# Investment Committee

California Public Employees' Retirement System

## Agenda Item 6b

October 13, 2014

**ITEM NAME:** Revision of the Global Equity Policy and Incorporation of Corporate Governance Program and Developmental Investment Fund Policies

**PROGRAM:** Global Equity

**ITEM TYPE:** Policy & Delegation – Action

**RECOMMENDATION**

Approve the revised "Global Equity Policy" as shown in Attachment 1, repeal of the Corporate Governance Program (Attachment 2) and the Developmental Investment Fund (Attachment 3) Policies. The consultant opinion letter is provided as Attachment 4.

**EXECUTIVE SUMMARY**

The Global Equity Policy was presented to the Investment Committee for initial review on September 15, 2014.

The revised Global Equity Policy includes the following changes based on feedback from the initial review by the Investment Committee:

- On page 3 of 9, number 7 at the top of the page, added "e.g.," in parentheses for clarification of information coordinated with other asset classes.
- On page 4 of 9 under the "Active strategies are deployed…" section, number 2, we replaced the words "business strategy" with "environmental or social related issues".
- Changed the approval date to October 13, 2014.

Changes made to the Global Equity Policy based on the Investment Committee's feedback are denoted with yellow highlighting within Attachment 1.

Staff seeks approval of the Global Equity Policy to establish clear investment documentation for the asset class.

**STRATEGIC PLAN**

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policies will ensure that

CalPERS is able to effectively achieve the System's investment objectives through clear and current investment policy documentation.

**INVESTMENT BELIEFS**

This agenda item supports Investment Belief 5 which states CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution. As stated above, having clear, current investment policy documentation ensures CalPERS is able to effectively achieve the System's investment objectives.

**BACKGROUND**

In December 2012, the Investment Committee approved a single, simplified Global Equity Policy while repealing nine program/strategy policies related to external and internal investment management. The goal of the simplified policy was to focus on the total Global Equity portfolio strategy rather than on the individual underlying programs.

**ANALYSIS**

Incorporating these policy revisions will continue the policy simplification process by consolidating the total Global Equity program goals into one policy focusing on the total portfolio, rather than individual programs.

Specifically, the revised policies:

- Repeals the Developmental Investment Fund Policy and incorporates staff responsibilities of developing investment strategies into the Global Equity Policy.

- Repeals the Corporate Governance Program Policy and incorporates Global Principles of Accountable Corporate governance into the Global Equity Policy.

- Clarifies that when directed by the Board to divest or reinvest, the policy benchmark will be adjusted.

- Clarifies the definition and limits on leverage.

- Adds and clarifies the Global Equity strategy selection and allocation governance process incorporating the Global Equity Investment Review Committee and Capital Allocation Committee.

**BUDGET AND FISCAL IMPACTS**
Not Applicable

**BENEFITS/RISKS**
Approving the requested policy changes will enhance transparency into investment processes and strategy. The risk of not approving this policy include lack of clarity and direction to staff as they invest the Global Equity portfolio thereby increasing the risks of missed opportunities and ambiguous implementation.

**ATTACHMENTS**
Attachment 1 – Revised Global Equity Statement of Investment Policy
Attachment 2 – Repealed Statement of Investment Policy for Corporate Governance Program
Attachment 3 – Repealed Statement of Investment Policy for Developmental Investment Fund
Attachment 4 – Consultant Opinion Letter – Proposed Changes to the Global Equity Policy

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Senior Investment Officer
Global Equity

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THEODORE ELIOPOULOS
Chief Investment Officer

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**
**STATEMENT OF INVESTMENT POLICY**

**FOR**
**GLOBAL EQUITY**

**~~May 15, 2014~~October 13, 2014**

*This policy is effective immediately upon adoption and supersedes all previous Global Equity 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"~~),~~) set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

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

## II. STRATEGIC OBJECTIVE

Set of investment beliefs that govern how Global Equity is structured and managed are:

A. Global Equity investment returns will reflect a diversified exposure to global economic growth.

B. Global Equity is managed from the perspective of relative return and risk as compared to the overall strategic benchmark for the asset class.

C. Forecasted tracking error is the primary risk attribute used to describe the degree of normal volatility relative to the benchmark.

D. Global Equity is managed as an overall composite portfolio combining an index-oriented core with actively managed portfolios. Each portfolio has a role such as reducing risk, producing excess return, providing a systematic factor or risk exposure or a combination of these attributes.

E. The size of the Global Equity asset class exposure provides both challenges and opportunities (challenges to make material tactical shifts and opportunities to gain access to intellectual capital to make information advantaged investment decisions).

F. Global Equity shall incorporate CalPERS Investment Beliefs when investing to influence sustainability issues including governance, risk management, human capital and environmental practices, subject to such influence being consistent with the pursuit of maximizing long-term returns within acceptable risk levels.

## III. RESPONSIBILITIES

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

1. Monitoring external and internal strategies in the implementation of, and compliance with, the Policy and with investment manager contracts. Staff shall report all violations of 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.

2. Designing and implementing a process for capital allocation within the asset class including reporting on all strategies and relationships to provide the basis for assessment of strategies and decisions on capital allocation.

3. Sourcing, researching, selecting, developing, contracting and terminating investment strategies to fulfill the Global Equity mission including transitioning global equity emerging ~~M~~managers into direct, standard investment manager contracts. Staff anticipates using, where appropriate, an exemption from competitive bidding to contract with selected emerging managers who transition out of the emerging manager program.

4. Achieving alignment of interests in key aspects of business relationships (e.g. fees, benchmarks, constraints, measures of success).

5. Portfolio management and trading of internal strategies.

6. Reporting to the Committee no less than annually, on the structure, metrics and plans for the overall Global Equity Portfolio. Global Equity will also report on Specific Risk Parameters as identified in section V.B.

7. Coordinating information with other asset classes (e.g., research, relationship information, market intelligence) that contribute to overall Asset Allocation for the total fund.

8. Assuring overall compliance with policy and procedures through interaction with the ***General Pension Consultant*** ("Consultant"), Compliance and Internal Audit functions.

B. The Consultant is responsible for:

1. Providing independent perspective and counsel to the Committee which includes routine communication with each asset class and periodic reviews of processes and procedures.

2. Monitoring, evaluating, and reporting no less than annually to the Committee on the performance of the Global Equity program relative to the benchmark and Policy.

## IV. PERFORMANCE OBJECTIVES AND BENCHMARKS

A. The primary performance objective for the Program is to obtain the return generated by global public equities as represented by the benchmark. A secondary objective is to utilize active management in an effort to earn a rate of return in excess of the benchmark. The degree of active management deployed is constrained by various risk limits for the asset class.

B. The benchmark for the Global Equity program is specified in the Benchmarks Policy.

All individual Global Equity strategies have benchmarks that are supportive of the overall asset class objectives. Each strategy benchmark is documented within the Global Equity procedure documents or investment guidelines for individual strategies. Benchmarks are assigned to appropriately assess relative performance by representing the universe and characteristics of each investment strategy.

## V. INVESTMENT APPROACHES AND PARAMETERS

A. Approach

In the management of the overall Global Equity portfolio, investments are made with a specific purpose. Included strategies may be index-oriented (which closely replicate an index selected as the benchmark) or active strategies (which take significant tracking error risk relative to a benchmark). All strategies shall be categorized as “index-oriented” or “active.”

Index-oriented strategies seek to generate a return and risk profile similar to the public equity market segment as defined by the benchmark. Typical attributes of index-oriented strategies are:

1. Investment universe substantially constrained to the assets contained in the underlying benchmark and derivatives thereof.

2. Non-benchmark exposures are limited to those acquired by corporate action, anticipated index reconstitution, effects of CalPERS restricted list activity and derivatives.

3. Forecast tracking error will be monitored and managed as defined in each strategy’s guidelines.

Active strategies are deployed with the expectation of earning longer-term rates of return in excess of the relevant benchmark segment. Active strategies result in significant amounts of forecasted tracking error. The risk taken within active strategies are based on several investment techniques including, but not limited to:

1. Individual stock or security selection.

2. ~~Concentrated security positions enabling~~ Direct company engagement on topics such as ~~business strategy~~ environmental or social related issues, governance and capital usage~~.~~ in alignment with CalPERS sustainability initiatives and Global Principles of Accountable Corporate Governance.

3. Out of benchmark exposure.

4. Allocation variations to specific factors or parameters such as geographic region, market capitalization segment (large versus small companies), economic sector, industry group, investment style (value versus growth) or fundamental parameters (high quality versus low quality).

5. Substitution such as using derivative instruments.

The analytic framework underlying the active investment techniques may be based on fundamental, quantitative or technical analysis, either individually or in combination.

Each strategy is monitored and evaluated using several criteria:

1. Conformance with all applicable investment guidelines, policies and restrictions.

2. Contribution to overall objectives (e.g. market exposure, excess return generation, specific systematic risk exposures, diversification or proprietary input to the capital allocation process).

3. Stability of investment process and key decision makers (designated role in the overall composite asset class portfolio).

4. Performance versus benchmark (evaluated over time, in context of the investment environment and risk attributes).

Managers of active strategies will be encouraged to consider sustainability factors in their process. Staff ~~will survey and~~ encourages broad diversity among CalPERS investment managers in the belief that both diversity and sustainability awareness contribute to long-term sustainable competitive advantage.

B. Specific Risk Parameters

Investing in global public equity markets brings attendant risks including market and currency volatility, varying regulatory environments, foreign investor restrictions, liquidity and potential operational issues. Many of these risks are systemic and unavoidable. Specific risk categories and limits include:

1. CalPERS Investment Office Policies – Global Equity shall be managed to comply with all applicable policies established for the Investment Office.

2. All Global Equity internal and external portfolio managers shall consider CalPERS Global Principles of Accountable Corporate Governance and exercise their best judgment after taking all relevant factors, principles and trends into account. These principles are among the decision factors employed in the investment process but do not necessarily require managers to invest in accordance with each individual principle. By adopting the Principles, CalPERS strives to influence companies by advancing a dialogue about important issues of concern to institutional and other investors and to provide guidance in making investment decisions.

3. Investment Opportunity Set – The primary universe of allowable investment assets within Global Equity shall be publicly traded global equity securities and derivatives thereof as described in the Global Derivatives and Counterparty Risk Policy. Securities identified as prohibited by the Committee shall be excluded from the policy benchmark. For investment instruments where CalPERS does not have discretionary control (e.g. commingled funds, exchange traded funds), the assets are exempt from divestment. Any future investment subsequent to adoption of the Policy involving assets identified as being primarily associated with another CalPERS asset class shall only be undertaken upon:

   a. Being reviewed by the Chief Investment Officer ("CIO") and Investment Strategy Group.

   b. Being reviewed by the Committee.

4. ***Asset Class Tracking Error*** – The target range for the amount of aggregate forecast tracking error for Global Equity is 25 to 50 basis points as measured by the CalPERS Risk Management system.

5. Leverage – Global Equity shall not use leverage to increase net equity exposure above the current cash market value of the asset class.~~borrowed funds on either a recourse or non recourse basis to increase ***net exposures***.~~

6. Notional Leverage – Notional leverage is created when a derivative position either lacks full collateralization, or when non-cash collateral underlies a derivative exposure. Global equity ~~shall only incur~~ notional leverage will be calculated on a net exposure basis and ~~through the use of investment grade non cash collateral and such exposure~~ shall not exceed 10% of the Global Equity market value. ~~Gross market exposure shall not exceed 100% of the Global Equity asset class allocation.~~

7. Illiquidity – The allocation of assets to investment vehicles or instruments meeting the conditions of illiquidity shall be limited to 15% of the Global Equity asset class exposure at the time of such allocation.

Monitoring of the specific risk parameters is undertaken within the asset class as well as involving Investment Risk Management and Investment Compliance functions. Should any breach of a specific risk parameter be identified, the identifying team shall notify the other monitoring teams, the CIO and the Chief Operating Investment Officer in writing by e-mail.

Following identification these steps shall be completed:

1. Activity Hold – Any pending or ongoing activity expected to exacerbate a breach shall be stopped or paused. Activity which mitigates a breach may continue.

2. Analysis – An analysis of the situation shall be completed and include these components:

   a. Cause – The circumstances underlying a breach may include:

      (1) Specific investment action including changes to the allocation of assets within the asset class or overall plan.

      (2) Change in market conditions.

      (3) Change in definitions or model specifications.

   b. Risk Assessment – Estimation of the risks associated with a breach.

   c. Mitigation Plan – Identification of steps and timetable which may mitigate the risks associated with a breach. These steps may include:

      (1) Trading assets.

      (2) Continued monitoring of the situation allowing time to elapse and conditions to change.

      (3) Modification of the specific risk parameters within the policy document.

   d. The Committee shall be apprised of the situation and the complete analysis presented at the next available opportunity. A staff recommendation requesting Committee action shall accompany the analysis.

C. Investment Selection

Global Equity has two internal committees to select then allocate capital. The Global Equity Investment Review Committee reviews and approves internal and external strategies forming the pool of eligible investment strategy alternatives. The Global Equity Capital Allocation Committee ~~within Global Equity~~ is responsible for the allocation of capital to and from ~~the internal~~ eligible ~~and external~~ strategies. ~~forming the pool of applicable alternatives.~~

The mechanism for sourcing and selecting new ***external managers*** shall be the ***Alternate Solicitation Process*** which incorporates the Investment Proposal Tracking System ("IPTS") as a solicitation and data collection vehicle. The Alternate Solicitation Process includes a structured due diligence approach and consideration of all the criteria mentioned in the Investment Approaches and Parameters section of this Policy.

Global Equity Emerging Managers shall be selected by advisors and may be transitioned outside of the Emerging Manager Program into direct, standard investment manager contracts. Staff anticipates using, where appropriate, an exemption from competitive bidding to contract with selected Emerging Managers who transition out of the Emerging Manager Program.

D. Investment Parameters

All investment strategies shall have specific, written guidelines. The guidelines shall outline the investment philosophy and approaches, representative portfolio characteristics, permissible and restricted activities and a performance objective which is commensurate with the strategy's purpose.

## 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 the CalPERS Custodian.

## VII. GLOSSARY OF CALPERS SPECIFIC TERMS

***Italicized*** terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Terms.

| | |
|---|---|
| Adopted by the Investment Committee | December 10, 2012 |
| Approved by the Investment Committee | November 18, 2013 |
| Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy | December 24, 2013 |
| Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually" | May 15, 2014 |
| Administrative changes to reflect the Policy Glossary of Terms Update Project | May 15, 2014 |
| Approved by the Investment Committee | ~~September 15,~~ October 13, 2014 |

The following Polices were repealed December 10, 2012:

- Global Equity Policy
- Externally Managed Strategies Policy
- Global Equity Emerging Manager Fund-Of-Funds Policy
- Global Equity Sub-Asset Class Allocation Ranges Policy
- Internally Managed Affiliate Equity Index Funds Policy
- Internally Managed Global Enhanced Equity Strategies Policy
- Internally Managed Global Equity Index Funds Policy
- Manager Development Program I and II (MDP) Policy and Manager Transition Policy
- Monitoring Externally Managed Portfolios Policy

# ~~CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM~~
# ~~STATEMENT OF INVESTMENT POLICY~~

## ~~FOR~~
## ~~CORPORATE GOVERNANCE PROGRAM~~

**~~May 15, 2014~~**

*~~This policy is effective immediately upon adoption and supersedes all previous Corporate Governance Program policies~~*.

*~~This Policy applies to the Corporate Governance Program and is applicable on a global basis covering both developed and emerging markets. This Policy has two attachments: Corporate Governance (Externally Managed) Funds and Corporate Governance Co-Investment Strategy. The Externally Managed part covers investment in externally managed corporate governance funds. The Co-Investment Strategy part covers an internally managed active corporate governance equity program.~~*

## ~~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"), set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.~~

~~This document sets forth the investment policy ("Policy") for the Corporate Governance Program ("Corporate Governance Program"), with respect to Corporate Governance (Externally Managed) Funds ("Corporate Governance Funds") and the Corporate Governance Co-investment Strategy ("Co-investment Program"), collectively known as the "Corporate Governance Program" or the "Program". The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Program. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the Program.~~

## ~~II. STRATEGIC OBJECTIVE~~

~~Broadening the opportunity set of CalPERS investment portfolio for achieving investment returns not available in traditional public (developed and emerging) markets investments is the strategic objective of investments in The Program.~~

~~The Program shall be managed to accomplish the following:~~

~~A. Diversify CalPERS Global Equity Program.~~

~~B. Enhance CalPERS long term total return.~~

~~C. Hedge against active member (pre retirement) liabilities.~~

~~D. Enhance CalPERS Corporate Governance Program.~~

## ~~III. RESPONSIBILITIES~~

~~A. 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. Reporting to the Committee no less than annually and more often if needed about the performance of the Program. Furthermore, Staff shall report quarterly to the Committee regarding Corporate Governance Fund investments in emerging market Corporate Governance Funds.~~

~~3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report material concerns, problems, 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.~~

~~4. Evaluating and selecting Corporate Governance Funds.~~

~~5. Obtaining equity stakes in management firms under this Program, where appropriate.~~

~~6. In managing the Co Investment Strategy, staff will work cooperatively with external partners ("external partner") specific to each investment. Staff will be responsible for identifying potential external partners.~~

~~B. The ***General Pension Consultant*** ("Consultant") is responsible for:~~

~~1. Monitoring, evaluating, and reporting to the Committee no less than annually on the performance of the Program relative to the benchmark and Policy.~~

~~2. Monitoring and reporting back to Staff the activities of Corporate Governance Funds.~~

~~3. Reviewing the efficacy of the Corporate Governance Program on a continuous basis.~~

~~4. Due diligence and independent recommendations on prospective Corporate Governance Funds will be provided by either the Consultant or another approved Investment Office Consultant. The consultant shall be selected by the Chief Investment Officer, in conjunction with the Global Equity Senior Investment Officer and Corporate Governance Senior Portfolio Manager.~~

~~A favorable due diligence report and opinion letter is required before an investment can be made in a new Corporate Governance fund.~~

~~C. The Corporate Governance Fund Partner ("Partner") is responsible for aspects of portfolio management as set forth in the investment partner's contract with CalPERS and shall fulfill the following duties:~~

~~1. Communicate with Staff as needed regarding investment strategy and investment results.~~

~~2. Monitor, analyze, and evaluate performance relative to the agreed upon benchmark.~~

~~3. Cooperate fully with CalPERS Staff, Custodian, Corporate Governance Fund Administrator, and General Pension Consultant on requests for information.~~

~~4. Comply completely with CalPERS mandated reporting requirements, including but not limited to, accounting for fees, expenses, capital investments, and dispositions.~~

## ~~IV. INVESTMENT APPROACHES AND PARAMETERS~~

~~Please see attachments for descriptions of the individual programs.~~

## ~~V. 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. In the case of private investments, calculations and computations shall be made consistent with the partnership agreement, unless otherwise approved by the Committee.~~

## ~~VI. GLOSSARY OF CALPERS SPECIFIC TERMS~~

~~***Italicized*** terms appearing in the Policy are CalPERS specific in nature and are defined in the CalPERS Specific Glossary of Terms.~~

~~**Attachments**~~
~~Attachment A Corporate Governance (Externally Managed) Funds~~
~~Attachment B Corporate Governance Co-Investment Strategy~~

~~Internal Relational Program~~

| | |
|---|---|
| ~~Approved by the Policy Subcommittee:~~ | ~~March 15, 2002~~ |
| ~~Adopted by the Investment Committee:~~ | ~~April 15, 2002~~ |
| ~~Revised by the Policy Subcommittee:~~ | ~~December 10, 2004~~ |
| ~~Approved by the Investment Committee:~~ | ~~February 14, 2005~~ |

~~Corporate Governance Investment Vehicles – Externally Managed~~

| | |
|---|---|
| ~~Approved by the Policy Subcommittee:~~ | ~~June 10, 2005~~ |
| ~~Adopted by the Investment Committee:~~ | ~~August 15, 2005~~ |
| ~~Revised by the Policy Subcommittee:~~ | ~~September 16, 2005~~ |
| ~~Approved by the Investment Committee:~~ | ~~October 17, 2005~~ |

~~Name Change to Corporate Governance Investments~~

| | |
|---|---|
| ~~Revised by the Policy Subcommittee:~~ | ~~October 16, 2006~~ |
| ~~Approved by the Investment Committee:~~ | ~~November 13, 2006~~ |
| ~~Revised by the Policy Subcommittee:~~ | ~~April 13, 2007~~ |
| ~~Approved by the Investment Committee:~~ | ~~May 14, 2007~~ |

~~**Name Change to Corporate Governance Program**~~

| | |
|---|---|
| ~~Revised by the Policy Subcommittee~~<br>~~Approved by the Investment Committee~~ | ~~March 17, 2008~~<br>~~April 21, 2008~~ |
| ~~Administrative changes made due to Policy Review Project~~ | ~~June 16, 2009~~ |
| ~~Admin changes due to adoption of Benchmark Policy~~ | ~~November 18, 2009~~ |
| ~~Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy~~ | ~~December 24, 2013~~ |
| ~~Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually"~~ | ~~May 15, 2014~~ |
| ~~Administrative changes to reflect the Policy of Terms Update Project~~ | ~~May 15, 2014~~ |

~~**Attachment A**~~

## ~~CORPORATE GOVERNANCE (EXTERNALLY MANAGED) FUNDS~~

~~**May 15, 2014**~~

## ~~I. PERFORMANCE OBJECTIVE AND BENCHMARK~~

~~Corporate Governance Funds are highly specialized investments; therefore, CalPERS shall establish performance objectives for each individual Corporate Governance Fund. These objectives shall be set at levels that are consistent with the strategy employed by the fund manager.~~

~~Due to the wide range of markets in which these investments shall be made, appropriate benchmarks shall be established for each specific Corporate Governance Fund. The benchmark for the Corporate Governance (Externally Managed) Funds Program is specified in the Benchmarks Policy. The external consultant will provide an opinion letter as to the reasonableness of the chosen benchmark. The benchmark shall reflect the investment opportunity set or risk profile of each investment. These benchmarks shall be established prior to investment and shall be legally documented with each Corporate Governance fund manager.~~

## ~~II. INVESTMENT APPROACHES AND PARAMETERS~~

~~A. Approach~~

1. ~~Corporate Governance Funds shall be alternatives to other traditional active management vehicles in the Global Equity Markets Program. The allocation of assets for investments in Corporate Governance Funds may come from the active or passive investments in the Global Equity Markets Program.~~

2. ~~The Program shall use Corporate Governance Funds opportunistically to gain the attractive risk-to-reward characteristics of specialized and unique investment strategies. Corporate Governance Funds are not intended to be a substitute for investment strategies generally available in standard agency agreement format.~~

3. ~~In all instances where Corporate Governance Funds have an Advisory Board, CalPERS will seek membership in order to provide oversight and counsel regarding the Fund's operations, investment, and corporate governance activities.~~

~~For Funds investing in developed and emerging markets, every effort will be made to ensure Advisory Board activities are consistent with CalPERS Global Principles for Accountable Corporate Governance.~~

~~4. For Funds investing in developed and emerging markets, every effort will be made to apply the United Nations Principles for Responsible Investment.~~

~~5. The Program shall implement Corporate Governance Funds through partnerships, closed-end funds, or other formation structures, e.g., limited liability companies (LLCs), where the general partner(s) or fund manager(s) have expertise in the specified mandates and in related areas material to the success of each investment strategy. The justifications for a limited partnership or LLC structure include, but are not limited to, the following:~~

~~a. Financial Firewall: The limited liability of a partnership or LLC arrangement is important since Corporate Governance Funds sometime use derivatives and leverage. CalPERS, as a limited partner, has the benefit of this limited liability.~~

~~b. Access Unique Approaches with Limited Liquidity: The key to successful Corporate Governance Fund investing is in selecting vehicles where the specialization of the investment is sufficiently unique that the partnership or LLC structure is justified in limiting asset growth in the strategy, ensuring a proper investment time horizon, and protecting CalPERS from the vagaries of other investors who may not be like-minded. The fees and expenses of investing in Corporate Governance Funds may be higher than traditional active management. CalPERS shall not fund Corporate Governance Funds that simply invest in traditional active management approaches at higher fees.~~

~~c. Access Unique Talent: The specialized and focused nature of Corporate Governance Funds often requires more specialized investment skills than those needed for traditional active management. Some of these investment professionals manage money only in the partnership format or LLC structure.~~

~~6. The negotiation of terms in Corporate Governance Funds shall protect the interests of CalPERS, and shall address at a minimum the following issues:~~

~~a. Alignment of Interests: Corporate Governance Funds terms~~

~~including fees shall be negotiated to ensure the alignment of interest with CalPERS. The management fee, carried interest, performance objective, return of capital, lock up period, clawbacks, and other relevant terms shall protect CalPERS in the event of adverse performance results, while ensuring that the limited liability status is maintained. .~~

~~b. Leverage: It is recognized that Corporate Governance Funds may expose CalPERS assets to leverage, meaning that a fund's market exposure may exceed the market value-adjusted capital commitment by the amount of borrowed capital. Negotiation of corporate governance investment vehicle terms shall consider CalPERS stated corporate governance level of leverage necessary for achieving the investment's stated objectives without exposing CalPERS to undue risk. The partnership or LLC agreements shall detail the amount of leverage and monitor leverage on a case-by-case basis and in the aggregate, to ensure that expected and realized returns are sufficient and achievable to compensate for the risk incurred. For the Corporate Governance Funds, the limit on leverage shall not exceed 100% of the existing capital without prior Committee approval.~~

~~c. Reporting Requirements: To appropriately account for fees, individual expenses, invested capital, and any other items affecting the investment, Staff shall prescribe a standard reporting format, which all the General Partners shall follow.~~

~~B. **Investment Selection**~~

~~1. Corporate Governance Funds may be selected if they enhance the investment program and achieve the overall asset class investment goal. Corporate Governance Funds may include investments in developed and emerging equity and fixed income asset classes in strategies that may include, but are not limited to, the following areas but must be subject to asset class restrictions:~~

~~a. Relative Value Funds;~~

~~b. Market Neutral Funds;~~
~~c. Arbitrage Funds;~~
~~d. Derivative Based Strategy Funds;~~
~~e. Concentrated or Strategic Block Funds; and~~
~~f. Crossover Funds (where public securities and private investments are included in the partnership).~~

~~2. Staff shall develop and maintain selection guidelines for Corporate~~

~~Governance Funds to include the following:~~

~~a. Minimum requirements with respect to the following:~~

~~(1) General Partner Investment Experience;~~

~~(2) Basic Investment Vehicle Terms;~~

~~(3) Investment Goals and Objectives; and~~

~~(4) Degree of Leverage.~~

~~b. Performance Criteria~~

~~c. Due Diligence Process~~

~~d. Legal Constraints or Requirements~~

~~e. Reporting Requirements~~

~~f. Quality control processes including, but not limited to, investment monitoring and risk control~~

~~g. Other relevant parameters that may apply~~

~~3. Staff shall review opportunities to obtain an equity stake in Corporate Governance Fund managers and make recommendations to the Committee as appropriate. A separate portfolio will be established to provide for performance measurement of CalPERS equity stakes in Corporate Governance Fund managers.~~

~~C. Investment Parameters~~

~~Corporate Governance Funds shall operate under a limited partnership agreement, limited liability (LLC), closed-end fund or other similar legal structure. Corporate Governance Funds include, but are not limited to, strategic block investment funds or crossover funds where the underlying investments consist of both public and private investments.~~

~~All legal structures shall include specific, written investment guidelines. The guidelines shall outline the fund's investment philosophy and approaches, representative portfolios characteristics, permissible and restricted securities and procedures, and a performance objective commensurate with the investment risk to be incurred.~~

~~Implementation of this Program shall comply at all times with the applicable CalPERS investment policies. All transactions involving derivatives are governed by the Global Derivatives and Counterparty Risk Policy.~~

~~**Attachment B**~~

~~**CORPORATE GOVERNANCE CO INVESTMENT STRATEGY**~~

~~**May 15, 2014**~~

## ~~I. PERFORMANCE OBJECTIVE AND BENCHMARK~~

~~The Corporate Governance Strategy ("Co investment Program") is expected to outperform the benchmark on an annualized basis by at least 200 basis points. The benchmark for each co-investment with an external partner will be the same as that for the external partner's main portfolio. Due to the concentrated nature of the Co investment Program, it is expected to have a higher overall risk level.~~

~~The benchmark for each co-investment with an external partner will be the same as that for the external partner's main portfolio. The benchmark for the Co-Investment Program is specified in the Benchmarks Policy. The total return for the Co investment Program will equal the portfolio market value weighted total return for each investment.~~

## ~~II. INVESTMENT APPROACHES, SELECTION, AND PARAMETERS~~

~~A. Approaches~~

1. ~~CalPERS Co-investment Program will be an internally managed active equity program based on fundamental analysis and corporate governance. The portfolio will take concentrated positions in selected developed and emerging market companies. Combined positions between CalPERS and its external partner may not exceed 25% of a company's market capitalization without prior Committee approval.~~

2. ~~The Program will be implemented in partnership with ***external managers***. Each investment will be made under a letter agreement with a partner, such that the partner will be required to take a significant equity position consistent with CalPERS stake.~~

3. ~~The Co investment Program will focus on unlocking intrinsic value in under-performing, publicly traded companies on a global basis. The companies will have a generally strong fundamental business model, but are under performing their peers due to management or board related issues. In cooperation with our external partner, CalPERS staff will work with the company's management, Board of Directors, and other shareowners to build a consensus identifying the deficiency and the means to correct it.~~

~~a. Tactics employed to address under performing companies, in developed and emerging markets, will be consistent with CalPERS Global Principles of Accountable Corporate Governance.~~

~~b. Tactics employed to address under-performing companies, in developed and emerging markets, will be consistent with the United Nations Principles for Responsible Investment.~~

~~B. Investment Selection~~

~~1. Staff has developed a successful investment process to govern the way co investments are made in the Portfolio. Companies that are candidates for co investment will have the following characteristics:~~

~~a. Considered one of the best ideas in the manager's portfolio.~~

~~b. An underperforming security and company.~~

~~c. Stock price is selling below the embedded intrinsic value.~~

~~d. Manager has a strategy in place to unlock the intrinsic value.~~

~~e. Holding additional shares in CalPERS Co investment portfolio will help the corporate governance managers effect the desired operational and governance changes.~~

~~2. Upon receipt of a co investment proposal from an external corporate governance investment manager, staff will conduct independent research and analysis to be used in the evaluation of each proposed co investment. Staff will consistently conduct due diligence using the following steps:~~

~~a. Conduct a complete review of all documentation provided by the external corporate governance manager acting as the source for the co investment idea. The purpose of this step is to understand the investment case being made by the manager, gain knowledge about the strategy for unlocking value embedded in the company as well as assess the potential risk and reward associated with the proposed co-investment.~~

~~b. Assess the incremental benefit to the manager's strategy of CalPERS taking a co-investment position. The Co-investment Program must have merits beyond giving the manager capital in their original strategy.~~

~~c. Apply the CalPERS Focus List screening criteria to analyze the company under consideration. This process will allow staff to incorporate an additional perspective for evaluating the opportunities to improve the company's corporate governance practices, operation and financial performance and assess potential improvements in these factors.~~

~~d. CalPERS Risk Management System will be used to assist in identifying the impact the proposed co-investment will have on the risk characteristics for the Co-investment Portfolio and the Total Fund.~~

~~e. The Senior Investment Officer for Global Equity will make all buy and sell decisions. This decision making process will be supported by the recommendation from the external investment manager, research provided to staff by the external investment manager, staff's independent research, industry analysis, the Focus List Program screening process and input from the CalPERS Risk Management System.~~

~~C. Trading~~

~~Upon execution of the Letter Agreement, staff will coordinate trading with the external manager and execute trading in the shares of the co-investment target through the CalPERS Global Equity Trading Desk ("Desk"). Staff will notify the Desk of the co investment target and the external manager tied to the specific co investment to be traded. The Desk will communicate with the external manager to gain market intelligence that will contribute to achieving "best execution" for both purchases and sales of the shares of the co investment target. For co-investment in non US equity securities, a non US dollar currency may be required to execute the trade. In conjunction with the Desk, staff will coordinate with the currency management staff.~~

~~Staff will use a template to provide consistent and accurate information about the co investment target to the Desk. The template will specify the name of the co investment target, the quantity of shares to be traded, the type of transaction to be executed, the type of order being submitted for execution (i.e. market order, limit order, etc.), and the specific currency denomination required for the trade. Additional trading instructions (verbal or written) may be given to the Desk by the Portfolio Management staff. Information contained in the trading template will also be used by the Desk for compliance checks and to facilitate the settlement of trades. The Desk will apply all of its record management requirements to documentation pertaining to trading in co investment.~~

~~D. Regulatory Reporting Requirements~~

~~Staff will maintain compliance with regulatory reporting requirements such as those that fall under the group rules for purposes of Securities and Exchange Commission (SEC) Regulation 13(d) and will have filing requirements under this Regulation. In the unusual circumstances where filing requirements are potentially harmful to the strategy being employed to unlock the intrinsic value embedded in a company, staff in coordination with the legal office may deem it financially more advantageous to temporarily relinquish CalPERS proxy voting rights in a co-investment.~~

~~An alternative to relinquishing CalPERS proxy voting rights from time to time on specific securities is to closely monitor the size of portfolio holdings to be sure that CalPERS stays well below the threshold that triggers SEC filing requirements and deliberately limit the size of CalPERS co-investment position.~~

~~E. Reporting to the Committee~~

~~The Consultant will include the Program in its performance report to the Committee no less than annually. Each co-investment will be maintained and accounted for in a separate account tied to the external manager providing the co-investment recommendations. The performance benchmark for the investment manager providing the co-investment will be the same as its respective Portfolio. This methodology will provide full disclosure and transparency to the Committee on performance pertaining to each co-investment partner and their respective Portfolio. The performance for the entire Program will be the dollar-weighted average of the total return for each Portfolio associated with a specific external investment manager.~~

~~In addition to reports provided on the Program to the Committee by the Consultant, Staff will provide the Committee with a Program Review no less than annually.~~

~~G. Allocation of Capital~~

~~Staff will allocate capital in accordance with delegations granted by the Committee.~~

~~H. Investment Criteria~~

1. ~~The corporate governance external manager's portfolio total return should exceed that for their specific benchmark since inception.~~

2. ~~Allow investments on a global basis recognizing any other CalPERS Investment Policies that impact the universes of available public equity.~~

3. ~~Implementation of this Program shall comply at all times with the applicable CalPERS investment policies. All transactions involving derivatives are governed by the Global Derivatives and Counterparty Risk Policy.~~

# ~~CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM~~
# ~~STATEMENT OF INVESTMENT POLICY~~

## ~~FOR~~
## ~~DEVELOPMENTAL INVESTMENT FUND~~

**~~May 29, 2014~~**

*~~This policy is effective immediately upon adoption and supersedes all previous Developmental Investment Fund 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"), set forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.~~

~~This document sets forth the investment policy ("Policy") for the CalPERS Developmental Investment Fund ("Fund"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the Fund. Additionally, use of this policy assures sufficient flexibility in managing investment risks and returns associated with the Fund.~~

## ~~II. STRATEGIC OBJECTIVE~~

~~The purpose of this policy is to set forth the approach, requirements and parameters for developing investment strategies that are either new to CalPERS or original to the investment industry.~~

~~CalPERS has benefited extensively from the internal management of assets. Further research and development by CalPERS shall enhance its reputation as one of the foremost pension funds in the world. The strategic objective of this policy is to codify the circumstances under which this research and development can utilize real time investing to support that development effort. All asset class units of CalPERS can benefit from the use of a pool or fund of assets set aside for such a purpose. The strategic objective of developmental investing, where~~ *~~origination~~* ~~of research, operations or strategy occurs, differs from opportunistic~~ *~~investing~~*~~, which applies to a standard investment strategy that may invest~~ *~~temporarily~~* ~~in a category of assets or outside of its benchmark universe based on current favorable market conditions. The Fund shall be managed to accomplish the following:~~

~~A. Further the knowledge base of the CalPERS Investment Staff;~~

~~B. Provide real time investment experience to determine the efficacy of new investment strategies; and~~

~~C. Identify the operational and investment risks inherent in a new strategy before it is applied generally to a large pool of assets. It is explicitly recognized that by its nature this Fund may not be managed on a diversified basis and may in fact incur greater risks than what CalPERS might normally permit. These risks are acceptable to support the developmental process, and the risk control comes in the form of intense oversight and the relatively small size of the pool of assets assigned to this fund.~~

## ~~III. RESPONSIBILITIES~~

~~A. 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. Reporting to the Committee no less than annually and more if needed about the performance of the Fund.~~

~~3. Monitoring the implementation of, and compliance with the Policy. Staff shall report concerns, problems, material changes, and all violations of the Policy immediately and in writing to the Committee. These reports shall include explanations of any violations and appropriate recommendations for corrective action.~~

~~4. Reporting internally to the applicable asset class senior management, the ***General Pension Consultant*** or other appropriate asset class consultant concerning the implementation of this Policy. The Staff's report shall be prepared quarterly and shall include, but not be limited to the following:~~

~~a. Current market value of each strategy being tested within the fund and the current market value of the entire Fund;~~

~~b. Performance of each strategy and the entire Fund Performance versus a relevant Benchmark or other appropriate measure as may be determined on a strategy by strategy basis shall be employed. There is explicit recognition that there may not be an appropriate benchmark or relevant evaluation metric that applies uniformly to the entire fund; and~~

~~c. Performance and risk attribution analysis for each strategy that attributes return to its causes, as appropriate to the specific asset class or strategy.~~

~~B. The General Pension Consultant is responsible for:~~

~~1. Monitoring, evaluating, and reporting to the Committee no less than annually on the Fund's performance. The General Pension Consultant shall report to the Committee, as part of its Total Investment Fund Review, the performance relative to the Benchmark and Policy guidelines.~~

~~2. Reporting any non-compliance issues in accordance with its responsibilities under its contract with CalPERS.~~

## ~~IV. PERFORMANCE OBJECTIVE AND BENCHMARK~~

~~There is no specific performance objective or benchmark for the entire Fund. Each strategy within the Fund shall have its own specified performance metric. The expectation is that strategies developed through investment within the Fund shall ultimately enhance the investment return, the operational efficiency and diversification of the CalPERS investment program.~~

## ~~V. INVESTMENT APPROACH AND PARAMETERS~~

~~A. Strategy Planning and Approval Process~~

~~The Fund is designed to provide a vehicle to support the development and inception of new investment processes that are believed to have the potential of improving diversification and reducing risk or increasing return. A decision to fund and incubate a strategy shall incorporate steps that include, but are not limited to:~~

~~1. Creation of a Concept White Paper~~

~~A concept paper, describing the proposed strategy, can be created by anyone within the applicable investment unit with a potential investment idea and may include input from external consultants. It is anticipated that the great majority of possible ideas shall come from the Investment Officer and Portfolio Management Staff. White papers shall be reviewed by the appropriate Senior Portfolio Manager with promising ideas being routed to the Senior Investment Officer and Chief Investment Officer for their input and decision to proceed. The topics covered in the white paper shall include, but are not limited to:~~

~~a. Description of the investment process, the approaches or techniques to be included and intuition behind it;~~

~~b. Statement of the anticipated benefit(s) to the plan;~~

~~c. Applicable universe of securities or assets to be included;~~

~~d. Relevant benchmark(s) or other appropriate performance metric(s);~~

~~e. Supporting academic or industry research if available;~~

~~f. Risk factors;~~

~~g. Materiality / capital capacity; and~~

~~h. Development plan including a general description of the required resources such as information, technology, expertise, vendors, risk management and cost.~~

~~2. Development Plan Detail and Implementation~~

~~Following a decision to proceed, the development plan shall become more detailed and encompassing. This evolving document shall be reviewed by the Senior Portfolio Manager, Senior Investment Officer and Chief Investment Officer for completeness and workability. It is understood that the objective of the incubation process is to understand, test and evolve the mechanisms used to implement an investment process into the most cost effective and robust environment possible.~~

~~Carrying out the development plan shall require resources to be deployed in support of the various tasks reflected below. The magnitude of these tasks versus the available resources within a particular asset class unit, shall determine the necessity of identifying incremental resources from within the entire CalPERS Investment Office or outside the organization. Tasks contained in the detailed development plan include:~~

~~a. Design the investment process or algorithm including the underlying inputs used to determine the assets which shall be included in the strategy and their relative weightings;~~

~~b. Determine the tools necessary to obtain, analyze, calculate and store the needed information;~~

~~c. Acquire historical information to support a back test of the investment process;~~

~~d. Determine an applicable risk analysis and management model where the strategy exposures are incorporated into the CalPERS in-house Risk Management system. An appropriate benchmark or other appropriate performance metric shall be selected as part of this step;~~

~~e. Specify and construct a performance and risk attribution model taking into consideration the unique attributes of a particular asset class;~~

~~f. Create a reporting format reflecting the characteristics and results of the investment process;~~

~~g. Apprise the CalPERS Technology, Investment Operations and Fiscal areas of the project and the anticipated breadth of involvement from these functions;~~

~~h. Engage in a real time paper trade test of the investment process; and~~

~~i. Upon a review of all materials and by the Senior Portfolio Manager, Senior Investment Officer and Chief Investment Officer, the decision on funding the new strategy shall be made.~~

~~3. Funding and Incubating a New Process Strategy~~

~~The funding objective is to provide sufficient capital to support a meaningful test of the efficacy of the new investment process while minimizing the plan risk assumed by such funding. Where possible, the funding and startup of the new strategy shall be done in a phased manner that allows the program to engage the applicable investment techniques and risk acceptance in an incremental, thoughtful manner. Steps in the funding process are:~~

~~a. Construct the funding implementation plan;~~

~~b. Upon review of the implementation plan by the Senior Portfolio Manager, Senior Investment Officer and Chief Investment Officer, a decision shall be made regarding the funding amount, form (cash or in-kind), source and timing of asset movement;~~

~~c. Execute test transactions to verify the performance of the information movement and communication links prior to a full engagement of the implementation plan;~~

~~d. Execute the investment process and development plan;~~

~~e. Generate through the Senior Portfolio Manager(s), monthly program updates to the Senior Investment Officer and Chief Investment Officer. Annually, the Committee shall be presented with an agenda item outlining the entire program and the results achieved; and~~

~~f. Strategies shall reside in the Fund for a minimum of 1 year before being proposed to the Board as stand-alone components of the CalPERS investment program. Unsuccessful strategies may be terminated at any time.~~

~~B. Investment Approach(s)~~

~~1. Each strategy shall have its own specified investment approach that shall be documented and shall address at a minimum:~~

~~a. Security or asset selection and the universe therein;~~

~~b. Return and Risk factors and the appropriate controls;~~

~~c. The incorporation by reference of other existing CalPERS investment policies where applicable, or the documented need for an exception to those policies and procedures;~~

~~d. Anticipated Staffing needs, both investment and operational;~~

~~e. The specification of a definitive back-up professional from the originator of the developmental strategy to avoid the dependence of an investment strategy on only one professional;~~

~~f. The appropriate separation of responsibilities among different individuals in the implementation of the strategy;~~

~~g. The compliance procedures for the appropriate oversight of the new strategy, based on a plan developed by CalPERS Enterprise Compliance Officer as part of the developmental process for each strategy;~~

~~h. The specification of a detailed reporting and risk monitoring package; and~~

~~i. The specification of an operations plan and Staff procedures manual.~~

~~2. It is recognized that the investment approaches and parameters for the development of strategies shall vary by asset class and that each asset class shall have an Appendix pertaining to Investment Approach that is relevant to that asset class as a part of this policy.~~

## ~~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 CALPERS SPECIFIC TERMS~~

~~***Italicized*** terms appearing in the Policy are CalPERS specific in nature and re defined in the CalPERS Specific Glossary of Terms~~

| | |
|---|---|
| ~~Approved by the Policy Subcommittee~~<br>~~Adopted by the Investment Committee~~ | ~~June 10, 2005~~<br>~~August 15, 2005~~ |
| ~~Revised by the Policy Subcommittee~~<br>~~Approved by the Investment Committee~~ | ~~October 12, 2007~~<br>~~November 13, 2007~~ |
| ~~Admin changes made due to Policy Review Project~~ | ~~June 16, 2009~~ |
| ~~Admin changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy~~ | ~~December 2, 2013~~ |
| ~~Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually"~~ | ~~May 29, 2014~~ |
| ~~Administrative changes to reflect the Policy Glossary of Terms Update Project~~ | ~~May 29, 2014~~ |

## ~~APPENDIX A~~
## ~~GLOBAL EQUITY APPROACHES AND PARAMETERS~~

~~To achieve the stated performance objective, a Strategy anticipates developing new investment processes that shall utilize a wide variety of equity management components. Risk control techniques shall be applied to each incubated strategy to insure its operation within the approved risk budget, and is subject to all relevant Investment policies.~~

~~A. Possible Equity Management Techniques~~

~~A wide variety of investment techniques may be considered within the context of a Strategy, including:~~

~~1. Stock selection;~~

~~2 Return factors;~~

~~3. Domestic and international equity;~~

~~4. Substitution;~~

~~5. Derivatives ;~~

~~6. Short selling;~~

~~7. Leverage; and~~

~~8. Arbitrage.~~

~~B. Restriction~~

~~The maximum "active risk" for any strategy is limited to 10%, including the effect of leverage, with a range of 4-8% being more typical.~~

~~C. Permissible Securities~~

~~Equity of publicly traded companies and equity based securities (including derivatives). Currency shall also be a permissible security in international portfolios.~~

~~All transactions involving derivatives are governed by the Global Derivatives and Counterparty Risk Policy.~~

~~D. Benchmarks~~

~~The individual strategies contained within the Fund shall be measured against an appropriate benchmark selected from the existing roster of equity benchmarks as utilized in the Global Equity program where possible. New, customized benchmarks from globally recognized vendors may be necessary where an investment process is targeting a previously unmeasured segment of the global equity universe.~~

~~E. Corporate Actions~~

~~Corporate actions (e.g., tender offers, mergers, Dutch auctions, and spin offs) shall be handled on a case by case basis, referring issues that require in depth analysis to the Research Unit.~~

~~F. Attribution Analysis~~

~~Each strategy's cash, liquidity, active performance, and risk characteristics shall be monitored and reported to the Senior Portfolio Manager through the attribution reports described below:~~

~~1. Performance Attribution Report;~~

~~2. Forecasted Risk Attribution Report;~~

~~3. Cash Position Report; and~~

~~4. Liquidity Report.~~

Wilshire

***Thomas Toth, CFA***
***Managing Director***

September 19, 2014

Mr. Henry Jones
Chairman of the Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Proposed Additional Revision of the Global Equity Policy and Repeal of Corporate Governance Program and Developmental Investment Fund Policies

Dear Mr. Jones:

Based on the discussion and questions presented by Board members at the September Investment Committee meeting, Staff has proposed some additional Global Equity policy language. Wilshire has reviewed the revised policy and we are comfortable with the proposed modifications.

As discussed last month, the Global Equity policy revision under discussion continues the process of simplifying the policy documents through the repeal of the Corporate Governance and Developmental Investment Program policies along with clarification surrounding benchmarking, leverage, and Global Equity Program governance. As Wilshire previously noted, the repeal does not aim to reduce the importance of either corporate governance activities or restrict the development of new investment strategies. Rather, the revised policies incorporate the Global Principles of Accountable Corporate Governance into the Global Equity Policy in order to take a more universal approach throughout the total portfolio. The revised policy also includes direction for Staff to continue researching and developing new investment strategies within the Global Equity program.

**Recommendation**

Wilshire reiterates the prior recommendation that the Investment Committee approve of the proposed changes.

We are always available to answer any questions you may have.

Sincerely,

Thomas Toth, CFA
Managing Director