Investment Committee
California Public Employees' Retirement System

Agenda Item 5a

June 16, 2014

ITEM NAME: Contracts Administration: General Pension Board Consultant Services Request for Proposal

PROGRAM: Total Fund

ITEM TYPE: Independent Oversight – Action

RECOMMENDATION

Approve the statement of Services to be Provided (Attachment 1), Evaluation Process (Attachment 2), Evaluation Sheet (Attachment 3), Minimum Qualifications (Attachment 4), and the initiation of the Request for Proposal (RFP) process for the General Pension Board Consultant.

EXECUTIVE SUMMARY

Staff requests Investment Committee (Committee) approval to release RFP No. 2014-7111, General Pension Board Consultant Services, in order to procure a new contract for the General Pension Board Consultant for a term of up to five (5) years.

The Total Fund Statement of Investment Policy (Attachment 5) and Statement of Investment Policy for Benchmarks (Attachment 6) have been provided for reference.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization.

INVESTMENT BELIEFS

This item supports CalPERS Investment Belief 4 that long-term value creation requires effective management of three forms of capital: financial, physical and human.

BACKGROUND

The primary role of the General Pension Board Consultant is to provide opinions on matters relevant to the prudent and optimal management of the System[1].

Wilshire Associates Inc. was selected as the first General Pension Board Consultant in 1983, and has since remained in the position through successive RFPs and contract awards. The current contract with Wilshire began on July 1, 2010, and is

[1] The System is comprised of the Public Employees' Retirement Fund, the Affiliate Trusts, and any other system, fund, or trust administered by the Board of Administration of the Public Employees Retirement System.

scheduled to terminate on June 30, 2015. In order to select a General Pension Board Consultant, award and execute a new contract prior to this expiration date, staff will issue a RFP, subsequent to Committee approval of the attachments provided with this item.

ANALYSIS

Investment Office staff developed the RFP, specifically the Services to be Provided, to align with CalPERS Investment Beliefs, and to provide sufficient services to the Committee.

The Services to be Provided include:

- General Investment Consulting
- Asset Allocation and Risk Management
- Ongoing Education
- Investment Policy Review
- External Manager Review
- Performance
- Investment Office Program Review

Upon approval by the Committee, the RFP will be released in the summer of 2014. Staff anticipate a contract to be executed by July 1, 2015, approximately a total of 10 months from the point of the RFP release to full execution of the resulting contract.

Key activities and anticipated dates are as follows:

Date	Key Activity
Summer 2014	RFP release
Fall 2014	Staff evaluates and scores technical and fee proposals
Fall 2014	Staff presents finalists to the Investment Committee for consideration
Fall 2014	Committee conducts oral interview and selects finalist for contract award
Spring 2015	Contract negotiations and preparation
June 2015	Contract execution

BUDGET AND FISCAL IMPACTS

The current General Pension Board Consultant contract has an annual cost of $3.3 million and a total contract cost of approximately $15.5 million.

The anticipated term of the contract, as a result of this RFP, will be for a five-year term with annual costs to be negotiated. As required by the CalPERS Board of Administration Contract Activity Reporting Policy, this RFP was reported to the Finance and Administration Committee in April 2014.

BENEFITS/RISKS

The search and procurement of a General Pension Board Consultant supports the Committee in meeting its objectives to prudently manage the System and provide members and beneficiaries with benefits, as required by law.

Approving the initiation of the RFP for the General Pension Board Consultant will minimize any interruptions to the provision of critical consultant services to support the Committee in its fiduciary duty to the beneficiaries.

Failure to initiate the RFP may result in lack of access to key advisory services including the Committee's access to an independent fiduciary to provide opinions on the prudent and optimal management of the System.

ATTACHMENTS

Attachment 1 – Services to be Provided
Attachment 2 – Evaluation Process
Attachment 3 – Evaluation Sheet
Attachment 4 – Minimum Qualifications
Attachment 5 – Total Fund Statement of Investment Policy
Attachment 6 – Statement of Investment Policy for Benchmarks

WYLIE TOLLETTE
Chief Operating Investment Officer

Services To Be Provided

In performing the services outlined below, the Consultant will, at all times, be subject to and comply with the Total Fund Statement of Investment Policy and each of CalPERS other investment policies (collectively the Policies or the Policy), and any subsequent revisions, amendments, or removal of any Policy. Policies may be found at www.calpers.ca.gov.

A. General Investment Consulting

- Review and provide written opinions as an independent fiduciary on reports prepared by CalPERS staff (Staff), as requested by the CalPERS Board of Administration Investment Committee (Board).
- Provide opinions on matters relevant to the prudent and optimal management of the System[1], as requested by the Board.
- Identify and create a peer benchmark for the Public Employees' Retirement Fund (Total Fund) The benchmark for the Total Fund will hereafter be referred to as the CalPERS Peer Universe.
- Identify and create a peer benchmark for each component of the Affiliate Trusts[2], in components where a peer exists. The benchmarks for Affiliate Trusts will hereafter be referred to as the Affiliates Peer Universe.
- Provide review and analysis for the Total Fund relative to the CalPERS Peer Universe.
- Provide review and analysis for each component of the Affiliate Trusts relative to the appropriate Affiliates Peer Universe, as requested by the Board.
- Attend all CalPERS Board of Administration Investment Committee (IC) meetings.
- Attend CalPERS IC sub-committee meetings, as requested by the Board.
- Provide research, detailed market analysis and trends, and advice on specific pension topics, as requested by the Board.
- Inform the Board of any market conditions that arise which could potentially create undue risk to the System and any components of the System.

B. Asset Allocation and Risk Management

1. Asset Allocation and Liability Management Review

CalPERS undertakes a periodic asset liability management (ALM) review.

CalPERS Investment Office, Actuarial Office, and Financial Office Staff are responsible for the ALM review. The ALM review includes, but is not limited to:

- Definition of the market opportunity set and asset classes relevant to CalPERS.
- Assessment and perspective regarding the benchmarks used for the various asset classes.

[1] The System is comprised of the Public Employees' Retirement Fund, the Affiliate Trusts, and any other system, fund, or trust administered by the Board of Administration of the Public Employees Retirement System.

[2] Affiliate Trusts include the following: Annuitants' Health Care Coverage Fund (referred to as the California Employers' Retiree Benefit Trust), Judges' Retirement Fund, Judges' Retirement System II Fund, Legislators' Retirement Fund, Long-Term Care Fund, Public Employees' Health Care Fund, Public Employees' Deferred Compensation Fund, Supplemental Contributions Program Fund, and the State Peace Officers' and Firefighters' Defined Contribution Plan Fund.

- Establishment of capital market assumptions for the opportunity set used in the modeling process.
- Critique and perspective on the strengths and weaknesses of using a modern portfolio theory analytic framework as the basis for the modeling.
- Critique and perspective on transforming an asset class perspective into market risk factors.
- Assessment of the strengths and weaknesses of “active” versus “passive” management in the various parts of the asset classes.
- Transforming market characteristics into actuarial assumption sensitivities.
- Risk assessment on all elements contributing to the analysis from both an investment and an actuarial perspective.
- Engagement with various stakeholders.

The General Pension Board Consultant, with respect to the above process, is expected to:

a) Total Fund

- Participate in each step and topical area of the ALM review as requested, including:
  - Meeting with Staff,
  - Develop analytic frameworks and communication materials,
  - Contribute to the development of estimates and forecasts used in the modeling process, and
  - Participate in the presentation and dialog during ALM workshop sessions with the Board, or the designated subcommittee of the Board.

- Provide an opinion on Board decisions relative to ALM, to include whether decisions were:
  - Based on reasonable estimates and assumptions, and
  - Developed by processes comporting with best business practices.

b) Affiliate Trusts

- Participate in discussions on ALM for the Affiliate Trusts,
- Review and provide feedback on ALM plan developed by Staff, and
- Review and provide an opinion on Investment Committee agenda items for ALM.

2. Risk Management

- Review and provide opinions to the Board on the risk characteristics and the risk profile of the Total Fund, including analysis relative to the CalPERS Peer Universe.
- Review and provide opinions to the Board on the risk characteristics and the risk profile of each of the Affiliate Trusts, as appropriate, including analysis relative to the appropriate Affiliate Peer Universe.

C. Ongoing Education

- Provide Board and Staff, as appropriate, with educational sessions including but not limited to:
  - Investment topics pertinent to prudently managing the System, and
  - Current investment topics and capital market trends.

D. Investment Policy Review

- Monitor and review how Staff is adhering to the Policies.
- Review, analyze, and provide an independent recommendation on the Policies, including any procedures, as proposed by Staff, outside advisors, or specialty consultants. The review and recommendation should ensure that the Policies:
  - Meet industry standards,
  - Are consistent with other Policies,
  - Use best practices,
  - Align with CalPERS Investment Beliefs,
  - Reflect the Board's accepted risk tolerance, and
  - Assist the Board in meeting the long-term investment objectives of CalPERS.
- Provide written recommendations for amendments and/or modifications to any Policy, including procedures referenced in the policy, and provide detailed justification for recommendations.
- Prepare and present reports and recommendations for reviewing and updating Policy criteria and objectives which include strategies for public and private asset classes/programs.

E. External Manager Review

- Review and provide an opinion on the process used to identify and source external managers, as requested by the Board.
- Provide advice to the Board on questions or issues that arise in the course of administering the external manager programs on strategic issues related to structure, policy, and benchmarks.
- Review and opine on investment management fees and related expenses, as requested by the Board.

F. Performance

- Review and approve all requests for benchmark replacements and modifications.
- Review and provide an opinion on the Total Fund Policy Benchmark[3], as defined in Policy and components of the Total Fund Policy benchmark, as requested by the Board.
- Review and provide written opinions of custom benchmarks, as requested by the Board.
- Report on the investment risk and performance of the Total Fund, and provide an analysis of CalPERS investment risk and performance compared to CalPERS Peer Universe. The analysis should include recommendations and justifications for recommendations, on any issues in the analysis that would hinder the Board's ability to meet CalPERS long-term investment objectives.
- Report on the investment risk and performance of the Affiliate Trusts, and provide an analysis of CalPERS investment risk and performance compared to the Affiliates Peer Universe. The analysis should include recommendations and justifications for recommendations, on any issues in the analysis that would hinder the Board's ability to meet CalPERS long-term investment objectives.

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[3] Total Fund Policy Benchmark is currently defined in the Benchmarks Policy, Exhibit 2, as the average return of the asset class benchmark indices weighted by asset class benchmark allocations plus the benchmark return of the total fund currency overlay program. This definition may be amended in subsequent policy revisions.

- Prepare a one (1) page annual report on the investment performance for the CalPERS Annual Financial Report (CAFR).
- Analyze for reasonableness, the benchmarks, measurements and appropriateness of all factors within Staff performance plans, compared to industry peers.
- Validate year-end, quantitative measurements on Staff performance plans.

G. Investment Office Program Review

- Benchmark the internal programs against industry standards, best practices, and if applicable, the appropriate component of CalPERS Peer Universe or Affiliates Peer Universe. Provide a written report to the Board.
- Provide periodic written program reviews, as requested by the Board.
- Review and provide comment on asset class program reviews and agenda items, as requested. Provide a written report to the Board.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

GENERAL PENSION BOARD CONSULTANT SERVICES EVALUATION PROCESS

All Proposals received on or before the final filing date and time as specified in the Schedule of Events will be evaluated as outlined below. CalPERS may request clarifications from Proposers at any phase of the evaluation process for the purpose of clarifying ambiguities in the information presented in the Proposal.

CalPERS, in the exercise of its exclusive discretion, may permit the Proposer to correct any error, omission, deviation, or other defect. Alternatively, CalPERS may waive such error, omission, deviation, or other defect. However, such waiver shall in no way modify the Request for Proposal (RFP) documents or excuse the Proposer from full compliance with the RFP requirements.

A. Preliminary Review

The Proposal will be reviewed to determine completeness of, and to confirm receipt of all required documents. CalPERS may reject any or all Proposals that fail to meet these requirements.

Preference and/or Incentive points may be awarded to Proposers based on the applicable requirements and if all required documentation is submitted. The Preference and/or Incentive Points are in addition to the maximum available points, thus it is possible for a Proposer's total Proposal score (including the applicable Preference and/or Incentive points) to exceed the maximum available points.

To receive preference points for Small Business Preference, Target Area Contract Preference Act, and/or, Disabled Veterans Business Enterprise (DVBE) applicable certifications must be included at the time of proposal submission.

Staff will also review the Proposal to ensure Minimum Qualifications are met. If Minimum Qualifications are met, the RFP will advance to the Proposal Evaluation phase.

B. Technical Proposal Evaluation (200 Points)

Upon satisfactory preliminary review, the Technical Proposal will be evaluated by staff. The evaluation team may receive guidance and oversight from two members of the CalPERS Board of Administration Investment Committee. Each team member will independently evaluate the Proposers' Technical Proposal, using the Proposal Evaluation Sheet. A single score for each Proposal will be reached by consensus of the evaluation team, with a maximum of 200 points.

After CalPERS has ascertained that the Technical Proposal score meets or exceeds 100 points, the RFP will advance to the Fee Proposal Evaluation phase. A minimum of 100 points are required to advance to the Fee Proposal Evaluation phase.

C. Fee Proposal Evaluation (300 Points)

Proposers that are continuing in the evaluation process will have their Fee Proposal opened. The lowest Fee Proposal will receive a maximum score of 300 points. All other Fee Proposals will be rated proportionately as follows:

$$\frac{\text{Lowest Fee Proposal}}{\text{Proposer's Fee Proposal}} \times 300 = \text{Proposer's Score}$$

D. Finalists

Each Proposal's Technical Proposal Score will be combined with the Proposer's Fee Proposal Score, with a maximum of 500 total points. The highest scoring Proposals, as determined by staff, will be Finalists and continue in the evaluation process.

One or more team members will conduct background and reference checks of each Finalist. This information will be rated as satisfactory or unsatisfactory as prescribed on the Proposal Evaluation Sheet.

E. Finalists Interviews (500 Points)

Each Finalist rated as satisfactory in all categories of the background and reference checks will be required to appear for an oral interview with CalPERS Board of Administration Investment Committee at a time and place to be announced. Finalists will be notified in advance of the specific date, time, and format for the interview. Please remember that if interviews are to be webcast, Finalists must sign and the CalPERS Full Board of Administration Interview Form agreeing they will not watch any of the other Finalists' interviews**. A Proposer found in violation of the Full Board of this Attachment (Full Board of Administration Interview Form) certification may cause the proposal to be rejected.** The interview may include participation by all key professionals who will exercise a significant administrative, policy, or consulting role under the contract and will be evaluated using a "trimmed average" scoring methodology as illustrated in the sample below.

Trimmed Average Scoring Methodology

The table below describes the interview scoring process, assuming for illustration purposes, that nine committee members (“raters”) are assigning scores.

Step	Action
1	Each rater scores the Proposers individually assigning a score using the following scale: **0** = Unacceptable **1** = Poor **2** = Fair **3** = Good **4** = Very Good **5** = Excellent
2	The scores from the individual rater score sheets are entered onto a combined rater score sheet.
3	The lowest score and the highest score for each Proposer are ignored.
4	The seven remaining scores are added together and then divided by seven to achieve the “trimmed average” score.
5	The trimmed average score is multiplied by the maximum number of points for the Interview (500) and divided by the highest score choice (5) for the Final Interview Score. (Trimmed Average Score x 500/5)

Assuming Total Available Board Points of 500

	Proposer 1	Proposer 2	Proposer 3	Proposer 4
Rater 1	5	4	5	3
Rater 2	5	4	5	2
Rater 3	5	4	5	5
Rater 4	5	4	5	3
Rater 5	4	4	5	2
Rater 6	4	4	1	5
Rater 7	4	4	1	1
Rater 8	3	4	1	0
Rater 9	1	4	1	5
Trimmed Average Score	4.29	4.00	3.29	3.00
Total Points	429	400	329	300

Each Proposer's Final Interview Score will be combined with the Technical and Fee Proposal Scores and any applicable preference and incentive points. Proposals will be ranked from highest to lowest.

In case of a tie between two or more Finalists' Interview Scores, the Final Interview Scores will be rounded to the nearest one-hundredth decimal.

F. Award of Contract

1. The Contract award, if any, will be made to the responsive and responsible Finalist having the highest total score, but it may be subject to final negotiations and satisfaction of all requirements. Should negotiations not be successful with the selected Finalist, CalPERS may, based on its exclusive discretion, negotiate with the Proposer having the next highest total score.
2. Notice of CalPERS intent to award to the selected Proposer will be posted in CalPERS Contracts Management Section and at www.calpers.ca.gov for five (5) State business days before the award of a contract is made.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

GENERAL PENSION BOARD CONSULTANT SERVICES

PROPOSAL EVALUATION SHEET

Firm's Name ______________________________

I.	**MINIMUM QUALIFICATIONS**		
	Minimum Qualifications reviewed?	Yes ☐	No ☐
	TECHNICAL PROPOSAL	**Maximum Points**	**Proposer's Points**
II.	Technical Proposal Evaluation	200	______
	TOTAL TECHNICAL PROPOSAL POINTS	**200***	______

* Minimum score of 100 points required to advance to Fee Proposal Evaluation.

III.	**FEE PROPOSAL**	**Maximum Points**	**Proposer's Points**
	Fee Proposal Evaluation	300	______
	TOTAL FEE PROPOSAL POINTS	**300**	______

COMBINED SECTION II AND III TOTAL POINTS	**Maximum Points**	**Proposer's Points**
Section II Total Points	200	______
Section III Total Points	300	______
SUB TOTAL SECTIONS II AND III POINTS	**500****	

** The highest scoring proposals, as determined by CalPERS will be Finalists.

Firm's Name ______________________________

BACKGROUND AND REFERENCE CHECKS

Were background and reference checks satisfactory? Yes ☐ No ☐ N/A ☐

IV.	INVESTMENT COMMITTEE INTERVIEWS	Maximum Points	Proposer's Points
	Investment Committee Interviews	500	________
	TOTAL INVESTMENT COMMITTEE INTERVIEW POINTS	**500**	________

GRAND TOTAL COMBINED POINTS	Maximum Points	Proposer's Points
Technical Proposal Points	200	________
Fee Proposal Points	300	________
Investment Committee Interview Points	500	________
Preference/Incentive Points (if applicable)		________
GRAND TOTAL POINTS	**1000**	________

MINIMUM QUALIFICATIONS

The Proposer must meet all of the following Minimum Qualifications in order for its Proposal to proceed to the Technical Proposal Evaluation stage. Failure to satisfy any of these qualifications and requirements upon submittal of the Proposal will result in the rejection of the Proposal. An individual who is authorized to bind the Proposer contractually must sign the Minimum Qualifications Certification, Attachment A, to certify that the Proposer meets all of the Minimum Qualifications. Such certification also must include an explanation of how each Minimum Qualification is met. It is preferred that the Proposer explain in writing on, or attached to, Attachment [TBD] how each Minimum Qualification is met. Proposer may provide the explanation(s) elsewhere in its Proposal, however the Proposer should identify that the explanation serves to explain its satisfaction of the particular Minimum Qualification.

The Minimum Qualifications may be satisfied by the Proposer as a joint venture as specified in the Joint Venture Policy, Exhibit [TBD]. CalPERS Joint Venture Policy permits only joint ventures to use their combined individual experience and qualifications to fully satisfy all Minimum Qualifications. If the Proposer is submitting a Proposal based on a prime contractor/subcontractor relationship, the subcontractor's qualifications cannot be used to satisfy the Minimum Qualifications.

CalPERS retains the sole right to decide whether any Proposer is qualified to bid.

1. As of December 31, 2013, the proposing firm must have a minimum of three (3) years of experience, in the last five (5) years, providing consulting services to public pension funds with assets under management (AUM) of at least $10B at the time the public pension fund retained the proposing firm's services.

   Show evidence of this by completing the Evidence Minimum Qualification #1, Response, Exhibit [TBD]. All requested fields in the Evidence of Minimum Qualifications Response #1, Exhibit [TBD], must be completed in order to satisfy this Minimum Qualification. The proposal may be disqualified if all requested fields are not completed.

2. As of December 31, 2013, each of the proposing firm's key personnel dedicated to the CalPERS contract or the organization, must have at least three (3) years of experience in providing consulting services to institutional fund clients. The experience in this Minimum Qualification must be comparable to the Services to Be Provided detailed in this RFP.

   Show evidence of this by completing the Evidence of Minimum Qualification #2, Response, Exhibit [TBD]. All requested fields in the

Evidence of Minimum Qualifications Response #2, Exhibit [TBD] must be completed in order to satisfy this Minimum Qualification. The proposal may be disqualified if all requested fields are not completed.

3. As of December 31, 2013, within the last ten (10) years, the proposing firm must have at least three (3) years of experience in providing consulting services to institutional fund clients. The experience in this Minimum Qualification must be comparable to the Services to Be Provided detailed in this RFP.

   Show evidence of this by completing the Evidence of Minimum Qualification #3, Response, Exhibit [TBD]. All requested fields in the Evidence of Minimum Qualifications Response #3, Exhibit [TBD] must be completed in order to satisfy this Minimum Qualification. The proposal may be disqualified if all requested fields are not completed.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

TOTAL FUND
STATEMENT OF INVESTMENT POLICY

December 14, 2009

This policy is effective immediately upon adoption and supersedes all previous Total Fund Statement of Investment and Policy Administration policies.

I. PURPOSE

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 assets. The Policies outline objectives, benchmarks, restrictions and responsibilities so that the Investment Committee, Policy Subcommittee, Staff, consultants, managers, members and beneficiaries, and all CalPERS stakeholders clearly understand the objectives and policies of CalPERS investment program. The Policies also encourage effective communication, facilitate transparency and compliance, and provide a framework for reporting back to the Investment Committee, as appropriate.

The Policies set forth the guidelines which the Investment Committee deems to be appropriate and prudent in consideration of the needs of and the legal requirements applicable to CalPERS investment program. 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 also are intended to ensure that the Investment Committee is fulfilling its fiduciary responsibilities in the management of CalPERS investments.

The Investment Committee intends for the Policies to be a dynamic document 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.

In addition, the Investment Committee has delegated to the Staff certain authority that pertains to the ongoing management and administration of CalPERS assets and various investment programs. These delegations are contained in a master delegation document that the Investment Committee has approved.

II. STRATEGIC OBJECTIVE

CalPERS general investment goals are broad in nature. The overall objective of CalPERS investment program is 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 that efficiently and effectively allocates and manages the assets of CalPERS.

The Policies have been designed to allow CalPERS to achieve a long-term total return. As such, 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 of 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.

III. RISK MANAGEMENT

Risk management is central to managing the assets of CalPERS and to achieving the strategic objectives. A framework for risk management is established through the adoption of investment policies for total fund strategic asset allocation, individual asset classes and portfolios with appropriate benchmarks and reasonable risk limits for the implementation of the program. The level of risk assumed will be monitored and reported using selected risk metrics as required in the Risk Management Policy.

IV. RESPONSIBILITIES

A. The Investment Committee's responsibilities include, but are not limited to:

1. Developing and adopting policies to achieve CalPERS strategic objectives.

2. Reviewing policy recommendations made by the Policy Subcommittee and Staff.

3. Periodically reviewing and amending the Policies, as appropriate.

B. The Policy Subcommittee's responsibilities include, but are not limited to:

1. Recommending policies for Investment Committee consideration.

2. Reviewing policy recommendations made by Staff.

3. Periodically reviewing the Policies and recommending revisions, as appropriate.

C. The Investment Staff's duties include, but are not limited to:

1. Periodically reviewing the Policies and making recommendations to the Policy Subcommittee and Investment Committee regarding new Policy development, Policy revisions or amendments, Policy elimination, and any other aspect that the Staff considers pertinent regarding Policy development.

2. Engaging with other asset class Staff, consultants, and other pertinent parties, to seek advice and counsel regarding investment strategy and investment results.

3. Developing and maintaining an up-to-date procedures manual.

4. Implementing and adhering to all policies.

D. The Board's independent investment consultants' responsibilities include, but are not limited to:

1. Providing independent review, analysis, and recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, a systemwide approach, and implementation of CalPERS policies.

2. Reporting to the Investment Committee and Policy Subcommittee as appropriate.

V. PERFORMANCE OBJECTIVE AND BENCHMARK

Specifically:

A. The assets of CalPERS will be invested to meet or exceed the actuarial rate over the long-term;

B. CalPERS will seek to maximize the returns for the level of risk taken;

C. CalPERS will seek to achieve a return that exceeds the Policy Index; and

D. CalPERS will invest its assets efficiently, bearing in mind the impact of management and transaction costs on the return of the assets.

VI. INVESTMENT APPROACHES AND PARAMETERS

Not applicable.

VII. CALCULATIONS AND COMPUTATIONS

Not applicable.

VIII. GLOSSARY OF TERMS

Key words used in the policies are defined in CalPERS Master Glossary of Terms.

Approved by the Investment Committee:	June 18, 2007
Administrative changes made due to Policy Review Project:	June 17, 2009
Reviewed by the Policy Subcommittee; no changes recommended:	August 17, 2009
Revised by the Policy Subcommittee	November 16, 2009
Approved by the Investment Committee:	December 14, 2009

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
BENCHMARKS

March 6, 2014

This policy is effective immediately upon adoption and supersedes all previous Benchmarks policies.

I. PURPOSE

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

This document sets forth the investment policy ("Policy") for the selection and modification of program benchmarks ("Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action when selecting program benchmarks and managing the benchmark modification process. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with managing Program benchmarks.

II. STRATEGIC OBJECTIVE

The Program shall be managed to accomplish the following:

A. Manage total portfolio risk and return characteristics; and,

B. Establish controls for the selection and modification of benchmarks.

III. RESPONSIBILITIES

A. The Committee is responsible for approving total fund policy benchmarks.

B. CalPERS Investment Staff ("Staff") is responsible for the following:

1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Modifying benchmarks as applicable.

3. Providing a report to the Chief Operating Investment Officer (“COIO”), annually, in July, listing all new benchmark, benchmark replacement and modification requests submitted during the previous fiscal year.

4. Reporting to the Committee quarterly, and more often if needed, any benchmark changes.

5. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of any violations and appropriate recommendations for corrective action.

C. The General Pension Consultant (“Consultant”) is responsible for:

1. Monitoring, evaluating, and reporting quarterly, to the Committee, on the performance of the Program relative to the Policy.

2. Reviewing and approving all requests for benchmark replacements and modifications.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

A. The performance objective is for the various asset classes and programs to meet or exceed their respective benchmarks.

B. The benchmark for individual programs or strategies is listed in one of the following attachments:

1. Attachment A: Total Fund Policy

2. Attachment B: Asset Allocation Policies

3. Attachment C: Asset Class Policies

Policies included in the following categories do not have referenced benchmarks; therefore, they are not listed in the attachments: Investment and Risk Management, Ethics, Operations and Shareowner Activities.

C. Benchmark Definitions – Please see the applicable attachments for a definition of each program’s component (i.e., industry, sector, country, etc.) benchmark.

V. INVESTMENT APPROACHES AND PARAMETERS

The purpose of a benchmark is to establish target investment exposures, facilitate the periodic reporting to the Committee, and to provide a relative measure to gauge success.

A. Desirable Benchmark Characteristics

The desirable characteristics of a suitable program benchmark are set forth below.

1. Public Market Securities / Programs

a. Investable – The securities contained in the benchmark should represent tradable positions. Ideally, the benchmark should be constructed with low turnover to minimize transactions costs.

b. Measurable – The pricing of the benchmark should be transparent, making it possible to track benchmark performance.

c. Unambiguous – The names and weights of the securities in the benchmark should be clearly defined.

2. Private Market Programs

a. Measurable – The pricing of the benchmark should be transparent, making it possible to track benchmark performance.

b. Predetermined – The names and weights of the components of the benchmark should be clearly defined.

c. Representative – The components of the benchmark should be suitably representative of the investments and their associated risk and return levels.

B. Benchmark Modification Indicators:

The following factors may indicate that modification of a benchmark should be considered:

1. When a more cost efficient alternative is available that captures the risk return characteristics of the asset class or program.

2. When a component (i.e., industry, sector, country, etc.) of the benchmark is exposed to economic risks that are of such a degree that the future economic viability of that industry or sector is in doubt. Examples of such indicators:

   a. The industry, not an individual company, shares common exposure to product liability judgments, settlements, and ongoing litigation that have the potential to exceed the industry's net worth.

   b. Significant threat of a specific component filing bankruptcy.

   c. Regulatory or legislative actions or both that have the potential to substantially impair specific component earnings.

   d. Policy actions in the institutional investor community that, in aggregate, have the potential to have a deleterious effect on specific component share prices.

3. In the event that these or other indicators are evidenced, Staff or a member of the Committee may bring the matter before the Committee for due diligence and consideration. This due diligence will include:

   a. Analysis by Staff, in consultation with third-party experts, that the indicators are evidenced and have the potential to adversely impact the benchmark performance.

   b. Analysis of the expected effect of the benchmark modification on the total portfolio risk/return characteristics.

C. Benchmark Modification Process

1. Staff is responsible for completing the Benchmark Change Control Form, obtaining the appropriate Senior Investment Officer approval, and submitting the form to the Investment Servicing Division – Portfolio Analytics Unit ("ISD – PA").

2. ISD – PA Staff is responsible for reviewing the proposed purpose of the benchmark replacement or benchmark component modification.

3. The Consultant is responsible for reviewing and approving the benchmark replacement or benchmark component modification.

4. The Chief Investment Officer ("CIO") or the COIO must also approve the benchmark replacement or benchmark component modification.

5. Once the Consultant and the CIO or COIO has approved the benchmark modification, ISD – PA Staff will notify the Office of Enterprise Compliance, the Asset Allocation/Risk Management Unit and the Custodian.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS Custodian.

VII. GLOSSARY OF TERMS

There are no master glossary terms contained in this policy.

Approved by the Policy Subcommittee: Adopted by the Investment Committee:	June 15, 2009 August 17, 2009
Revised by the Policy Subcommittee: Approved by the Investment Committee:	November 16, 2009 December 14, 2009
Revised by the Policy Subcommittee: Approved by the Investment Committee: Policy Effective:	April 11, 2011 May 16, 2011 July 1, 2011
Administrative Update to Attachment F – Real Asset Policies:	February 7, 2012
Administrative Update to Attachment B – Asset Allocation Policies Program Benchmarks:	March 1, 2012
Administrative Update to change AIM to Private Equity (PE):	October 10, 2012
Approved by the Investment Committee to add Multi Asset Class Partners Allocation and Program	December 10, 2012
Administrative Update to Attachment B – Asset Allocation Policies Program Benchmark:	February 22, 2013
Administrative Update to Attachment J – Other (Non-PERF) Investment Portfolio Policies Program Benchmark	May 10, 2013
Approved by the Investment Committee: Administrative Change regarding postponement of implementation date to:	June 17, 2013 July 30, 2013
Approved by the Investment Committee: Policy Effective:	September 16, 2013 July 1, 2013

Administrative Update to overall policy to include reference to Investment Beliefs, and revisions to: Attachment A – Total Fund Policy Benchmarks Attachment B – Asset Allocation Policies Program Benchmarks Attachments C, D, E, and J for Program Benchmarks	December 5, 2013
Administrative Update to the Investment Approaches and Parameters Section, the attached Program Benchmarks (Attachments C through J) and consolidation into Attachment C	March 6, 2014

ATTACHMENT A

TOTAL FUND POLICY BENCHMARKS

December 5, 2013

The total fund policy benchmark is the average return of the asset class benchmark indices weighted by asset class benchmark allocations plus the benchmark return of the total fund currency overlay program. The fund benchmark return is the return attributable to the target asset class allocations. Staff employs active strategies in an effort to achieve a fund portfolio return that exceeds the fund benchmark return.

Asset Class	Benchmark	Policy Weight	Interim Target Weight
Growth	78% Public Equity benchmark + 22% Private Equity benchmark	63.0%	64.0%
Income	90% Barclays Long Liabilities + 10% Barclays International Fixed Income Index GDP weighted ex-US	16.0%	17.0%
Inflation Assets	75% ILB benchmark + 25% Commodities benchmark	4.0%	4.0%
Real Assets	77% Real Estate benchmark + 15% Infrastructure benchmark + 8% Forestland benchmark	13.0%	11.0%
Liquidity	75% Barclays Treasury 2-10 yr. + 25% 1 mo. T-bill	4.0%	4.0%

Interim target weights were approved by the Committee effective July 1, 2011. During the transition of implementing the approved strategic policy targets, interim weights will be used to calculate the total fund policy benchmark through June 30, 2014.

ATTACHMENT B

ASSET ALLOCATION (AND TRUST FUNDS) POLICIES
PROGRAM BENCHMARKS

December 5, 2013

Policy	Program	Benchmark
Asset Allocation Strategy (Public Employees' Retirement Fund)		Policy Index
California Employers' Retiree Benefit Trust (CERBT) Fund		The benchmark for each asset allocation fund is a weighted benchmark determined by weighting each asset class benchmark by its policy target.
	Global Equity	MSCI ACWI IMI (Net)
	U.S. Fixed Income	Barclays Long Liability Index
	TIPS	Barclays U.S. TIPs Index, Series L
	Commodities	S&P GSCI Total Return Daily
	REITs	FTSE EPRA/NAREIT Developed Liquid (Net)
Judges' Retirement System Fund	Cash Equivalents	91-day Treasury Bill
Judges' Retirement System II Fund		The benchmark for each asset allocation fund is a weighted benchmark determined by weighting each asset class benchmark by its policy target.
	Global Equity	CalPERS Custom FTSE Global Composite
	U.S. Fixed Income	Barclays Long Liability Index
	TIPS	Barclays U.S. TIPs Index, Series L
	Commodities	S&P GSCI Total Return Daily
	REITs	FTSE EPRA/NAREIT Developed Index

Policy	Program	Benchmark
Legislators' Retirement System Fund		The benchmark for each asset allocation fund is a weighted benchmark determined by weighting each asset class benchmark by its policy target.
	Global Equity	CalPERS Custom FTSE Global Composite
	U.S. Fixed Income	Barclays Long Liability Index
	TIPS	Barclays U.S. TIPs Index, Series L
	Commodities	S&P GSCI Total Return Daily
	REITs	FTSE EPRA/NAREIT Developed Index
Long-Term Care Fund		The benchmark for each asset allocation fund is a weighted benchmark determined by weighting each asset class benchmark by its policy target.
	Global Equity	MSCI ACWI IMI (Net)
	U.S. Fixed Income	Barclays Long Liability Index
	TIPS	Barclays U.S. Treasury Inflation Protected Securities(TIPS) Index
	Commodities	S&P GSCI Total Return Daily
	REITs	FTSE EPRA/NAREIT Developed Liquid (Net)
Public Employees' Health Care Fund	U.S. Fixed Income	Barclays U.S. Aggregate Bond Index
Supplemental Income Plans (Core Funds)		The performance of each individual investment fund will be evaluated against its appropriate asset class benchmark.

Policy	Program	Benchmark
Supplemental Income Plans CalPERS Target Retirement Date and POFF Funds		The benchmark for each asset allocation fund is a weighted benchmark determined by weighting each asset class benchmark by its policy target.
	U.S. Equity	Russell 3000 Index
	International Equity	MSCI ACWI ex-USA IMI Index (Net)
	U.S. Fixed Income	Barclays U.S. Aggregate Bond Index Barclays U.S. 1-3 Year Government/Credit Bond Index
	Real Assets	The benchmark is a weighted benchmark consisting of: Dow Jones-U.S. Select REIT Index; Dow Jones-UBS Roll Select Commodity Index; S&P Global Large MidCap Commodity and Resources Index; Barclays U.S. TIPS Bond Index
	Cash Equivalents	BofA Merrill Lynch U.S. 3-Month Treasury Bill Index

ATTACHMENT C

ASSET CLASS POLICIES
PROGRAM BENCHMARKS

March 6, 2014

Policy	Program	Benchmark
GROWTH POLICIES		
Growth	Total Growth	78% Public Equity benchmark + 22% Private Equity benchmark
Public Equity	Total Public Equity	FTSE CalPERS Global (All-World, All Capitalization) customized to exclude Board directed divestments
Private Equity (PE)	Total Private Equity	(67% FTSE U.S. TMI + 33% FTSE AW ex U.S. TMI) +3% lagged one quarter.
INCOME POLICIES		
Currency Overlay	Currency Overlay Program	CalPERS Currency Overlay Benchmark
Global Fixed Income Program	Dollar-Denominated Fixed Income Program	Barclays Long Liabilities Index.
	International Fixed Income Program	Barclays International Fixed Income Index GDP weighted ex-US
Low Duration Fixed Income Program	Dollar-Denominated Fixed Income High Quality Libor (HQL) Program	Federal Funds based index
	Dollar-Denominated Fixed Income Short Duration Program	Federal Funds based index
	Internally Managed Dollar-Denominated Short-Term Program	Total rate of return of the State Street Bank Short-Term Investment Fund after investment management fees.
Treasury Inflation Protected Securities (TIPS)		Barclays Group Real: U.S. TIPS Index

Policy	Program	Benchmark
INFLATION ASSETS POLICIES		
Inflation Assets	Overall Program	75% ILB benchmark + 25% Commodities benchmark
	Commodities Program	Standard & Poor's GSCI Total Return Index
	Inflation-Linked Bond Program	ILB Custom Index: Blend of 67% Barclays Global Inflation-Linked U.S. and 33% Barclays Universal Government Inflation Linked Bond Index ex-US.
REAL ASSETS POLICIES		
Real Assets	Total Real Assets	77% Real Estate benchmark + 15% Infrastructure benchmark + 8% Forestland benchmark.
	Real Estate Program	Exceed (net of fees) NCREIF ODCE
	Infrastructure Program	Consumer Price Index +4%, lagged one quarter
	Forestland Program	NCREIF Timberland
LIQUIDITY POLICIES		
Liquidity Program	Total Liquidity Program	75% Barclays Treasury 2-10 yr. + 25% 1 mo. T-bill
MULTI ASSET CLASS POLICIES		
Multi Asset Class Partners Program	Multi Asset Class Program	Absolute 7.5%
ABSOLUTE RETURN STRATEGIES POLICIES		
Absolute Return Strategies	Absolute Return Strategies Program	**1 yr Treasury Note + 5%**