Agenda Item 7a

December 14, 2015

ITEM NAME: Revision of Private Equity Program Policy – Second Reading

PROGRAM: Private Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION
Approve the revised Private Equity Program Policy.

EXECUTIVE SUMMARY

The Private Equity Program Policy was presented to the Investment Committee (Committee) for a first reading on November 16, 2015. The revised policy includes the following changes based on feedback from the Committee and/or to promote greater clarity:

- Aspirational language was removed from the Strategic Objective section.
- Procedural language was removed from the Investment Approaches & Parameters Section B.4.
- Clarification of required Committee approval of net committed capital exceeding 10% of the program's total net committed capital for any general partner was included in Appendix 3, Investment Constraints/Limitations, Section B.2.
- In Appendix 3, more specificity was added to the sections on fund and co-investment and direct investment parameters, including the further conditions applicable to co-investments.

The above changes are denoted by track changes within Attachment 1. Staff seeks approval of the 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 posing a medium compliance and operational risk during Fiscal Year 2013-2014 and, as such, 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 Private Equity with the Project's objective of consolidation, clarity, and standardization.

ANALYSIS

Incorporating these revisions will continue the policy simplification process while aligning the Private Equity Program 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.

At the initial presentation of this item to the Committee in November, staff received comments from the Committee about including new policy elements related to defined benefit pension plans and fee disclosure. Staff will be prepared to discuss these at the December second reading.

Although staff is not requesting any modifications to the investment authorities, limitations or constraints as an element of the proposed policy, staff will likely come back to the Committee at a later date to request changes to align the delegations between Real Assets and Private Equity.

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 Private Equity portfolio, thereby increasing the risks of missed opportunities and ambiguous implementation.

ATTACHMENTS

Attachment 1 – Revised Private Equity Program Policy
Attachment 2 – Current Private Equity Program Policy
Attachment 3 – Revised CalPERS Specific Glossary of Terms
Attachment 4 – PCA Opinion Letter – Revision of Private Equity Program Policy

RÉAL DESROCHERS
Managing Investment Director
Private Equity Program

WYLIE TOLLETTE
Chief Operating Investment Officer

THEODORE ELIOPOULOS
Chief Investment Officer

California Public Employees' Retirement System
Investment Policy for
Private Equity (PE) Program

Effective Date

December 14, 2015
This policy is effective immediately upon adoption and supersedes all previous Private Equity Program policies.

Introduction

The California Public Employees' Retirement System (CalPERS) Total Fund Investment Policy, adopted by the CalPERS Investment Committee (Committee), sets forth the CalPERS investment beliefs and overarching investment purposes and objectives with respect to its investment programs. The CalPERS Total Fund Investment Policy specifically covers key areas of investment strategy, including performance objectives, asset allocation strategies, benchmark selection, investment risk management, and derivatives, leverage, and divestment policies, among other elements that are applicable to all asset classes and programs at CalPERS.

This document sets forth the investment policy (Policy) for the Private Equity (PE) 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 th~~is~~e Program.

This Policy should be read in conjunction with and is subject to conditions contained within the CalPERS Total Fund Investment Policy. This Policy shall also be managed to comply with all applicable Investment Office policies.

Strategic Objective

The ~~PE~~ Program's strategic objective is to ~~maximize risk-adjusted rates of return~~. ~~while enhancing the CalPERS position as a premier private equity investment manager. The Program shall be managed to~~ enhance the equity return to the Fund.

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.

California Public Employees' Retirement System
Investment Policy for
Private Equity (PE) Program

Investment Approaches & Parameters

A. Approach

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments, direct investments (including independently sourced investments and co-investments), and ***Customized Investment Accounts***.

2. Top down strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing.

B. Specific Risk Parameters

There are specific risks associated with private equity investments that shall be monitored and mitigated by CalPERS commensurate with the expected return as each investment proposal is considered, including but not limited to the following major risk categories:

1. Leverage: The increased volatility risk posed by the existence of non-recourse debt at the underlying investment level.

2. Operating and Business: The potential for certain investments to entail exceptional operating and business risks.

3. Liquidity: The liquidity risks inherent in private equity, given typical time horizons of 5-10 years and generally limited opportunities for sale in the secondary market.

4. Structural: The risks arising from a potential misalignment of interests between the general partner and the limited partners~~, which may be mitigated by, among other things, structuring fees and incentive payments and other key aspects of the business relationship so as to better align the interests of the partners~~.

5. Valuation: The risks associated with the valuation process for partnerships and co-investments, including whether the general partner employs an appropriate valuation discipline, and, for direct investments, whether the valuations are reasonable.

The investment approach for the portfolio shall seek to reduce risk through appropriate diversification by geography, industry, ***Vintage Year*** and investment strategy.

California Public Employees' Retirement System
Investment Policy for
Private Equity (PE) Program

	C. Investment Vehicle Parameters Investments vehicles may take the form of limited partnerships, limited liability companies (LLCs), or other similar limited liability legal structures.
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 Committee adoption and revisions of this policy.

California Public Employees' Retirement System
Private Equity (PE) Program Policy Appendices

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

Appendix 1
Reporting to the Investment Committee (IC)

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

- Investment Office Staff
- Private Asset Class Board Investment Consultant

Investment Office Staff	
Report Content	**Frequency**
1. 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
2. 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 next Committee meeting, or sooner if deemed necessary
3. Staff shall report regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.	Monthly

Private Asset Class Board Investment Consultant	
Report Content	**Frequency**
1. 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
- Private Asset Class Board Investment Consultant
- General Partner

Investment Office Staff Responsibilities
1. All aspects of program portfolio management, including monitoring, analyzing, evaluating performance relative to the appropriate benchmark, selecting investments, and contracting with general partners.
2. Monitor general partners in the implementation of, and compliance with, the Policy.
3. Develop and maintain selection guidelines for private equity investments.
4. Develop and maintain investment procedures, program guidelines, and sub-program guidelines.
5. Monitor non-recourse debt as a risk factor.

Private Asset Class Board Investment Consultant Responsibilities
1. Provide independent perspective and counsel to the Committee, to include routine communication with the Investment Office Staff and periodic reviews of processes and procedures.

General Partner Responsibilities
1. All aspects of portfolio management as set forth in each general partner's limited partnership agreement or contract with CalPERS and the Policy.
2. Communicate and cooperate with Investment Office Staff and authorized third parties regarding the management of the fund.

California Public Employees' Retirement System
Private Equity (PE) Program Policy Appendices

Appendix 3
Investment Constraints/Limitations

A. Sub-Asset-Class Allocation Targets & Ranges:
The targets and ranges are effective November 14, 2011.

Strategy	Target	Range
Buyouts	60%	50% - 70%
Credit Related	15%	10% - 25%
Venture Capital	1%	0% - 7%
Growth/Expansion	15%	5% - 20%
Opportunistic	10%	0% - 15%

B. ~~Private~~ Fund Investment ~~Vehicle~~ Parameters:

Staff Level Authority	***Top Quartile***	***Second Quartile***	***Emerging Manager Teams***	***Customized Investment Account***	Secondary Market Purchases
	Limit Commitment to ≤ 25% of the fund				
Managing Investment Director (MID) approval for amounts of PE Policy Target up to	4%	0.75%	0.75%	3%	2%
Chief Investment Officer (CIO) approval for amounts of PE Policy Target up to	8%	1.5%	1.5%	4.5%[3]	4%

1. Committee approval will be required for commitments beyond those authorized for the MID-PE or the CIO. If there is a vacancy in the CIO position, Committee approval will be required for commitment authority otherwise delegated to the CIO.

2. The aggregate ***Net Committed Capital*** to any one general partner is limited to no more than 10% of PE's total Net Committed Capital. Any exceptions to this must be specifically approved by the Committee.

3. The CIO may approve an increase in committed capital to an existing Customized Investment Account with Top-Quartile performance by up to 20%.

C. ~~Private Securities~~Co-Investment and Direct Investment Parameters:

Staff Level Authority	Co-Investments	Direct Investments
Managing Investment Director (MID) approval for amounts of PE Policy Target up to	0.75%	0.5%
Chief Investment Officer (CIO) approval for amounts of PE Policy Target up to	1.5%	0.5%

1. Committee approval will be required for commitments beyond those authorized for the MID-PE or the CIO. If there is a vacancy in the CIO position, Committee approval will be required for commitment authority otherwise delegated to the CIO.

2. Co-Investments are subject to the further conditions ~~– provided~~that (a) the investment in the co-investment by the funds managed by the general partner ~~is~~ shall equal ~~to or larger~~or exceed ~~than~~ the CalPERS ~~PE~~ investment in the co-investment, and (b) the amount committed by CalPERS to the co-investment ~~is~~shall be smaller than the CalPERS ~~PE~~ commitment to the fund.

Appendix 4
Private Equity Program Policy Document History

Date	Detail
1997-04-04 1997-04-14	Approved by the Policy Subcommittee Adopted by the Investment Committee
2005-03-11 2005-04-18	Revised by the Policy Subcommittee Approved by the Investment Committee
2005-09-16 2005-10-17	Revised by the Policy Subcommittee Approved by the Investment Committee
2006-04-14 2006-05-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2008-08-18 2008-09-15	Revised by the Policy Subcommittee Approved by the Investment Committee
2009-06-16	Administrative changes made to align with Policy Review Project
2009-12-14 2010-02-16	Revised by the Policy Subcommittee Approved by the Investment Committee
2011-10-17 2011-11-14	Revised by the Policy Subcommittee Approved by the Investment Committee
2012-05-14	Administrative changes made to reflect Delegation revisions
2013-06-12	Administrative changes made to reflect Private Asset Class Board Consultant Policy revisions
2013-12-24	Administrative changes to update template format and to align this policy with the Global Derivatives and Counterparty Risk Policy
2014-06-24	Administrative changes to standardize reporting frequencies to the Investment Committee to "no less than annually"
2014-06-24	Administrative changes to reflect the Policy Glossary of Terms Update Project
2015-12-14	Approved by the Investment Committee Reformatted to incorporate Investment Policy Revision Project and Investment Delegation Restructuring Project revisions

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
PRIVATE EQUITY (PE) PROGRAM

June 24, 2014

This policy is effective immediately upon adoption and supersedes all previous Private Equity (PE) Program (formerly known as Alternative Investment Management) policies.

Current Policy

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 Private Equity (PE) Program ("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

To maximize risk-adjusted rates of return while enhancing the CalPERS position as a premier private equity investment manager is the strategic objective of the Program.

The Program shall be managed to enhance the equity return to the 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 often if needed about the performance of the Program. Staff will also report monthly to the Committee regarding investment proposals it has received, the stage they are at in the pipeline, and their ultimate disposition.

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

4. Evaluating and selecting Private Equity Investments.

5. In managing this Program, Staff will work cooperatively with the Investment Pool Consultant(s) it has retained as part of the spring-fed pool. Their primary purpose shall be to serve as an extension of Staff. Staff may also use outside experts, as appropriate, to provide specialized expertise in various disciplines, on a one time basis.

6. For investments in ***Customized Investment Accounts*** that invest alongside other similarly structured funds in the same investments, Funds, or Co-Investments an Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant, may provide an independent due diligence report at the discretion of the SIO.

7. For investments considered Customized Investment Accounts with an individual mandate that does not invest alongside other similarly structured funds or direct investments an Investment Pool Consultant, other than the Private Asset Class Board Investment Consultant, will provide a Prudent Person Opinion.

B. The ***Private Asset Class Board Investment Consultant*** (“Consultant”) responsibilities are specified in the Role of the Private Asset Class Board Investment Consultants Policy.

C. The General Partner (“General Partner”) is responsible for all aspects of portfolio management as set forth in each General Partner’s limited partnership agreement or contract with CalPERS.

IV. PERFORMANCE OBJECTIVES AND BENCHMARKS

A. The performance objective for the Program is to enhance the equity return of the fund.

B. The benchmark for the Program is specified in the Benchmarks Policy.

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V. INVESTMENT APPROACHES AND PARAMETERS

A. Approach

1. Staff shall manage the Program as a whole with specific criteria appropriate to partnership investments, Direct Investments (including "Independently Sourced Investments" and "Co-Investments"), and Customized Investment Accounts.

    a. Investment opportunities will be classified as partnership investments when decision-making and management discretion is granted to outside managers.

    b. Investment opportunities shall be classified as direct investments if CalPERS retains discretion and manages the investment internally or through its external resource(s).

    c. Customized Investment Accounts shall include innovative structures that provide a means to access investment opportunities, exploit CalPERS strengths, and achieve the maximum risk-adjusted rates of return.

2. "Top down" strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market for investing. Based on these assessments, the Staff shall proactively seek out the most attractive investment opportunities, while maintaining appropriate diversification.

3. Depending on the form and character of the investment, the Program sets minimum standards for each investment.

B. Specific Risk Parameters

There are specific risks associated with investments that shall be monitored and mitigated by CalPERS. Each segment of the private equity market contains uncertainties that are unique to it. CalPERS shall manage the following major categories of uncertainties commensurate with the expected return as an investment proposal is considered:

1. Leverage: Some investments may use non-recourse debt (leverage) which may increase the volatility of returns.

2. Operating and Business: Certain investments may entail above average operating and business risk.

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3. Liquidity: Private equity investments may lack liquidity and typically have time horizons of 5-to-10 years. Secondary markets for such investments are very limited. The ability to negotiate specific “exit” rights (e.g., registration rights, puts and calls) are generally applicable only to Direct Investments.

4. Structural: CalPERS negotiates and structures specific fundamental rights and protections, which include mechanisms for taking remedial action. These basic protections include where appropriate advisory committee participation and specific termination provisions in partnership transactions; and anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.

5. Valuation: Partnerships and co-investments shall be evaluated to determine if the general partner employs an appropriate valuation discipline. For direct investments, the Staff shall review valuations to determine if they are reasonable.

The portfolio shall reduce risk through appropriate diversification by geography, industry, ***vintage year*** and investment strategy.

C. Investment Selection

1. The Program shall consider any appropriate investment opportunity with the potential for returns superior to traditional investment opportunities. Investments can be in any industry or geography and may include, but are not limited to:

   a. Buyouts or Corporate Restructuring

   b. Expansion Capital

   c. Venture Capital

   d. Credit Related

   e. Opportunistic

2. Staff shall develop and maintain selection guidelines for private equity investments to include the following:

   a. Minimum requirements with respect to the following:

      (1) General Partner’s relevant investment experience and specific qualifications

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(2) General Partner's ability to work together

(3) General Partner's ability to dedicate sufficient time and attention to the undertaking

(4) Basic investment vehicle terms

(5) Investment goals and objectives

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

D. Investment Parameters

Investments may operate under a limited partnership agreement, limited liability company (LLC), or other similar legal structure.

All legal structures shall include specific, written investment guidelines. The guidelines shall outline the fund's investment philosophy and approaches, representative portfolio characteristics, permissible and restricted 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.

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E. Sub-Asset Class Allocations

The categories and ranges for sub-asset classes shall be as follows:

Strategy	Target	Range
Buyouts	60%	50% - 70%
Credit Related	15%	10% - 25%
Venture Capital	1%	0% - 7%
Growth/Expansion	15%	5% - 20%
Opportunistic	10%	0% - 15%

F. Leverage

Recourse Debt shall not be permitted.

Non-recourse Debt may be utilized by an underlying investment within a partnership or a direct investment. Staff monitors the non-recourse debt as a risk factor.

VI. CALCULATIONS AND COMPUTATIONS

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

Current Policy

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Approved by the Policy Subcommittee Adopted by the Investment Committee	April 4, 1997 April 14, 1997
Revised by the Policy Subcommittee Approved by the Investment Committee	March 11, 2005 April 18, 2005
Revised by the Policy Subcommittee Approved by the Investment Committee	September 16, 2005 October 17, 2005
Revised by the Policy Subcommittee Approved by the Investment Committee	April 14, 2006 May 15, 2006
Revised by the Policy Subcommittee Approved by the Investment Committee	August 18, 2008 September 15, 2008
Administrative changes made due to Policy Review Project	June 16, 2009
Revised by the Policy Subcommittee Approved by the Investment Committee	December 14, 2009 February 16, 2010
Revised by the Policy Subcommittee Approved by the Investment Committee	October 17, 2011 November 14, 2011
Administrative changes made due to Delegation revisions	May 14, 2012
Administrative changes made to reflect changes to the Private Asset Class Board Consultant Policy	June 12, 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”	June 24, 2014
Administrative changes to reflect the Policy Glossary of Terms Update Project	June 24, 2014

Current Policy

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CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
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
Customized Investment Account	An investment structure in which CalPERS partners with a firm that has distinct investment expertise in an industry, geographic region or investment style and has demonstrated the ability to provide top-quartile returns. Other than the general partner, CalPERS would be the sole investor. This structure may have an individual mandate or may invest alongside other similarly structured funds in the same investments with different terms.	• Private Equity 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
Emerging Management Team	A firm raising a first or second time Institutional Fund. Institutional Fund – A Fund which is being raised by a proven team with a demonstrable track record to which at least three institutional investors have made a commitment.	• Private Equity Program

CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
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~~ Global 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

CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
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

CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
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 Committed Capital	Remaining cost plus unfunded commitments.	• Private Equity 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

CalPERS Specific Glossary of Terms

Term	Definition	Related Policies
Second-Quartile Firm	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the second-quartile of a private equity industry benchmark.	• Private Equity Program
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
Top Quartile Firm	A general partner with whom CalPERS may or may not have an existing relationship and where the capital-weighted average net IRR or multiple of invested capital of the four most recent funds pursuing the same strategy managed by the general partner is in the top-quartile of a private equity industry benchmark.	• Private Equity Program
Vintage Year	The year in which the first capital drawdown of the partnership occurs.	• Private Equity Program • Real Assets

PCA | PENSION CONSULTING ALLIANCE

MEMORANDUM

Date: December 14, 2015

To: Henry Jones, Chairman, Investment Committee

From: Michael J. Moy, Pension Consulting Alliance, LLC

RE: Proposed Revisions to Private Equity Program Policy

Pension Consulting Alliance, LLC ("PCA") has been asked to opine on the proposed changes to CalPERS' Investment Policy for Private Equity Program in connection with the Investment Policy Revision Roadmap Initiative.

Among other changes, the revised policy (a) incorporates program limits and constraints that were previously included in the private equity delegation of authority, (b) utilizes the Total Fund Investment Policy template in lieu of the prior format, and (c) removes language that staff deemed to be duplicative, aspirational or editorial in nature.

The revised policy retains (1) the same requirements that the Investment Committee conduct, set, approve or oversee certain investment related activities, (2) the testable components of the existing policy, including investment limits, exposure ranges and investment prohibitions, and (3) the same periodic reporting requirements set forth in the existing policy.

PCA supports the Investment Policy Revision Roadmap Initiative and believes that a standardized template would benefit CalPERS by reducing unnecessary complexity. The inclusion of the delegated authority limitations within the investment policy will simplify the process of confirming policy and delegation compliance.

Since the new policy retains the key substantive language from the existing policy, PCA concurs with the proposed revisions.