk Exposure

- A. Each Fund adopts an allocation approach and sets forth its target asset and risk exposures, such as a strategic asset allocation or reference portfolio, which are described in the respective individual Fund polices.

Staff may recommend to the Committee changes into the policy target asset allocation targets and ranges.

~~C. Asset Class Criteria~~

~~A financial or real asset type shall be considered as an asset class if it has a risk, return, and correlation profile sufficiently different from existing CalPERS asset classes, and if its inclusion or exclusion materially affects the expected risk and return of the CalPERS total return.~~

~~Criteria for consideration when evaluating an asset class shall include the following:~~

- ~~a. Strategic role of the asset class in the asset liability management (ALM) framework based on fundamental characteristics and risk and return drivers.~~
- ~~b. Sufficient size, liquidity, and cost efficiency to permit CalPERS to invest meaningful amounts in that asset class, and have a material effect on CalPERS return.~~
- ~~c. Availability of sufficient internal or external investment and technical expertise to ensure prudent implementation of an investment in that asset class.~~
- ~~d. Presence of diversification, return enhancement, liquidity provision, or some other readily identifiable attribute that is sufficiently different from other asset classes and enhances CalPERS' ability to achieve the strategic objectives outlined above.~~
- ~~e. Acceptance by other large pension plan sponsors as a feasible and meaningful asset class, or in the absence of such acceptance, academic support for its inclusion.~~
- ~~f. Availability of sufficient data, history, or expertise to assess the feasibility and benefit of the asset class to CalPERS, by means of a measurable investment outcome. Further, the asset class must have a basis for developing expected investment returns, risks, and correlations for the purposes of the financial study.~~

~~An asset class may be approved for investment provided it meets the above criteria, and the Committee has had the opportunity for sufficient education to enable it to fulfill its fiduciary responsibility in giving such approval.~~

~~A.B. _____ Once CalPERS approves a new asset class, the new program may only be implemented in accordance with investment policies reviewed and approved by the Committee for that asset class risk exposures.~~

Implementation

~~A. Staff shall determine an asset allocation mix for each investment trust with targets and ranges based on a periodic ALM review.~~

~~B.A.~~ Following any action by the CalPERS Board of Administration (Board) having the potential to result in substantial changes to the forecasted benefits, contributions, premiums, or liabilities of a programFund, staff shall assess the potential impact and recommend to the Committee as soon as practicable following the Board action, whether the ~~strategic~~ asset allocation process for each programFund should be postponed pending completion of such Board action.

~~C. Asset class allocations shall be managed to seek compliance with existing policy ranges.~~
~~B.~~ Allocations may temporarily deviate from ~~policy ranges~~targets due to extreme market volatility or to accommodate contributions, distributions, or other short-term cash needs. If an ~~asset class~~ allocation exceeds ~~the~~ policy ~~range~~limits, staff shall return the ~~asset~~ allocation to within its policy ~~range~~limits in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity and considering the impact of lagged and appraisal-based valuations on reported private asset exposures.

~~D. Staff~~C. Each Fund will ~~maintain an~~establish a liquidity program managed by staff to ensure sufficient operating cash ~~reserve~~ to cover short-term liquidity needs, ~~pension~~benefit flows, and private asset capital calls. ~~This reserve will be funded via total fund financing and invested in a short-term investment fund (STIF) pursuant to the parameters of the Liquidity Program.~~

~~E. Accounts may be established and used to adjust asset class allocations within policy ranges, or to return asset allocations that have exceeded a policy range to within the policy range.~~

~~F. Overlay portfolios may be established to manage currency risk within the parameters contained in Appendix 6.~~

~~G. Managers may be retained for Asset Allocation Program implementation subject to policy asset allocation ranges and/or overlay portfolio constraints.~~

~~H. External Manager Investment Guidelines for the Asset Allocation Program: Criteria~~

~~1. Manager Selection~~

- ~~a. Managers retained in the Asset Allocation Program shall have recognized expertise in active asset allocation.~~
- ~~b. The selected managers shall be registered or appropriately exempt from registration, with the Securities and Exchange Commission (SEC) or an equivalent regulatory body, in the case of a manager based outside of the United States.~~
- ~~c. Managers shall be selected in accordance with the applicable California laws and regulations, and CalPERS policy.~~

~~2. Investment Manager Guidelines~~

- ~~a. Managers shall operate under guidelines that describe their specific investment strategies, representative portfolio characteristics, permissible and non-permissible activities, restrictions on the purchase of certain securities, benchmark, and performance objectives.~~

~~Derivatives & Leverage~~

~~A. Strategies~~

~~Financial futures contracts, forward contracts, swaps, options, combinations of these derivatives, exchange traded funds, and structured notes may be used in the Asset Allocation Program for only the following purposes:~~

- ~~1. To adjust asset class allocations, within approved policy ranges; and~~
- ~~2. To minimize the investment effect of average cash balances held in cash equivalents accounts by overlaying with asset class specific derivatives.~~

~~B. Risks~~

~~Any use of derivatives to adjust asset class allocations shall comply with this Policy.~~

~~C. Leverage~~

~~In connection with any such use of derivatives, staff shall comply with the Investment Leverage section of this Policy.~~

~~D. Exposure Limit~~

~~Derivative exposure used in the Asset Allocation Program is limited to amounts that maintain all asset class allocations within their approved ranges.~~

~~E. Collateral~~

~~Collateral for all derivatives used in the Asset Allocation Program shall consist of cash, investment grade fixed income securities, or other securities allowed under industry standard collateral agreements.~~

~~##~~Asset classes, strategies, and opportunities are evaluated within the context of their potential contribution to the overall objectives, risk profile, and strategic direction of each Fund. The consideration of any asset class, strategy or opportunity is based on its ability to enhance the Fund’s risk-adjusted returns, diversification, and resilience.

Criteria for consideration when evaluating asset classes, strategies and opportunities include:

- a. Assessment of how the strategy supports the Fund’s long-term objectives, based on its fundamental characteristics, risk, and return drivers.
- b. Whether sufficient size, liquidity, and cost efficiency exists to deploy capital and achieve a material impact on overall Fund objectives.
- c. Availability of sufficient internal or external investment and technical expertise.
- d. Analysis of potential to provide diversification, return enhancement, liquidity, risk mitigation, or other attributes that contribute to achieving strategic objectives and improving overall risk-return efficiency.
- e. Acceptance or support from academic, industry, or other research demonstrating feasibility and relevance.
- f. Availability of sufficient data and tools to assess the investment’s expected risks, returns, and correlations, enabling evaluation and integration into decision-making.

G. BENCHMARKS

Purpose

Benchmarks establish target investment or risk exposures and provide a relative measure to gauge whether a particular investment strategy is meeting stated goals and objectives.

~~CalPERS’~~Policy benchmarks shall be established ~~to manage~~for each Fund, in alignment with the Fund’s portfolio risk and return characteristics.

Benchmark Oversight

Policy benchmarks shall be set by the Committee for each ~~asset class within the PERF and Affiliate Funds.~~Fund. Changes to the construction rules of any policy benchmark shall be reviewed and approved by the relevant Board Consultant, with any modifications deemed material by the Board Consultant requiring review and approval by the Committee. In preparation for any such review, staff and the appropriate Board Consultant shall analyze the expected effect of the policy benchmark modification on the total portfolio risk and return characteristics. ~~Refer to Appendix 5 for the current benchmarks as set by the Committee and additional methodology detail.~~

~~##~~Benchmarks are listed in the individual Fund policies.

H. INVESTMENT RISK MANAGEMENT

Purpose

Risk management is central to managing the assets of CalPERS and to achieving the strategic objectives. A framework for investment risk management is established through (a) the adoption of investment policies for ~~total fund strategic~~Fund asset and risk allocation, (b) individual asset classes and portfolios with appropriate benchmarks, and (c) reasonable risk limits.

Investment risk cannot be eliminated; therefore, CalPERS invests in a risk-aware manner in order to generate returns required to pay promised benefits, subject to its risk tolerance. ~~Risk-aware investment management requires that CalPERS:~~

Risk-aware investment management requires that CalPERS:

- Clearly understand investment risks; and
- Be adequately compensated for the risks taken.

CalPERS investment risk management activities shall be managed so as to:

- Provide an integrated process for overall investment risk management at both the ~~Total~~ Fund and asset class level;
- Identify, measure, and communicate investment risks across the ~~Total~~ Fund and within each asset class;
- Monitor investment returns as well as risk to determine if risks taken are adequately compensated; and
- Ensure appropriate organizational independence of investment risk measurement systems and functions from investment decision-making functions.

Investment Approaches ~~&~~and Parameters

A. Investment Risk Management Framework

The CalPERS investment risk framework is expected to evolve over time in alignment with industry best practices. The framework shall address the identification, measurement, assessment, and ongoing monitoring of investment risk.

B. Active Risk ~~Limits~~Constraints

~~A total fund active risk limit, expressed in terms of tracking error, shall be established~~The Committee may establish additional leeway for each Fund, to define staff discretion to deviate from the Total Fund policy benchmarks i.e., reference portfolios, strategic asset allocations, or other intended strategic investment exposures. The limit is Limits are specified in Appendix 6 of this documentthe individual Fund policies.

~~XX. Governance and Sustainability Strategy~~

I. INVESTMENT CONSTRAINTS AND LIMITATIONS

Details regarding various investment constraints and limitations are provided in the Fund policies.

J. GOVERNANCE AND SUSTAINABILITY STRATEGY

Purpose

The CalPERS Governance and Sustainability Strategy ~~(Strategy)~~ shall be managed to accomplish the following objectives:

- ~~A. Support the achievement of sustainable (including environmental, social, and governance factors), long-term target risk-adjusted returns for the Total Fund.~~
- A. Integrate sustainability considerations into the investment process to deliver better returns and enhance portfolio resilience.
- B. Contribute to sustainable investment, advocacy, and engagement decision making across ~~the Total Fund~~CalPERS.

Approach & Parameters

The strategy will be implemented through ~~four~~five channels, supported, where applicable, by the use of strategic partnerships, consultants, and data providers to advance CalPERS' investment and policy objectives. The ~~four~~five channels are:

- Investments
- Research
- Integration
- Engagement
- Advocacy

Research

~~The Sustainable Investments Program will support asset-class integration of relevant environmental, social, and governance (ESG) topics into investment decision-making by exploring, monitoring, understanding, and communicating new research and information on ESG topics arising from academia, industry, and from Investment Office staff. Research will focus on:~~

- ~~● High value risks and opportunities for the PERF~~
- ~~● Implications and developments regarding ESG issues~~

- ~~• Best in class data and tools that facilitate integration of ESG risks and opportunities into decision-making~~
- ~~• Exploring opportunities to achieve market, risk-adjusted rates of returns along with positive and measurable environmental and social impacts~~

Integration

~~In investment decision making the ESG risks and opportunities relevant to the investment decision should be considered, utilizing available data and tools, in support of conducting thorough investment analysis to improve long-term financial performance of the PERF.~~

~~Additional information on reporting and responsibilities is available in Appendices 1 and 2. The CalPERS Governance & Sustainability Principles, which outline CalPERS' approach to, are located here.~~

Investment Related Responsibilities - Investment Office Staff

1. Support investment staff to integrate relevant sustainability and governance issues into investment, advocacy, and engagement and advocacy, are included decision making. This shall include the preparation of an annual review of systemic sustainable investment risks, such as Appendix 7, climate change. The results of the review shall be presented to the senior leadership of the Investment Office to support investment decision-making across the fund.
2. Staff shall maintain a total portfolio-level Governance and Sustainability Strategic Plan approved by the Committee setting forth CalPERS' long-term objectives for the Strategy. Changes to the Strategic Plan require Committee approval.
3. Staff shall obtain annual Committee approval of the Governance & Sustainability Principles.

Additional reporting requirements and responsibilities are described in individual Fund policies.

K. RESPONSIBLE CONTRACTOR PROGRAM POLICY

The Responsible Contractor Program (RCP) policy is located here.

L. RESTRICTING PRIVATE EQUITY (PE) INVESTMENTS IN PUBLIC SECTOR OUTSOURCERS

The PE Investments in Public Sector Outsourcers policy is located here.

M. DIVESTMENT POLICY

The Divestment policy is located here.

N. GLOSSARY OF CALPERS SPECIFIC INVESTMENT TERMS

Bold and italicized terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Investment Terms.

O. POLICY DOCUMENT HISTORY

Historical details of the Committee’s adoption of and revisions to this Policy are provided in Appendix 1.

APPENDIX 1 – POLICY DOCUMENT HISTORY

Historical details of the Committee’s adoption of and revisions to the Policy are described in the table below.

Table 1 - CalPERS Statement of Investment Policy History

<u>Summary of Change</u>	<u>Approval Date</u>
<u>Established new CalPERS Statement of Investment Policy. Sections A – H, I -V, and XX from CalPERS Total Fund Investment Policy effective 7/1/2024.</u>	<u>June 15, 2026</u>