

# Public Employees’ Retirement Fund Investment Policy

## Effective Date

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## I. Introduction

This document sets forth the investment policy (Policy) for the Public Employees' Retirement Fund ("Fund" or "PERF"). The design of this Policy ensures that the Board, staff, managers, consultants, and other participants selected by the California Public Employees' Retirement System (CalPERS) take prudent and careful action while managing the Fund. Additionally, this Policy assures sufficient flexibility in managing investment risks and returns associated with the Fund.

The Fund was established in 1945 to provide retirement, disability, and survivor benefits to eligible public employees. This Policy should be read in conjunction with and is subject to the conditions contained within the [CalPERS Statement of Investment Policy](#), which was adopted by the CalPERS Investment Committee (Committee), and sets forth CalPERS' overarching investment beliefs, purposes, and objectives with respect to the management of CalPERS' assets.

This Policy shall also be managed to comply with all applicable CalPERS investment policies.

## II. Strategic Investment Objective

The strategic investment objective of the PERF is to achieve a total rate of return that meets or exceeds the actuarial expected rate over the long term, while maintaining adequate liquidity to meet all cashflow requirements. Investments will be managed to maximize the expected return of the portfolio, consistent with the risk tolerance established by the Board through the combination of a Reference Portfolio, Active Risk Limit, all other policy constraints, and additional Board directives, and in compliance with Public Employees' Retirement Law and other applicable legal and regulatory requirements.

## III. Investment Governance

Investment decision-making takes place at various levels within the governance structure, ranging from the Committee, which establishes high-level parameters and policies, to the Investment Office, which handles allocation and implementation decisions. The governance framework outlined below enhances accountability and ensures effective oversight and control of investment decisions.

## **A. Strategic Investment Direction**

The Investment Committee sets key parameters such as a reference portfolio and an active risk limit to reflect the Fund's long-term objectives and risk tolerance. These parameters are the foundation of the Fund's investment strategy.

## **B. Investment Policy and Delegation and Authority**

In addition to setting the strategic investment direction, the Committee exercises its authority by establishing policies that define responsibilities and reporting requirements. The Committee also delegates asset allocation, selection and implementation of asset classes, investment strategies, and other decisions to Investment Office staff to optimize total portfolio outcomes.

## **C. Allocation Governance and Investment Management**

Allocation and implementation decisions are managed within the Investment Office's governance framework, which promotes collaboration and disciplined decision-making across areas such as asset allocation, risk budgeting, target exposures, strategy and manager selection, and liquidity management.

## **D. Oversight and Transparency**

The Board exercises oversight by regularly reviewing investment reports to ensure alignment with strategic investment objectives. Additionally, the consultants provide the Board with independent advice, oversee and review key inputs to the portfolio construction process, evaluate the reasonableness of the investment governance framework, and provide regular reports to the Committee.

Additional details on responsibilities of the Committee, staff, and consultants are described in [Appendix 2 – Investment Responsibilities](#).

# **IV. Total Portfolio Management**

The PERF is managed holistically through a total portfolio approach ("TPA"), which evaluates investments in the context of their risk and return contribution to the overall Fund.

Key elements of PERF total portfolio management, described below, inform and guide implementation, and support consistency and coherence across all levels of portfolio management.

## **A. Reference Portfolio**

The Committee establishes a portfolio of liquid public equity and fixed income investments, consistent with its risk appetite and long-term investment horizon. This Reference Portfolio represents an investible alternative to the actual PERF portfolio.

The Reference Portfolio establishes the foundation for the portfolio construction process, and is used to:

1. Establish the targeted long-term average market risk tolerance which guides total portfolio construction.
2. Support Asset Liability Management decision making by proxying the long-term market risk profile of the PERF and providing a baseline return expectation for a passive portfolio.
3. Act as a benchmark for active investment returns net of all costs.

The PERF Reference Portfolio, including component benchmarks and weights are described in [Appendix 3 - Reference Portfolio and Benchmarks](#).

## **B. Value-Add and Active Risk**

To support the long-term sustainability of the PERF, CalPERS seeks to generate returns that exceed the Reference Portfolio (Value-Add), by leveraging its institutional scale and long-term investment horizon. As a result, the actual portfolio may differ substantially from the Reference Portfolio, and its performance, particularly over shorter periods, is expected to fluctuate significantly relative to the Reference Portfolio.

The term Active Risk refers to the difference between the actual portfolio and the Reference Portfolio. Examples of investment activities that contribute to Active Risk in the actual portfolio include:

- Allocating to asset classes outside of the Reference Portfolio, including private markets and other illiquid strategies
- Implementing internal and externally managed active strategies (security selection & timing)
- Tactical allocation decisions
- Using derivatives and balance sheet leverage

Further discussion on the measurement and limit of the Active Risk is described in section V.A. below and [Appendix 4 - Investment Constraints and Limitations](#).

## **C. Portfolio Construction**

Portfolio construction is an ongoing process that establishes and maintains the Fund's comprehensive risk allocation and implementation plan, complemented by frameworks to support dynamic evaluation of new opportunities in a total portfolio context.

The portfolio construction process is designed to integrate top-down risk allocation and bottom-up identification of opportunities.

Key activities of portfolio construction include managing the total fund risk and capital allocation process, establishing a consistent set of investment beliefs and expectations across asset classes and strategies, and providing a framework to compare risk across different types of investments. Additionally, portfolio construction evaluates the key tradeoffs between competing opportunities along the key risk dimensions of the portfolio.

#### D. Investment Risk Management

Investment risk management comprises the sum of activities required to ensure the portfolio is at all times managed consistent with the strategic investment objective of the PERF, specific targets established in the portfolio construction process, and all applicable constraints and risk parameters. Investment risk is managed through a multi-faceted process and is a shared responsibility throughout the organization, as well as external partners. At the total portfolio level, investment risk management includes completion of key risk factors to established targets, as well as management of the PERF's liquidity.

The CalPERS investment risk framework is expected to evolve over time in alignment with industry best practices. The framework will address the identification, measurement, assessment, and ongoing monitoring of investment risks. Certain key risks and associated parameters risks are described in detail in the following section. While not all risks are enumerated in the Policy, the investment risk framework shall contemplate, evaluate and monitor relevant risks to the total portfolio.

### V. Investment Parameters

#### A. Active Risk Measurement and Limit

Active Risk is calculated through the use of a model. The benefits of a model-based constraint include greater internal consistency, more holistic capture of market risks, support for cross-asset decision-making, and the ability to integrate evolving techniques to measure risk.

Model-based constraints can be challenging because they involve complex methodologies and depend on assumptions that may vary across model providers. These risks will be mitigated through established governance processes and ongoing oversight by the **General Pension Consultant**.

The measure of Active Risk may differ from the realized volatility of excess returns due to both modeling error and reporting lags and valuation differences between private assets and the fully public Reference Portfolio.

The Committee establishes a quantitative Active Risk Limit to reflect its overall tolerance for differences between the actual portfolio and the Reference Portfolio. The **General Pension Consultant** oversees the methodology used to calculate Active Risk. Calculated Active Risk may change in part due to updates to modeling assumptions and evolving methodologies.

If Active Risk exceeds the established limit, staff will notify the Committee, explain the cause, and discuss potential responses, considering factors such as strategy horizon, transaction costs, and liquidity conditions. Calculated Active Risk may be impacted by temporary fluctuations in relative portfolio weights arising from the difference between mark-to-market public asset returns and lagged, valuation-based private asset returns. In this situation any response should factor in consideration of reasonably expected reversion in relative weights.

The Active Risk limit is listed in [Appendix 4 - Investment Constraints and Limitations](#).

## B. Leverage

This policy establishes the framework for comprehensively identifying, measuring, managing, and reporting various forms of leverage at the total portfolio level, and is intended to place limits on and set standards for the use of leverage that reasonably balances investment flexibility with risk management.

Leverage exists throughout the portfolio, including in both public and private assets and certain fund structures. This policy specifically addresses leverage that creates direct obligations for the PERF (Total Portfolio Leverage). Leverage that does not create a direct obligation for the PERF, including leverage that is embedded within commingled funds or limited liability vehicles, will not be counted towards the Total Portfolio Leverage limit. Unless otherwise specified, use of Total Portfolio Leverage is restricted to the specifications outlined in this Policy.

### *Specific Leverage Parameters and Guidelines*

1. The Total Portfolio Leverage limit is listed in [Appendix 4: Investment Constraints and Limitations](#).
2. Total Portfolio Leverage exposure will be calculated using the ratio of gross notional exposure net of cash equivalents, to the net asset value of the Fund.
3. Staff will maintain procedures detailing the methodology to calculate and define gross notional exposure and cash equivalents, as well as investment specific parameters. These procedures will also include definitions and criteria for derivatives netting, collateralized funding and unsecured financing. These procedures are subject to review and approval by the **General Pension Consultant**.
4. The following standard methodologies will apply:
  - Capital commitments will not be counted as leverage
  - The use of currency or interest rate derivatives for hedging or risk management purposes will not be counted as leverage
5. In the event of a breach of the leverage limit due to a market dislocation, staff will evaluate all exposures and develop a plan within 90 days for moving leverage exposure towards policy limit.

## C. Liquidity

PERF liquidity is holistically managed as part of the broader Investment Treasury Management program, whose primary purpose is to maintain a sufficient liquidity profile to meet the needs of the Fund. This is achieved through a comprehensive liquidity management framework, which includes the use of liquidity coverage ratios to ensure the Fund has sufficient liquidity during a wide range of scenarios, by securing and managing timely financing. Additional details on the Liquidity Governance framework will be defined in procedures with oversight by the **General Pension Consultant**.

High Quality Liquid Assets (HQLA) are central to liquidity management and are defined as types of public market securities that can readily be converted to cash through sales, maturities, reverse repurchase agreements, securities lending, or derivative transformation, without incurring excessive costs. In practice, HQLA includes, but is not limited to:

- U.S. Treasuries
- Agency Mortgage-Backed Securities
- Public Equities
- Investment Grade Corporate Bonds
- Cash and cash equivalents

## D. Derivatives and Counterparty Risk

A governance framework oversees the use of derivatives and derivative strategies across both internally and externally managed portfolios and manage counterparty risk. This framework sets forth clear parameters and requirements to ensure effective operations, risk management, and compliance with respect to derivatives used in the Fund. By doing so, it provides oversight of derivatives usage within the investment process and supports the broader investment risk management mandate.

The following section shall apply to the use of derivatives by investment staff and external managers operating under Investment Management Agreements (IMAs). Limited liability entity or registered/commingled fund managers may be required to provide information to staff on derivatives trading activities within each entity in order for CalPERS to comply with applicable aggregation or position limit regulations and reporting requirements.

### Investment Approaches & Parameters

Derivatives subject to this section include, without limitation:

- Futures contracts
- Options
- Options on futures contracts
- Forward contracts
- Swap agreements

- Security based swap agreements
- Swap contracts with embedded options
- Instruments or contracts intended to manage transaction or currency exchange risk in purchasing, selling, or holding investments

Spot Foreign Exchange transactions with settlement date up to T+5 shall be exempt from this section.

#### *Derivatives Application Permitted*

Derivatives may be used to efficiently manage the risk and return characteristics of the PERF and individual sub-portfolios.

#### *Derivatives Application Not Permitted*

Derivatives may only be used to invest consistent with this Policy and in alignment with Fund objectives.

Derivatives shall not be used to avoid or subvert existing delegated authorities or investment policy limits.

#### *Derivatives and Counterparty Risk Control Procedures*

Staff procedures will cover the following topics:

1. Accounting and performance measurement for derivatives.
2. Risk Management – procedures for evaluating the use of derivatives and monitoring market risk exposure, liquidity needs, and counterparty risk limits.
3. Operational Risk – procedures that establish a process for evaluating operational activities associated with derivatives to ensure the use of proper systems, controls, staffing, and staff qualifications.
4. Regulatory – procedures for ensuring adherence to any regulations in conjunction with derivatives activities undertaken by CalPERS.

### **E. Additional Constraints and Limitations**

Details on constraints and limitations for asset classes are described in [Appendix 4 - Investment Constraints and Limitations](#).

## **VI. Implementation**

All Fund investments are made under the governance of an established asset class or program in Policy. Each asset class is responsible for the full lifecycle of its assets, including the development of strategy and implementation plans, the evaluation and underwriting of investments, and ongoing monitoring and oversight.

For purposes of evaluation, reporting, and business planning, investments may be grouped into categories based on shared risk factors, characteristics, and implementation methods.

## Additional Requirements

Additional information specific to the asset classes is available in the following Appendices:

- 1 – [Reporting to the Investment Committee](#)
- 2 – [Investment Responsibilities](#)
- 4 – [Investment Constraints and Limitations](#)

## A. Total Fund

The Total Fund function is responsible for monitoring and managing the Fund's aggregate portfolio exposures. Core activities include completion management, which maintains alignment with the Fund's target risk profile and allocation plan, and investment treasury management, which ensures liquidity needs are met while optimizing available liquidity through efficient financing and collateral management. Total Fund also manages tactical allocation and cross asset class investments.

## B. Global Public Equity

Global Public Equity primarily consists of market-capitalization weighted equities and includes both passive (index-oriented) strategies, which serve as a source of liquidity for the Fund, and active investment strategies aimed at generating additional value. Public equities offer the Fund broad exposure to global economic growth and can be managed either internally or through external managers. The primary investment universe for Global Equity consists of publicly traded global equity securities and related derivatives.

## C. Global Fixed Income

Global Fixed Income includes both passive index (index-oriented) which serve as a source of liquidity for the Fund, and active investment strategies aimed at generating additional value across the full breadth of available investments in the global public fixed income universe. Global Fixed Income may also invest in assets with lower liquidity or private credit-like characteristics as markets evolve and/or opportunities arise. These strategies may be implemented internally, or through external managers, and collectively, enable the Fund to balance income generation, liquidity, and diversification, supporting overall portfolio resilience and long-term objectives.

## D. Real Assets

Real Assets primarily focus on investing in private real estate and infrastructure, as well as select public securities. Real Assets aims to provide diversification benefits to the Fund and generate value beyond what is available in equivalent public markets. This is achieved through exposure to assets and services that tend to offer stable and predictable cash yields, inflation protection, and reduced equity risk.

## E. Private Equity

Private Equity is designed to maximize risk-adjusted returns and enhance the overall equity performance of the Fund. Private Equity is managed holistically, utilizing a top-down strategic approach to determine portfolio weightings and identify the most attractive market segments for partnership investments, co-investments, and **Customized Investment Accounts**. Private equity investments are subject to specific risks, including leverage, operating and business challenges, liquidity constraints, structural misalignments, and valuation uncertainties—which are carefully monitored and mitigated to ensure returns are commensurate with the risks undertaken. Diversification across geography, industry, vintage year, and investment strategy further strengthens the portfolio’s resilience. Investment vehicles may take the form of limited partnerships, limited liability companies (LLCs), or other similar limited liability legal structures; providing flexibility while maintaining appropriate risk controls. Through this disciplined approach, the Private Equity asset class seeks to deliver superior long-term returns and contribute meaningfully to the Fund’s growth objectives.

## F. Private Debt

Private Debt primarily focuses on investing in privately negotiated, non-traded debt or debt-like instruments, typically issued to companies. By targeting private transactions, the program aims to provide diversification benefits to the Fund and generate value beyond what is available in equivalent public debt markets. This is achieved through exposure to risks such as illiquidity and leverage, as well as the ability to negotiate favorable terms and structures that are not typically accessible in public markets. Private Debt may also invest in assets with more liquidity or public fixed income-like characteristics as markets evolve and/or opportunities arise.

## G. Opportunistic and Innovation

The Opportunistic and Innovation program enables greater investment outside the aforementioned asset classes, including value-add generating opportunities, innovative strategies that can enhance the return and risk profile of the PERF, and incubation strategies.

Investments may be managed internally, by external managers, general partners, or in limited liability vehicles, or by any combination thereof. Investments may include strategies with allocations to single assets or across multiple asset types, or other innovative approaches, and may be tactical, short-term or longer-term in nature. Entry of a new strategy or liquidation of strategy (as a whole) in Opportunistic and Innovation will require the approval of the CIO, or delegate.

## VII. Terminated Agency Pool

### Purpose

The Terminated Agency Pool (TAP) exists to provide benefit payments to CalPERS members who are credited with service from terminated agencies that do not pay regular employer contributions. This section governs the management of the assets supporting the TAP.

### Investment Approaches & Parameters

The TAP shall be managed to closely match assets to the projected future benefit payments and to minimize the likelihood of the program becoming underfunded. Following the periodic recalculation of TAP Program liabilities by the CalPERS Actuarial Office, a segmented asset allocation process shall be utilized as outlined in this section:

1. The immunization segment is intended to:
  - a. Closely match, to the extent practicable, the cash flows of the assets to the forecasted benefit payment cash flows across a range of inflation scenarios;
  - b. Invest a portion of the program assets in such a way as to ensure that cash flows beyond 30 years can be met across a range of inflation scenarios; and
  - c. Provide sufficient liquidity for two years of forecasted benefit payment cash flows.
2. A non-immunized, or surplus segment consisting of TAP Program assets in excess of those needed for the “immunization” segment described above, shall be invested consistent with the asset allocation utilized for the PERF.

### Rebalancing

The Investment Office and Actuarial Office shall collaborate to monitor the funded status of the TAP and to rebalance the recommended portfolio as the forecasted benefit payment cash flows are updated.

### Restrictions, Prohibitions, and Authorized Securities

Authorized securities for the “immunization” and “non-immunized” segments are indicated in the following table.

*Table 1: TAP Authorized Securities*

Segment	Authorized Securities
Immunization	U.S. Treasury STRIPS, U.S. Treasury TIPS, and cash or cash equivalents.
Non-Immunized	All securities included within the rest of the PERF.

### Additional Policy Requirements

Additional information specific to the management of the TAP is available in the following Appendices:

- 1 – [Reporting to the Committee](#)
- 2 – [Investment Responsibilities](#)
- 4 – [Investment Constraints and Limitations](#)

## VIII. Reporting and Responsibilities

Details regarding various levels of responsibility provided in the following appendices:

1. [Appendix 1 - Reporting to the Committee](#)
2. [Appendix 2 - Investment Responsibilities](#)

## IX. Investment Constraints and Limitations

Details regarding various investment constraints and limitations are described in [Appendix 4](#).

## X. Policy Document History

Historical details of the Committee's adoption of and revisions to the Policy are described in [Appendix 5](#).

## Appendices

### Appendix 1 – Reporting to the Investment Committee

This section provides details regarding reporting to the Investment Committee by:

- Investment Office staff
- **General Pension Consultant**
- **Private Asset Class Board Investment Consultants (PACBIC)**

*Table 2: Reporting to the Investment Committee – Investment Office Staff*

Ref #	Function / Topic	Responsible Party	Report Content	Frequency
1.	Policy Compliance	Investment Office	Report concerns problems, material changes, and all violations of CalPERS’ investment policies. These reports shall include explanations of any violations and appropriate recommendations for corrective action.	At the next Committee meeting or sooner if deemed necessary
2.	Investment Beliefs	Total Fund Portfolio Management and Asset Classes	Report on how the asset class or program aligns with the Investment Beliefs.	No less than annually
3.	Governance and Sustainability Strategy	Total Fund Portfolio Management and Asset Classes	Report on how the asset class or program aligns with the CalPERS Governance and Sustainability Strategy in-force strategic plan.	No less than annually
4.	Asset Liability Management	Total Fund Portfolio Management	Provide analysis supporting the asset liability management review, including market-based research and capital market assumptions, coincident with the asset management liability cycle, and at the midpoint of the 4-year review cycle.	Every 4 years, and at the midpoint of 4-year cycle

Ref #	Function / Topic	Responsible Party	Report Content	Frequency
5.	Risk Management	Total Fund Portfolio Management	Provide regular reporting on portfolio positioning relative to Total Portfolio policy limits.	No less than annually
6.	Risk Management	Investment Technology and Performance and/or Total Fund Portfolio Management	Provide regular reporting on portfolio performance and/or risk attribution in total portfolio terms, as well as relative to the reference portfolio.	No less than semi-annually
7.	Risk Management	Total Fund Portfolio Management	Report portfolio leverage metrics for the Total Portfolio and asset classes, including the breakdown between recourse and non-recourse liabilities. The report shall include unfunded capital commitments for private asset classes.	No less than semi-annually
8.	Risk Management	Total Fund Portfolio Management	Report on key risks, including quantitative metrics on market risk, volatility, liquidity, currency, concentration, counterparty, and other risks as appropriate. Risk analytics will include various methodologies, stress testing, stochastic analysis, factor-based modeling, ad hoc scenarios, etc.	No less than annually
9.	Opportunistic and Innovation	Investment Technology and Performance	Report on performance of investment activities in the Opportunistic and Innovation program.	No less than annually

Ref #	Function / Topic	Responsible Party	Report Content	Frequency
10.	Terminated Agency Pool	Total Fund Portfolio Management	Report on the current market value of assets and an analysis of the adequacy of the current program allocation to meet the forecasted benefit payment cash flows based on available data from CalPERS actuarial staff.	No less than annually
11.	CalPERS for California	Sustainable Investments	Document CalPERS Total Fund investment presence in California via a comprehensive examination of CalPERS California-based investments across asset classes and the resulting ancillary benefits from these investments. The report will assess local jobs created or supported, investments in communities of interest such as low- to moderate-income communities, areas with high unemployment, and rural communities, and the broader economic impacts resulting from CalPERS investments statewide.	No less than annually
12.	Investment Proposals	Total Fund Portfolio Management and Asset Classes	Report regarding investment proposals received, the stage they are at in the pipeline, and their ultimate disposition, at the next Committee meeting, or sooner if deemed necessary.	At the next meeting of the Investment Committee
13.	Annual Review	Total Fund Portfolio Management and Asset Classes	Provide an Annual Review that will include an overview, investment review, and business review.	No less than annually

## Reporting to the Investment Committee - General Pension Consultant

*Table 3: Reporting to the Investment Committee – General Pension Consultant*

Ref #	Function / Topic	Report Content	Frequency
1.	Market Analysis	Provide a report to the Committee that includes an analysis of market developments, market conditions, and macro-level view of market opportunities.	No less than annually
2.	Investment Policy	Review and provide an opinion letter to the Committee on investment policies and delegations of authority.	As needed
3.	Performance and Risk Reporting	Monitor, evaluate, and report on the performance and risk of the Total Portfolio, including relative to the Reference Portfolio and peer universe.	No less than annually
4.	Total Fund and Public Asset Class – Annual Review	Perform annual review of program(s), including any sub-components, and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually
5.	Opportunistic and Innovation Annual Review	Perform annual review of program investments, including any sub-components, and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually
6.	Governance and Sustainability Strategy	Report on the progress of the CalPERS Governance and Sustainability Strategy for applicable asset classes and strategies, corresponding with the Annual Review process.	No less than annually



## Reporting to the Investment Committee - PACBIC

Table 4: Reporting to the Investment Committee – PACBIC

Ref #	Function / Topic	Report Content - Regarding CalPERS' private asset classes	Frequency
1.	Market Analysis	Provide a report to the Committee that includes an analysis of market developments, market conditions, and macro-level view of market opportunities.	No less than annually
2.	Performance and Risk Reporting	Provide a report to the Committee regarding investment performance, portfolio risk and attribution analysis of private asset strategies; monitor and report on long-term expected performance.	No less than annually
3.	Investment Policy	Review and provide an opinion letter to the Committee on investment policies and delegations of authority.	As needed
4.	Transactions Exceeding Staff Authority	Provide an opinion letter to the Committee on investments above staff's delegation of authority.	As needed
5.	Private Asset Class Annual Review	Perform annual review of asset classes, including any sub-components, and provide an opinion letter to the Committee on performance, risk, manager selection and monitoring processes, and on internal control processes and staffing.	No less than annually
6.	Governance and Sustainability Strategy	Report on the progress of the CalPERS Governance and Sustainability Strategy for applicable asset classes and strategies, corresponding with the Annual Review process.	No less than annually

## Appendix 2 – Investment Responsibilities

This section provides details regarding investment related responsibilities for the:

- Investment Office staff
- Actuarial Office staff
- **General Pension Consultant**
- **Private Asset Class Board Investment Consultants**

*Table 5: Investment Responsibilities – Investment Office Staff*

Ref #	Function / Topic	Responsible Party	Responsibility
1.	Investment Policy	Investment Office	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.
2.	Policy Compliance	Investment Office	Implement and adhere to all policies.
3.	Collaboration and Engagement	Investment Office	Engage with other asset class staff, consultants, and other pertinent parties to seek advice and counsel regarding investment strategy and investment results.
4.	Procedures and Guidelines	Investment Office	Develop and maintain investment procedures and guidelines.
5.	Investment Governance	Investment Controls & Operational Risk	Oversee internal governance processes related to investment decision-making.
6.	Risk Management	Total Fund Portfolio Management	Develop and maintain methodologies for the measurement of Active Risk, and other Total Portfolio risk limits in policy.
7.	Risk Management	Total Fund Portfolio Management	Develop, monitor and report on various risks, including, but not limited to, liquidity, leverage, concentration, currency, and other relevant risks, in accordance with the constraints outlined in this Policy.
8.	Portfolio Design and Construction	Total Fund Portfolio Management	Manage total fund risk and capital allocation process, integrating Program-driven and top-down viewpoints to provide recommended portfolio options to INVO management committees. Facilitate supporting integrated analytics.

Ref #	Function / Topic	Responsible Party	Responsibility
9.	Total Portfolio Strategy Development and Management	Total Fund Portfolio Management	Research, develop, implement, and manage cross-portfolio and multi-asset investment strategies, in alignment with the Total Portfolio construction process.
10.	Investment Treasury Management	Total Fund Portfolio Management	Develop and implement an investment treasury management framework, including procedures and guidelines to ensure effective management and monitoring of liquidity.
11.	Portfolio Completion	Total Fund Portfolio Management	Propose and implement completion and rebalancing framework to manage total portfolio risk in accordance with the Board approved risk tolerances.
12.	Derivatives & Counterparty Risk	Total Fund Portfolio Management	Establish and administer the governance framework for derivatives and counterparty risk, including the development of policy and procedures.
13.	Derivatives & Counterparty Risk	Total Fund Portfolio Management	Monitor and evaluate the use of Total Portfolio derivatives and counterparty risk exposures to ensure the appropriate investment risk controls are in place.
14.	Derivatives & Counterparty Risk	Total Fund Portfolio Management / Investment Programs	Exercise thorough due diligence in assessing the scope of each LLE limited liability entity or registered/commingled fund manager’s use of derivatives, their purpose, experience of the fund manager’s staff in managing these positions, inherent leverage, and the manager’s systems, controls, and operations for determining appropriateness of these entities for CalPERS investment.
15.	Derivatives & Counterparty Risk	Total Fund Portfolio Management / Asset Classes	Evaluate periodically (no less than annually) for any changes in the use of derivatives at each LLE limited liability entity or registered/commingled fund to reaffirm the appropriateness of these investments at inception.

Ref #	Function / Topic	Responsible Party	Responsibility
16.	Leverage	Total Fund Portfolio Management	Develop and maintain leverage management guidelines that address allocation of Total Portfolio Leverage across asset classes and programs, methodology for calculating and aggregating leverage including definition of cash equivalents, and permissible leverage types and strategies for asset classes and programs where investments are made.
17.	Opportunistic and Innovation	Total Fund Portfolio Management	Oversee portfolio management framework for the Opportunistic and Innovation program.
18.	Terminated Agency Pool	Total Fund Portfolio Management	Ensure that program rebalancing and restructuring is performed as soon as practicable following the receipt of updated forecasted benefit payment cash flows from the CalPERS Actuarial Office.
19.	Governance and Sustainability Strategy	Global Public Equity	Execute all publicly traded company proxies and voting instructions in alignment with the Governance & Sustainability Principles.
20.	Investment Screening	Total Fund Portfolio Management and Asset Classes	Develop and maintain investment selection guidelines to evaluate investment proposals.
21.	Investment Transactions and Agreements	Total Fund Portfolio Management and Asset Classes	Execute approved investment transactions, including negotiating investment agreements, performing initial and ongoing due diligence, and closing transactions.
22.	Portfolio Management	Total Fund Portfolio Management and Asset Classes	Manage all aspects of program portfolio management, including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark, recommending investment, and monitoring leverage.
23.	Diversification	Total Fund Portfolio Management and Asset Classes	Seek to reduce and manage risk through appropriate diversification within the strategy, including, as appropriate, managers, partners, geography, industry, vintage year, as applicable.

Ref #	Function / Topic	Responsible Party	Responsibility
24.	Non-recourse Debt	Total Fund Portfolio Management and Asset Classes	Monitor non-recourse debt as a risk factor, as applicable and appropriate.
25.	Portfolio Compliance	Total Fund Portfolio Management and Asset Classes	Monitor internally and externally managed strategies in the implementation of, and compliance with investment policy.
26.	Governance & Sustainability Procedures	Total Fund Portfolio Management and Asset Classes	Develop and maintain all procedures, investment program guidelines, and sub-program guidelines required for the management and implementation of the CalPERS Governance and Sustainability Strategy, consistent with board-approved policy.
27.	Derivatives and Counterparty Risk Guidelines	Total Fund Portfolio Management and Asset Classes	Refer to the Investment Office Derivatives and Counterparty Risk Procedures Manual for additional limitations specific to their portfolios inclusive of cash and derivatives instruments.
28.	Other Investment Policy Compliance	Investment Office	Comply with reporting requirements and responsibilities described in other investment policies.

*Table 6: Investment Related Responsibilities – Actuarial Staff*

Ref #	Function / Topic	Responsibility
1.	Terminated Agency Pool	Provide a forecast of benefit payment cash flow.
2.	Terminated Agency Pool	Recalculate pool benefit payment cash flow when new agencies are added to the program.

*Table 7: Investment Responsibilities – General Pension Consultant*

Ref #	Function / Topic	Responsibility
1.	Investment Policy	Provide independent review, analysis, and recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, a system-wide approach, and implementation of CalPERS policies.
2.	Independent Counsel and Review of Investment Office	Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office staff and periodic review of processes and procedures.
3.	Asset Liability Management	Provide independent advice and perspective on Reference Portfolio benchmarks.
4.	Active Risk Methodology	Review and monitor staff's methodology and key assumptions to estimate Active Risk metric.
5.	Strategy Benchmark Oversight	Provide independent advice and confirm reasonableness of total fund and public asset class strategy benchmarks.
6.	Risk Management	Monitor portfolio composition and the evolution of risks relative to strategy benchmarks for each asset class. Provide an independent perspective on how strategies are funded from the Reference Portfolio.
7.	Leverage	Review and monitor staff's methodology and key assumptions to estimate Leverage metric.
8.	Derivatives and Counterparty Risk	Monitor and periodically review Derivatives and Counterparty Risk governance framework, including periodic review of staff procedures.
9.	Investment Oversight	Provide oversight on behalf of the Committee for investment activities within the Total Fund Portfolio Management and public asset classes.
10.	Opportunistic and Innovation	Provide oversight on behalf of the Committee for investment activities within the Opportunistic and Innovation program.

*Table 8: Investment Responsibilities – Private Asset Class Board Investment Consultant*

Ref #	Function / Topic	Responsibility - Regarding CalPERS' private asset classes
1.	Investment Policy	Provide independent review, analysis, and recommendations regarding the development and revision of private markets asset class policies to ensure overall consistency, use of best practices, a system-wide approach, and implementation of CalPERS policies.
2.	Independent Counsel and Review of Investment Office	Provide independent perspective and counsel on private markets asset classes to the Committee, to include routine communication with the Investment Office staff and periodic review of processes and procedures.
3.	Active Risk Methodology	Provide a secondary perspective on material private asset related inputs to estimate Active Risk metric. (Primary responsibility for oversight of Active Risk metric is with General Pension Consultant).
4.	Strategy Benchmark Oversight	Provide independent advice and confirm reasonableness of private asset strategy benchmarks.
5.	Risk Management	Monitor portfolio composition and the evolution of risks relative to strategy benchmarks for each private asset class. Provide an independent perspective on how strategies are funded from the Reference Portfolio.
6.	Investment Oversight	Provide oversight on behalf of the Committee for investment activities within the private asset classes.

### Appendix 3 – Reference Portfolio and Benchmarks

The PERF Reference Portfolio and component benchmarks are listed in [Table 9](#).

*Table 9: Reference Portfolio Weights and Benchmarks*

Asset Class	Asset Segment	Weight	Benchmark
Public Equity	Cap Weighted	75%	Custom FTSE All World, All Cap Equity
Fixed Income	Treasuries	25%	Bloomberg US Treasury Index

## Appendix 4 – Investment Constraints and Limitations

### Active Risk Limit

1. The PERF Active Risk limit is 400 basis points versus the Reference Portfolio.

### Investment Leverage

1. Total Portfolio Leverage as defined in policy shall not exceed 20% of the PERF NAV.

### Investment Treasury Management - Securities Lending

1. Initial and Maintenance Margin: The proper amount of collateralization 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%

2. Non-material Margin Call: Despite the maintenance margin percentages above, non-material margin calls need not be made subject to limits in the procedures approved by the **General Pension Consultant**.

### Private Asset Class Constraints and Limitations

Detailed approaches, parameters, and constraints are described in procedures and guidelines for each strategy with the input and oversight of the appropriate consultant. Additional constraints on investment transactions in private vehicles are described below.

### Real Assets

*Table 10: Real Assets – Staff Authority Limits*

Role	Commitments (\$ billions)	Dispositions (\$ billions)
Managing Investment Director limit per: (Real Estate)	\$3	\$3
Deputy Chief Investment Officer limit per: (Real Estate)	\$4.5	\$4.5
Chief Investment Officer limit per: (Real Estate)	\$6	\$6
Managing Investment Director limit per: (Infrastructure)	\$2	\$2
Deputy Chief Investment Officer limit per: (Infrastructure)	\$4	\$4

Role	Commitments (\$ billions)	Dispositions (\$ billions)
Chief Investment Officer limit per: (Infrastructure)	\$6	\$6
Managing Investment Director limit per: (Forestland)	\$1	\$1
Chief Investment Officer limit per: (Forestland)	\$2	\$2

*Real Assets – Partner Relationship Exposure*

The maximum Partner Relationship Exposure for the Real Assets is 20%. Similarly, the maximum exposure to outstanding investments with no External Manager is also 20%.

- a. “Partner Relationship Exposure” means, with reference to any given Partner Relationship, the ratio of the NAV of assets under management with such Partner Relationship, plus total unfunded commitments, to 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 Real Assets has investments with multiple members of an affiliated group of managers and/or partners, the investment allocation with that affiliated group.

*Table 11: Real Assets – Deal and Transaction Requirements*

Ref #	Transaction Size	Prudent Person Opinion (not PACBIC)	Opinion to the Board
1.	≤ \$250 million	MID discretion	Not required
2.	>\$250 million	Required	Not required
3.	>Staff Delegated Authority	Required	Required

## Private Equity

Table 12: Private Equity - Staff Authority Limits (in billions)

Role	Funds	Co-Investments	Customized Investment Account	Secondary Market Purchases <sup>1</sup>	Secondary Market Sales of Funds and CIAs
Managing Investment Director	\$1.25	\$1.0	\$2.0	\$1.0	\$2.0
Deputy Chief Investment Officer	\$2	\$1.25	\$3.0	\$2.0	\$4.0
Chief Investment Officer	\$3.0	\$1.5	\$4.0	\$3.0	\$6.0

### Private Equity - Partner Relationship Exposure

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 15% or less of PE's total **Net Committed Capital**. Any exception to this must be specifically approved by the Committee.
3. Co-Investments that are alongside institutional investors with which Private Equity does not have an active commitment are subject to further restrictions outlined in the Private Equity procedures.
4. Fund Investment Limitation - CalPERS commitments to any one fund cannot exceed 35% of that fund.

Table 13: Private Equity - Deal and Transaction Requirements

Ref #	Transaction Type/Size	Prudent Person Opinion (not PACBIC)	Opinion to the Board
1.	Fund Investments	Not required <sup>2</sup>	Not required
2	Co-Investment >\$500 million	Required <sup>3</sup>	Not required
3.	<b>Customized Investment Accounts</b>	Required	Not required
4.	>Staff Delegated Authority	Required	Required

<sup>1</sup> Single asset GP-led secondaries, for purposes of delegated authority, will be treated as co-investments

<sup>2</sup> A **Prudent Person Opinion** is required for fund investments in the third or fourth quartile.

<sup>3</sup> A **Prudent Person Opinion** is required for co-investments greater than \$250 million when done alongside institutional investors with which the PE Program does not have an active commitment.

## Private Debt

*Table 14: Private Debt - Staff Authority Limits (in billions)*

Role	Funds	Co-Investments	Customized Investment Account
Managing Investment Director	\$1.0	\$1.0	\$2.0
Deputy Chief Investment Officer	\$2.0	\$2.0	\$4.0
Chief Investment Officer	\$3.0	\$3.0	\$6.0

*Table 15: Private Debt - Deal and Transaction Requirements*

Ref #	Transaction Size	Prudent Person Opinion	PACBIC Opinion to the Board
1.	≤ \$250 million	MID discretion	Not required
2.	>\$250 million	Required	Not required
3.	>Staff Delegated Authority	Required	Required

## Opportunistic and Innovation

### *Opportunistic and Innovation - Staff Reporting Limits*

Staff will update the Committee on proposed investments that exceed \$3 billion dollars.

## Appendix 5 – PERF Investment Policy Document History

Summary of Change	Approval Date
Establish new Public Employees' Retirement Fund Investment Policy.	June 15, 2026