Investment Committee

California Public Employees' Retirement System

Agenda Item 6a

October 19, 2015

ITEM NAME: Revision of Global Equity Policies

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised Statement of Investment Policy for Global Equity Policy (Global Equity Policy) as shown in Attachment 1.

EXECUTIVE SUMMARY

The Global Equity Policy was presented to the Investment Committee for initial review on September 15, 2015.

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

- The Introduction Section further defines the investment purposes and objectives of Global Equity.
- The introduction Section of the Global Equity Policy was amended to clarify that this Policy is subject to the conditions of the Total Fund Investment Policy.
- A reference in the Global Equity Policy to "tracking error" was amended to "asset class tracking error", a defined term in the CalPERS Specific Glossary.

Changes made to the Global Equity Policy based on the Investment Committee's feedback are denoted by track changes within Attachment 1.

Staff seeks approval of the Global Equity Policy to align with the Total Fund Investment Policy and to simplify the policy through the removal of procedures.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policy 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 CalPERS Investment Belief 9, Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error, and Belief 10, Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

BACKGROUND

Investment Policy Development was identified as being at a medium risk during Fiscal Year 2013-2014 and as such the Project became a key initiative of both the 2014-16 Investment Office Roadmap and Target Operating Model (TOM). As part of that initiative, in March 2015, the Committee approved the adoption of the Total Fund Investment Policy while repealing 14 legacy investment policies. The adoption of the new Total Fund Investment Policy allowed for minimizing complexity, improving transparency, and strengthening processes, systems, governance, and controls. The next phase of the Project is to incorporate revisions to the asset class policies aligning Global Equity with the Project's objective of consolidation, clarity, and standardization.

ANALYSIS

Incorporating these revisions will continue the policy simplification process while aligning the Global Equity Policy with the Total Fund Investment Policy, eliminating procedural or duplicative language and reducing operational risks by more clearly defining the Committee's desires and intentions with respect to staff's role in implementing the policy.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance transparency into investment processes and strategy. The risks 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 – Current Global Equity Policy
Attachment 3 – CalPERS Specific Glossary of Terms
Attachment 4 – Consultant Opinion Letter – Proposed Changes to the Global Equity Policy

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DANIEL BIENVENUE
Managing Investment Director
Global Equity

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WYLIE TOLLETTE
Chief Operating Investment Officer

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THEODORE ELIOPOULOS
Chief Investment Officer

California Public Employees' Retirement System
Investment Policy for
Global Equity

Effective Date **October 19, 2015**

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

Introduction

The California Public Employees' Retirement System (CalPERS) Total Fund Investment Policy, adopted by the CalPERS Investment Committee (Committee), sets forth CalPERS ~~investment beliefs and~~ overarching investment purposes and objectives with respect to ~~all~~ its investment programs, including, but not limited to, investment beliefs, performance, asset allocation, benchmarks, risk management, derivatives, leverage, and divestment.

This document sets forth the investment policy (Policy) for the Global Equity Program (Program). The design of this Policy ensures that Staff, 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.

~~It is intended that t~~This Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy~~, which provides overarching guidelines for investment performance, beliefs, asset allocation, benchmarks, risk management, derivatives, leverage, and divestment, as well as Staff and consultant responsibilities and reporting to the Investment Committee~~. This Policy shall also be managed to comply with all applicable Investment Office policies.

Strategic Objective

The Program has two strategic objectives:

A. The Program seeks to meet or exceed the absolute return generated by global public equities as represented by the benchmark, as specified in the CalPERS Total Fund Investment Policy benchmark appendix, while managing volatility.

B. The Program seeks 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 to manage volatility.

California Public Employees' Retirement System
Investment Policy for
Global Equity

Responsibilities

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

Investment Approaches & 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 ***asset class tracking error*** risk relative to a benchmark). All strategies shall be categorized as "index-oriented" or "active."

Global Equity utilizes both internally managed and externally managed strategies to meet the Strategic Objective. The Program seeks to facilitate meaningful information transfer from the external investment managers to Staff to help Staff develop scalable, sustainable, and efficient methods of increasing the likelihood of meeting Global Equity's investment return goals over the long term.

B. 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 CalPERS Total Fund Investment Policy, Global Derivatives and Counterparty Risk Section, and associated procedure.

C. Investment Selection

Global Equity has internal committees to select desired strategies and allocate capital. The Global Equity committees review and approve internal and external strategies forming the pool of eligible investment strategy alternatives and allocate capital to and from those eligible strategies.

D. Investment Parameters

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

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California Public Employees' Retirement System
Investment Policy for
Global Equity

Investment Constraints/ Limitations	See Appendix 3 for program investment constraints.
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.
Policy Document History	See Appendix 4 for historical details of Investment Committee adoption and revisions of this policy.

California Public Employees' Retirement System
Global Equity Program Policy Appendices

See the Total Fund Investment Policy appendices for overarching reporting requirements and responsibilities for the Investment Committee, Staff, ***General Pension Consultant***, ***Private Asset Class Board Investment Consultant***, and ***External Manager***.

Appendix 1
Reporting to the Investment Committee

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

- Investment Office Staff
- General Pension Consultant

Investment Office Staff	
Report Content	**Frequency**
Staff shall provide an Annual Program Review that will include a program overview, investment review, and business review in general conformance with the Annual Program Review Template.	No less than annually
Staff shall report concerns, problems, material changes, and all violations of the Policy. These reports shall include explanations of any violations and appropriate recommendations for corrective action.	At the next Committee meeting, or sooner if deemed necessary.

General Pension Consultant	
Report Content	**Frequency**
The Consultant shall monitor, evaluate, and report on the performance of the Program relative to the benchmarks and this policy and other applicable CalPERS Policies.	No less than annually

Appendix 2
Investment Responsibilities

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

- Investment Office Staff
- General Pension Consultant
- External Manager

Investment Office Staff Responsibilities
All aspects of portfolio management, including trading, monitoring, analyzing, selecting and contracting with managers, and evaluating performance relative to the appropriate benchmark.
Monitor internally and externally managed strategies in the implementation of, and compliance with, the Policy.
Development and maintenance of all investment procedures, program guidelines, and sub-program guidelines.
Design and implementation of a process for capital allocation within the asset class.

California Public Employees' Retirement System
Global Equity Program Policy Appendices

General Pension Consultant Responsibilities
The Consultant shall provide independent perspective and counsel to the Committee which includes routine communication with the asset class and periodic reviews of processes and procedures.

External Manager Responsibilities
External managers are responsible for managing the fund in accordance with the aspects of portfolio management as set forth in each manager's contract with CalPERS and the Policy. External managers are also responsible for communicating and cooperating with CalPERS Staff and authorized third parties regarding the management of the fund.

Appendix 3
Investment Constraints/Limitations

Specific Risk Parameters

1. ***Asset Class Tracking Error*** – On average, the aggregate forecast tracking error for Global Equity is 0 to 50 basis points as measured by the CalPERS Risk Management system; however, allowing for slight deviations from this range depending on certain market conditions.

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

3. Prohibited Securities –The Committee through resolution, or the State or Federal government through enactment of rules or laws, may prohibit CalPERS from holding certain securities. CalPERS will remove such securities from relevant benchmarks. This section will not be applicable for investment funds where CalPERS does not have discretionary authority (e.g., commingled funds, exchange-traded funds) except as required by Federal law.

Appendix 4
Global Equity Program Policy Document History

Date	Detail
2012-12-10	Adopted by the Investment Committee
2013-11-18	Revisions approved by the Investment Committee
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-05-15	Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually"
2014-05-15	Administrative changes to reflect the Policy Glossary of Terms Update Project
2014-10-13	Revisions approved by the Investment Committee
2015-10-19	Adopted by the Investment Committee Reformatted to incorporate to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
GLOBAL EQUITY

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 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. Direct company engagement on topics such as 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 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.

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 notional leverage will be calculated on a ***net exposure*** basis and shall not exceed 10% of the Global Equity market value.

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 is responsible for the allocation of capital to and from eligible strategies.

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	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

Alternative Solicitation Process	A process for identifying and selecting external asset managers utilizing the on-line Investment Proposal Tracking System. This process may target a particular strategy type, or may continuously assess submitted investment proposals and replaces a formal request for proposal.	• Global Equity
Asset Class Tracking Error	The expected or ex ante annualized standard deviation of the return difference between an asset class and its assigned strategic benchmark as calculated from the Investment Office Risk Management system.	• Global Equity
Corporate Sector	As defined by CalPERS corporate investment managers in BlackRock Solutions, Aladdin product. Examples of sectors include banking, independent finance, diversified telecom, etc.	• Global Fixed Income Program • Low Duration Fixed Income Program
Debt Financing Amount	Refers to any debt financing amounts committed to, by, or on behalf of a relationship. May include, but is not limited to, public, private, secured or unsecured, fixed or variable rate credit lines, subscription lines, credit guarantees, credit accommodations, credit enhancements, property debt, portfolio debt, joint venture or entity debt for commingled funds, separate accounts or targeted transactions.	• Real Assets

External Manager	An asset management firm that is seeking to be, or has been, retained by CalPERS or by a CalPERS Vehicle to manage a portfolio of assets (including securities) for a fee. The external manager usually has full discretion to manage CalPERS assets, consistent with investment management guidelines provided by CalPERS and fiduciary responsibility.	• California Employers; Retiree Benefit Trust • Corporate Governance • Currency Overlay Program • Disclosure of Placement Agent Fees, Gifts and Campaign Contributions • Global Equity • Global Fixed Income Program • Inflation Assets • Judges Retirement Fund • Judges Retirement System II Fund • Legislators' Retirement System Fund • Liquidity Program • Long-Term Care Fund • Low Duration Fixed Income Program • Public Employees' Health Care Fund • Securities Lending • (SIP) CalPERS Target Retirement Date & POFF Funds • Supplemental Income Plan • Total Fund Investment • Treasury Inflation Protected Securities

General Pension Consultant	An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities. (Also, referred to as Primary Board Consultant).	• California Employers; Retiree Benefit Trust • Credit Enhancement Program • Currency Overlay Program • Global Equity • Global Fixed Income Program • Inflation Assets • Judges Retirement Fund • Judges Retirement System II Fund • Legislators' Retirement System Fund • Liquidity Program • Low Duration Fixed Income Program • Long-Term Care Fund • Public Employees' Health Care Fund • Securities Lending • Supplemental Income Plan • Total Fund Investment • Treasury Inflation Protected Securities
High Quality LIBOR	A limited-duration, highly liquid, LIBOR-based fund managed by CalPERS staff.	• Global Fixed Income Program • Inflation Assets • Low Duration Fixed Income Program • Total Fund Investment
Investment Transaction Amounts	Refers to the sum of the three individual definitions for Investment, Disposition, and Debt Financing Amounts. The combined term is utilized in the Policy and Real Estate Delegation Resolution to describe transactions which staff will or will not have discretion to execute.	• Real Assets
Legacy Commitments	With regard to the Securities Lending Investment Policy, legacy commitments refers to commitments held in the cash collateral reinvestment portfolio prior to adoption of the Securities Lending Investment Policy dated February 16, 2010.	• Securities Lending

Leveraged Bank Loans	Loans made by banks that are typically partially secured by assets and are made to non-investment grade companies with a debt/EBITDA ratio greater than 3.5 and have a spread to LIBOR of greater than 250 basis points.	• Global Fixed Income Program
Net Exposure	The sum of the notional market value of long (positive) and short (negative) positions in all non-option instruments, plus the delta adjusted notional value of all options positions	• Global Equity
Other Property Types	Includes real estate related assets not included in one of the following categories: office, industrial, retail, multifamily, hotels, for sale residential, or senior housing. Examples would include Real Estate Operating Companies and Self-Storage Facilities.	• Real Assets
Outsourcer	A portfolio company that intends to provide services in a manner that will cause the outsourcing, on more than a de minimis basis, to the private sector of existing U.S. state and local public sector jobs.	• Restricting PE Investments in Public Sector Outsourcers
Private Asset Class Board Investment Consultant	An individual or organization that provides specialized professional assistance to the Investment Committee related to an asset class regarding strategy and policy analysis, performance analysis and monitoring, and independent advisory service to the Investment Committee.	• Private Equity Program • Real Assets • Total Fund Investment
Prudent Person Opinion	An opinion from a consultant or external resource subject to the Fiduciary Standard of Care that the proposed investment is a prudent investment consistent with Article XVI, Section 17(c) of the California Constitution and Section 20151 (c) of the California Government Code, i.e., made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.	• Private Equity Program • Real Assets • Total Fund Investment
Spring-Fed Pool	A list of outside consulting firms selected based on RFI or RFP processes which serve as independent fiduciaries for the Global Real Estate Unit.	• Real Assets
Vintage Year	The year in which the first capital drawdown of the partnership occurs.	• Private Equity Program • Real Assets

Julia Bonafede, CFA
President of Wilshire Consulting

September 30, 2015

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

Re: Revision of Global Equity Policies – Second Reading

Dear Mr. Jones:

In response to suggested changes from members of the Investment Committee (IC) at the September 15th meeting and in conjunction with the ongoing project to streamline all of CalPERS' investment policies, staff has modified the proposed Investment Policy for Global Equity (Policy) to increase clarity.

The goal of this update is to better align the policies with the CalPERS' Investment Beliefs and provide consistency with the Total Fund Policy and current management guidelines for the Global Equity Program.

As we noted in our prior opinion letter, the Policy is being streamlined into the new policy format. All language considered to be duplicative, aspirational or editorial has been removed and procedural language has been moved to the Policy Procedure document. As noted previously, in addition to the reformatting of the Policy, there are two meaningful updates to the Policy that better reflect the actual management practices of the Global Equity Program.

- The forecast tracking error is being changed from 25-50 basis points to 0-50 basis points.
- The language defining limits to the use of leverage in the Global Equity portfolio has been moved to the Total Fund Investment Policy in accordance with the procedures planned for changes to the other asset programs. The original language has been preserved.

Wilshire believes the suggested changes offer further clarification to the Policy and we support the new language as well as the revisions offered in the initial review.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,