

CalPERS Investment Policy for Supplemental Income Plans

Effective Date

This policy is effective as of ~~October~~July 1, 2022~~2026~~ and supersedes all previous Supplemental Income Plans (SIP) policies.

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Introduction

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

This document sets forth the investment policy (Policy) for the CalPERS Supplemental Income Plans. The design of this Policy ensures that 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 this Program.

Under the SIP, CalPERS administers various deferred compensation and defined contribution plans for employees of participating public agencies, schools and the State of California which includes, the CalPERS 457 Deferred Compensation Plan (the 457 Plan), and the Supplemental Contributions Program (the SCP), collectively the SIP.

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

Strategic Objective

The SIP objective is to help provide Participants with supplemental income during retirement consistent with the Participants' individual circumstances, goals, time horizons and risk tolerance. For the self-directed plans under the SIP, the Committee intends to accomplish this objective by offering the following three tiers of options:

- A. Tier I will include customized Target Retirement Date Funds which are designed for Participants who do not wish to make active asset allocation decisions. The asset allocation of each Target Retirement Date Fund will change over time based on a Participant's expected time frame for entering retirement. In addition to offering Participants an all-in-one solution for retirement investing, these Target Retirement Date Funds will serve as the designated "default" option for investment of contributions by Participants who do not provide affirmative instruction on how to invest their contributions. CalPERS will develop the Target Retirement Date Funds and manage them in accordance with this Policy. Customization of the Target Retirement Date Funds will be based on CalPERS member demographic data, pension retirement income as the primary retirement income source, and average retirement age among all membership classifications.

The investment options offered in the CalPERS Target Retirement Date Funds will be broadly diversified to minimize the effect of short-term losses within any mix of investments. The objective of these funds, in combination with defined benefit pension income and possibly social security, is to help participants achieve retirement adequacy.

- B. Tier II will include a Core Fund lineup for Participants who wish to actively design their own asset allocation based on their individual circumstances, goals, time horizons and risk tolerance. The Core Funds are intended to offer an appropriate range of lower-fee investment alternatives with materially different risk and return characteristics, which are style neutral, passively managed and provide exposure to major asset classes that are highly correlated with the market. The Core Fund investment lineup will include the following major asset classes:
1. U.S. Equity
 2. International Equity
 3. U.S. Short-Term Fixed Income
 4. U.S. Fixed Income
 5. Inflation Sensitive/ Real Asset
 6. Cash Equivalent
- C. Tier III is the Self-directed brokerage window, which offers Participants a wide array of investment options in addition to the Core menu, if desired. It is generally designed for investors who have investing experience, are comfortable choosing from a wide variety of investments and understand how to research and evaluate a wide variety of investments on their own. The investments available under the Self-directed brokerage window are not endorsed, monitored, or selected by the CalPERS staff or the Committee.

Responsibilities

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

Investment Approaches Approach & Parameters

A. Performance ~~Objective and~~ Benchmark

~~The benchmark for the Funds is specified in the CalPERS Total Fund Investment Policy benchmark appendix.~~

The Policy Benchmarks are set forth in Appendix 4.

B. Strategic Asset Allocation Process

A comprehensive ~~Asset Allocation Strategy~~ asset allocation strategy analysis shall be completed periodically that follows the schedule and process as described in the CalPERS ~~Total Fund~~ Board of Administration Statement of Investment Policy, ~~Asset Allocation Strategy Section and Risk Tolerance section~~, and Reporting to the Investment Committee ~~appendix. As further described, specified in the Asset Allocation Strategy Section, the schedule may be altered to accommodate pending Board actions.~~ Appendix 1 of this policy.

C. Excessive Short-Term Trading

The overall investment plan and the available individual investment options under the SIP are designed to help Participants achieve their long-term retirement income goals. Excessive short-term or disruptive trading of the funds is counter-productive to the long-term investment design of the SIP. To achieve a balance between the right of individual Participants to self-direct their investments, and the right of all Participants to enjoy appropriate growth of their assets in proportion to the risk they bear and at reasonable cost through investment in prudently managed investment funds, the SIP will employ administrative and procedural measures to restrain the use of excessive short-term or disruptive trading strategies by individual Participants that may occur at the expense of other Participants and result in the dilution of Participant value in the funds.

D. Restrictions, Prohibitions and Authorized Securities

1. Restrictions, Prohibitions and Authorized Securities of the funds are governed by the CalPERS ~~Total Fund~~Board of Administration Statement of Investment Policy for internal funds and defined in each Manager’s contract with CalPERS for external funds.
2. All transactions involving derivatives are governed by the CalPERS ~~Total Fund Investment Policy~~, Global Derivatives and Counterparty Risk ~~Section~~Procedures.
3. Securities lending transactions are permitted, subject to compliance with statutory requirements.

Investment Constraints ~~and~~ Limitations

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

Glossary of CalPERS Specific Terms

Bold italicized terms appearing in the Policy are CalPERS specific in nature and are defined in the [CalPERS Specific Glossary of Terms](#).

Policy Document History

See ~~Appendix 4~~Appendix 5 for historical details of Investment Committee adoption and revisions of this Policy.

Appendices

~~Appendix 1:~~Additional information and requirements can be found in the appendices listed below.

- Appendix 1 – Reporting to the Investment Committee
- Appendix 2 – Investment Responsibilities
- Appendix 3 – Investment Constraints and Limitations
- Appendix 4 – Policy Benchmarks
- Appendix 5 – Policy Document History

Appendix 1 - Reporting to the Investment Committee

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

1. Investment Office Staff
2. **General Pension Consultant**

Table 1.1: Investment Office Staff Reporting Responsibilities

Ref #	Report Content	Frequency
1. <u>1.</u>	Staff shall provide a review that will include, but is not limited to, asset class allocations compared to Policy targets and ranges (as applicable), current market value, performance, and risk metrics.	No less than annually
2. <u>2.</u>	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. <u>Policy exceptions attributable to temporary mis-weights arising from the Committee’s adoption of new program and/or subprogram asset allocation targets and the associated transition activity will not be subject to these reporting provisions provided that staff establishes a reasonable estimate of the timeframe for completion and so informs the Committee.</u>	At the next Committee meeting, or sooner if deemed necessary
<u>3.</u>	<u>Staff shall provide a comprehensive asset allocation strategy analysis coincident with the review of actuarial methods and assumptions to be presented for review and approval of policy target asset class allocations and ranges.</u>	<u>Every 4 years</u>
<u>4.</u>	<u>Staff shall present a market-valuation-based analysis at the midpoint of the 4-year review cycle, or as needed in response to market conditions or changes affecting the capital market assumptions.</u>	<u>At midpoint of 4-year cycle or as needed</u>
<u>5.</u>	<u>Staff shall comply with reporting requirements and responsibilities set forth in the CalPERS Board of Administration Statement of Investment Policy and all other investment policies, as applicable and appropriate.</u>	<u>As needed</u>

Table 1.2: General Pension ~~Consulting~~ Consultant Reporting Responsibilities

Ref #	Report Content	Frequency
1. <u>1.</u>	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

Appendix 2: - Investment Responsibilities

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

- Investment Committee
- Investment Office Staff
- **General Pension Consultant**
- **External Manager**

Investment Committee Responsibilities

1. Approve asset classes for investment and set a policy target allocation, permissible range, and benchmark for each asset class.
2. Approve adoption of and oversee compliance with this Policy designed to achieve CalPERS strategic objectives.
3. Review Policy recommendations made by staff.
4. If necessary, engage an independent consultant to provide an analysis of the economic impact on the Fund of any contemplated divestment activity, to include one-time transaction costs, predicted tracking error, and risk-return trade-offs, in order to aid the Committee in determining whether divestment is both appropriate and consistent with the Board's fiduciary duties. Staff can help facilitate this process as requested.

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. Manage the asset class allocations within Policy ranges approved by the Committee, in accordance with Policy guidelines.
3. Where applicable provide asset allocation strategy recommendations to the Committee including selection of asset classes, benchmarks, Policy targets and ranges.
4. Monitor internal and external managers in the implementation of and compliance with the Policy.
5. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
6. Periodically review the policies and make recommendations to the Committee regarding new policy development, policy revisions, repeals, and any other aspect that the staff considers pertinent.
7. Engage with consultants and other pertinent parties to seek advice and counsel regarding investment strategy and investment results.
8. Monitor and adhere to policies, procedures, and guidelines.

9. Execute all publicly traded company proxies and voting instructions in alignment with the Governance & Sustainability Principles, as applicable.

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 policy, processes, and procedures.
2. Monitor and evaluate the appropriate use of benchmarks related to performance of the Fund and programs relative to the policy.
3. For benchmark changes and material construction rule changes that require Committee approval, review and make a recommendation regarding approval. For benchmark construction rule changes that are not material, review and approve all requests.

External Manager Responsibilities

1. Manage the Funds in accordance with each manager's contract with CalPERS and the Policy.
2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the Funds.

Appendix 3: Investment Constraints and Limitations

Asset Class Policy Targets and Ranges

The policy asset class targets and permissible ranges for the Target Retirement Date Funds are shown in the glide path below (Table 3). Each Fund has asset allocation targets based on an expected retirement year. The Funds’ asset allocation targets are adjusted annually by moving each Fund to the asset allocation one row down in the glide path table. Asset allocations are advanced from October 1 of the prior year. Upon adoption of significant policy changes, staff will implement the changes within a reasonable time period.

Table 3: Target Retirement Date Funds Asset Allocation Glide Path

Year	Target Retirement Date Fund	Global Equity* Target	Global Equity* Range	U.S. Fixed Income Target	U.S. Fixed Income Range	Real Assets Target	Real Assets Range	Cash Target	Cash Range
2023	2065	94%	+/-5.00	3%	+/-1.00	1%	+/- 0.50	2%	+/-1.00
2024	2065	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2025	2065	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2026	2065	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2027	2065	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2023	2060	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2024	2060	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2025	2060	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2026	2060	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2027	2060	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2023	2055	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2024	2055	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2025	2055	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2026	2055	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2027	2055	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2023	2050	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2024	2050	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2025	2050	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2026	2050	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2027	2050	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2023	2045	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2024	2045	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2025	2045	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2026	2045	94%	+/- 5.00	3%	+/- 1.00	1%	+/- 0.50	2%	+/- 1.00
2027	2045	94%	+/- 5.00	3%	+/- 2.00	1%	+/- 0.50	2%	+/- 1.00
2023	2040	92%	+/- 5.00	5%	+/- 2.00	1%	+/- 0.50	2%	+/- 1.00
2024	2040	89%	+/- 5.00	7%	+/- 2.00	1%	+/- 0.50	3%	+/- 1.00

Year	Target Retirement Date Fund	Global Equity* Target	Global Equity* Range	U.S. Fixed Income Target	U.S. Fixed Income Range	Real Assets Target	Real Assets Range	Cash Target	Cash Range
2025	2040	87%	+/- 5.00	9%	+/- 2.00	1%	+/- 0.50	3%	+/- 1.00
2026	2040	85%	+/- 5.00	11%	+/- 2.00	1%	+/- 0.50	3%	+/- 1.00
2027	2040	82%	+/- 5.00	13%	+/- 2.00	1%	+/- 0.50	4%	+/- 1.00
2023	2035	80%	+/- 5.00	15%	+/- 2.00	1%	+/- 0.50	4%	+/- 1.00
2024	2035	76%	+/- 5.00	18%	+/- 4.00	2%	+/- 0.50	4%	+/- 1.00
2025	2035	73%	+/- 5.00	20%	+/- 4.00	2%	+/- 1.00	5%	+/- 1.00
2026	2035	71%	+/- 5.00	22%	+/- 4.00	2%	+/- 1.00	5%	+/- 1.00
2027	2035	69%	+/- 5.00	24%	+/- 4.00	2%	+/- 1.00	5%	+/- 1.00
2023	2030	66%	+/- 4.00	26%	+/- 4.00	2%	+/- 1.00	6%	+/- 1.00
2024	2030	64%	+/- 4.00	28%	+/- 4.00	2%	+/- 1.00	6%	+/- 2.00
2025	2030	62%	+/- 4.00	30%	+/- 4.00	2%	+/- 1.00	6%	+/- 2.00
2026	2030	60%	+/- 4.00	32%	+/- 4.00	2%	+/- 1.00	6%	+/- 2.00
2027	2030	57%	+/- 4.00	34%	+/- 4.00	2%	+/- 1.00	7%	+/- 2.00
2023	2025	55%	+/- 4.00	36%	+/- 4.00	2%	+/- 1.00	7%	+/- 2.00
2024	2025	53%	+/- 4.00	38%	+/- 4.00	2%	+/- 1.00	7%	+/- 2.00
2025	2025	50%	+/- 4.00	40%	+/- 4.00	2%	+/- 1.00	8%	+/- 2.00
2026	2025	47%	+/- 4.00	42%	+/- 4.00	3%	+/- 1.00	8%	+/- 2.00
2027	2025	44%	+/- 4.00	45%	+/- 4.00	3%	+/- 1.00	8%	+/- 2.00
2023	2020	42%	+/- 4.00	46%	+/- 4.00	3%	+/- 1.00	9%	+/- 2.00
2024	2020	39%	+/- 4.00	49%	+/- 4.00	3%	+/- 1.00	9%	+/- 2.00
2025	2020	37%	+/- 4.00	51%	+/- 4.00	3%	+/- 1.00	9%	+/- 2.00
2026	2020	34%	+/- 4.00	53%	+/- 4.00	3%	+/- 1.00	10%	+/- 2.00
2027	2020	32%	+/- 4.00	55%	+/- 4.00	3%	+/- 1.00	10%	+/- 2.00
2023	Income	32%	+/- 4.00	55%	+/- 4.00	3%	+/- 1.00	10%	+/- 2.00
2024	Income	32%	+/- 4.00	55%	+/- 4.00	3%	+/- 1.00	10%	+/- 2.00
2025	Income	32%	+/- 4.00	55%	+/- 4.00	3%	+/- 1.00	10%	+/- 2.00
2026	Income	32%	+/- 4.00	55%	+/- 4.00	3%	+/-1.00	10%	+/- 2.00
2027	Income	32%	+/- 4.00	55%	+/- 4.00	3%	+/-1.00	10%	+/- 2.00

*Target allocations to U.S. Equity and International Equity are based on their respective market capitalization weights within the MSCI ACWI IMI Index, as of June 30 each year.

Securities Lending

The following requirements apply to securities lending transactions for assets custodied by CalPERS.

Lending Guidelines

The proper amount of collateralization for initial and maintenance margin shall be market value times the appropriate percentage for each security type.

- a. Domestic securities – 102%

b. Matching currency investment for G10 domiciled issuers – 102%

c. All other international securities – 105%

Cash Collateral Re-Investment Guidelines

Reinvestment of cash collateral shall be governed by investment guidelines.

Appendix 4: - Policy Benchmarks

Table 4: Supplemental Income Plans Target Retirement Date Funds Policy Benchmark

The performance of each individual investment fund will be evaluated against its appropriate asset class benchmark.

<u>Asset Class</u>	<u>Benchmark</u>
<u>U.S. Equity</u>	<u>Russell 3000 Index</u>
<u>International Equity</u>	<u>MSCI ACWI ex-USA IMI Index (Net)</u>
<u>U.S. Fixed Income</u>	<u>Bloomberg U.S. Aggregate Bond Index</u>
<u>U.S. Fixed Income</u>	<u>Bloomberg U.S. 1-3 Year Government/Credit Bond Index</u>
<u>Real Assets*</u>	<p><u>The benchmark is a weighted benchmark consisting of:</u></p> <ul style="list-style-type: none"> <u>o Dow Jones U.S. Select REIT Index</u> <u>o Bloomberg Roll Enhanced Roll Yield Commodity Total Return Index**</u> <u>o S&P Global Large MidCap Commodity and Resources Index</u> <u>o S&P Global Infrastructure Index</u> <u>o Bloomberg US Govt Inflation-Linked 1-10 Year Bond Index</u>
<u>Cash Equivalents</u>	<u>ICE BofA US 3-Month Treasury Bill Index</u>

* Target weights for the Real Asset sub-strategies (commodities, natural resources, infrastructure, REITs, and TIPS) are evaluated regularly by SSgA to improve performance or address key risks. As such, the target weights can shift over time, and are expected to continue to provide strategic real asset exposure for participants.

** Effective as of March 31, 2025.

Appendix 5 - Policy Document History

Table 45: SIP Policy Revision History

Date	Detail
2007-10-12	Approved by the Policy Subcommittee
2007-12-17	Adopted by the Investment Committee
2008-12-15	Revised by the Policy Subcommittee
2009-02-17	Approved by the Investment Committee
2009-06-16	Administrative changes made due to Policy Review Project
2009-09-29	Administrative changes due to adoption of Benchmark Policy
2012-08-13	Approved by the Investment Committee
2013-06-17	Approved by the Investment Committee
2013-12-03	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
2015-04-14	Administrative changes to reflect closure of the State Peace Officers & Firefighters (POFF) Fund
2016-03-14	Approved by the Investment Committee The Supplemental Income Plans Policy was reformatted to align with investment policy updates that were incorporated during the Investment Policy Revision Project. The SIP CalPERS Target Retirement Date Funds Policy was merged into the Supplemental Income Plans Policy and the stand-alone Target Retirement Date Funds Policy was repealed.
2018-10-01	Administrative changes to target retirement date funds glide path as approved by the Committee on April 16, 2018 (agenda item 5a), as well as a handful of ministerial changes.
2019-01-04	Administrative changes made to migrate policy into an accessible template.
2022-10-01	Administrative changes to target retirement date funds glide path as approved by the Committee on June 13, 2022 (agenda item 5a).
<u>2026-06-15</u>	<u>Incorporated changes under the 2026 Investment Policy Redesign, specifically incorporating reporting and benchmarks formerly listed in Total Fund policy into individual policies of the Affiliate Funds.</u>