Investment Committee
Agenda Item 6a

November 16, 2026

Item Name: Affiliate Fund Policy Amendments - Second Reading

Program: Affiliate Investment Program

Item Type: Action

Recommendation

The Investment team is seeking the Investment Committee's (Committee) approval of the proposed amendments to the Legislators' Retirement Fund (LRF) Investment Policy and the Judges' Retirement System II Fund (JRS II) Investment Policy. No changes have been made to the proposed policy language and information regarding the proposed governance of JRS II private equity investments has been added to the presentation to address the Committee's feedback during the first reading. Consistent with what was presented in the first reading, the investment team recommends the following:

1. Adopt the proposed Legislators' Retirement Fund Investment Policy
2. Adopt the proposed Judges' Retirement System II Fund Investment Policy

Executive Summary

This agenda item seeks approval of the proposed investment policy amendments for the Legislators' Retirement Fund (LRF) Policy and the Judges' Retirement System II Fund (JRS II) Policy, which were presented as a first reading at the September 2026 Investment Committee meeting. The amendments align the policies with the Board of Administration's (Board) adoption of the Asset Liability Management (ALM) recommendations at the June 2026 Investment Committee meeting. The Board adopted a new strategic asset allocation (SAA) for the LRF and approved adding private equity as an incubated strategy for JRS II. Governance for JRS II private equity investments will be modeled on CalPERS' existing private equity governance framework with any needed adjustments and will have oversight from the Investment Controls and Operational Risk team and the General Pension Consultant. Presented in this item is an overview of the proposed governance framework and implementation approach. The full design and build-out of the governance framework is a component of the cross-functional project plan and will be completed over the next several months.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal of strengthening the long-term sustainability of the Affiliate Funds and supports the Board in its oversight role of CalPERS' investment program.

Investment Beliefs

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 5 — CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution
- Investment Belief 7 — CalPERS will take risk only where we have a strong belief we will be rewarded for it
- Investment Belief 10 — Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Background

As part of the recent ALM cycle, the Board approved a revised SAA for the LRF — a closed, cash-flow-negative, defined-benefit fund — to reduce expected volatility while supporting its 4.50% discount rate. That allocation, which materially increased the strategic weight to Treasury Inflation-Protected Securities (TIPS) from 35% to 49%, was implemented on July 1, 2026.

As part of an implementation review, the investment team determined that the current TIPS policy range of +/- 3% provides limited room for market fluctuation between rebalances and therefore recommends widening the range to +/- 5% to better align the range with the asset class's increased target.

Also, within the 2026 ALM cycle, the Board approved the inclusion of private equity as an eligible investment for JRS II to provide diversification benefits and the opportunity to enhance returns through an illiquidity premium. Private equity is a strategic fit in JRS II given its young, open, cash-flow-positive profile and moderately aggressive strategy.

The Investment Office (INVO) recommends implementing private equity within a new Opportunistic & Innovation program, which is a flexible sleeve that permits investments that are outside of the fund's approved asset class targets and ranges, includes innovative and incubation strategies, and requires Chief Investment Officer (or delegate) approval for strategy entry or liquidation. Private equity would be an incubated strategy with no set target allocation and a limit of 5%. INVO also recommends the addition of reporting and oversight requirements and responsibilities for INVO and the General Pension Consultant. This approach and policy language mirrors the addition of private debt as an incubated strategy to the Public Employees' Retirement Fund (PERF).

At the September 2026 Investment Committee meeting, the investment team presented the first reading of the proposed amendments. The Committee requested additional information on how private equity would be sourced for JRS II, how investment opportunities would be allocated between JRS II and the PERF, and whether the General Pension Consultant's oversight role extends to implementation of the Opportunistic and Innovation program. These items are addressed in the Analysis section below.

Analysis

Legislators' Retirement Fund

TIPS Policy Range

Widening the TIPS range to +/- 5% provides rebalancing flexibility, is proportionate to the increased asset class target, and is consistent with the +/- 5% ranges applied to the fund's other principal asset classes. The recommended TIPS policy range increase is amended in Appendix 3, Table 3 of the Policy, and is shown below.

Table 1: TIPS Policy Range – Current and Proposed

Asset Class	Current Policy Range	Proposed Policy Range
Treasury Inflation-Protected Securities (TIPS)	+/- 3%	+/- 5%

Asset Classes, Asset Allocation Targets, and Benchmarks

The following amendments were approved by the Board through the 2026 ALM cycle:

- Appendix 3, Table 3: the elimination of the Global Equity asset class and the amended SAA targets
- Appendix 4: the elimination of the Global Equity benchmark

Judges' Retirement System II Fund

Opportunistic and Innovation Program

The proposed amendment establishes an Opportunistic and Innovation program for JRS II and authorizes private equity as an incubated strategy.

Investment Approach & Parameters

Section D. Opportunistic and Innovation program has been added. The program permits investment outside JRS II's approved asset class targets and ranges, including innovative and incubation strategies. Investments may be managed internally, by external managers, or through general partners or limited liability vehicles, and may involve single or multiple asset types. Entry of a new strategy, or liquidation of a strategy as a whole, requires the approval of the Chief Investment Officer or delegate. Private equity is identified as an authorized asset class and is implemented within the program as an incubated strategy with no initial allocation target.

Investment Constraints and Limitations – Asset Allocation Targets & Ranges

Opportunistic & Innovation - Private Equity is added to Appendix 3, Table 3 with a 0% target and a +5% range. The market value of private equity investments shall not exceed 5% of JRS II.

Additionally, INVO recommends widening the Global Equity range from +/- 5% to +/- 7% and Fixed Income from +/- 5% to +/- 6% to provide additional room for implementation and rebalancing as the Opportunistic & Innovation – Private Equity investment ramps up towards the 5% limit. Given the often illiquid and/or idiosyncratic nature of private equity investments, any breach of the strategic policy asset class limits caused by a market dislocation will be assessed based on market liquidity and transaction costs in determining the timeframe for restoring program exposures within the limits.

Governance, Reporting, and Oversight

The amendment adds annual staff reporting on the Opportunistic & Innovation Program investments, returns, risks, and activity (Appendix 1); updates the annual General Pension Consultant report, to be inclusive of any sub-components, manager selection, monitoring processes, risk, internal control processes, and staffing, as applicable (Appendix 1); amends Investment Office Staff responsibility to expressly include the program (Appendix 2); adds a new General Pension Consultant responsibility to provide oversight of program activities on the Committee's behalf (Appendix 2); and adds the inclusion of partnership agreements within the External Manager responsibility section.

Opportunistic and Innovation Program: Private Equity Implementation & Oversight

In response to the Committee's feedback during the first reading regarding governance, an overview of the proposed governance framework and implementation approach is included along with information about project work that is anticipated to be completed and a high-level project timeline.

Program Governance
Investment selection will follow the existing private equity governance framework, which includes steering committees, the Board's consultants, and the Investment Controls and Operational Risk (ICOR) team. The investment team implements the program and reports annually, ICOR independently reviews risk and controls, and the General Pension Consultant oversees program activities, including implementation related to program suitability, as Wilshire confirmed at the first reading.

Implementation Approach
The investment team is evaluating several implementation options based on investment merit, cost and fees, transparency, liquidity and capital calls, and governance requirements. Prior to investing in private equity, the selected option will be reviewed through the existing private equity governance framework, with General Pension Consultant oversight.

Allocation of Investment Opportunities
Where JRS II and the PERF may participate in the same opportunities, allocation will follow documented procedures, in place before the first investment and subject to ICOR review and General Pension Consultant oversight.

Project Elements
Although the governance will be modeled on an existing framework, the body of work to add JRS II into the framework is substantial. The project includes several elements that will be completed prior to program launch. Each of these elements requires design, documentation, review, and signoff at various levels:

- Governance Framework
- Allocation Framework
- Oversight & Controls
- Roles and Responsibilities
- Procedures
- Reports

Project Timeline
Earlier stages of the JRS II Private Equity project centered on activities such as private equity asset class evaluation, market and industry research, the asset liability management review and approvals and developing policy amendments. The remaining stages of the project are focused on implementation and are comprised of the following three phases, with an anticipated launch in the third quarter of 2027:

> Phase 1 - Planning: policy adoption, project buildout of teams and deliverables, investment option evaluation, governance framework design to include JRS II.
>
> Phase 2 - Readiness: investment option selection, operating model design, procedures development, preparation of investment, legal, compliance, operations, accounting, technology, and reporting requirements.

Phase 3 – Investment: Investment readiness is targeted for early FY27/28. The JRS II private equity program information will be reported to the Committee via management and General Pension Consultant reports.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of the policy amendments are:

- Provides a strong governance framework for the management of investments.
- Aligns the LRF policy with the approved SAA and adds room for market fluctuation between rebalances for TIPS.
- Establishes a governed Opportunistic and Innovation program for JRS II for private equity.

There are no anticipated risks associated with the policy amendments. Risks associated with private equity investments, including illiquidity, will be monitored through the governance and reporting requirements described above.

Attachments

- Attachment 1 — Affiliate Fund Policy Amendments - Second Reading
- Attachment 2 — Legislators' Retirement Fund Policy (Redline)
- Attachment 3 — Legislators' Retirement Fund Policy (Clean)
- Attachment 4 — Judges' Retirement System II Fund Policy (Redline)
- Attachment 5 — Judges' Retirement System II Fund Policy (Clean)
- Attachment 6 — Wilshire Opinion Letter

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